

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 13 December 2013 at 10.30am

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1. Receipt of Declarations of Interest (if any)	
2. Apologies	
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Report of the Chair of the Audit and Governance Committee (attached).	
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Report of the Head of Financial Resources (copy attached).	

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ELAINE WAUGH
Head of Law and Governance

Civic Centre
SUNDERLAND

5 December 2013

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 September 2013

Present:

Mr G N Cook

Councillors Farthing and T Wright.

In Attendance:

Malcolm Page (Executive Director, Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Dennis Napier (Assistant Head of Financial Resources), John Jordan (Lead Risk and Assurance Specialist) Gavin Barker (Mazars), Mark Kirkham (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 Forbes, Speding and N Wright.

Minutes

13. RESOLVED that the minutes of the meeting of the Committee held on 28 June 2013 be confirmed and signed by the Chair as a correct record.

Members were informed that the annual report of the Committee had been presented to the Council on 25 September 2013.

Corporate Assurance Map – Update 2013/2014

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far this year, the Internal Audit opinion on the adequacy of the overall system of

internal control and the performance of Internal Audit. The report also covered the key performance measures for Internal Audit.

Members were informed that the section of the Map relating to strategic risks had been updated following the agreement of the Strategic Risk Profile by the Council's Executive Management Team. The profile was set out in Appendix 1 to the report and showed the risk score as a combination of the likelihood and impact of the risk and was coded red, amber and green. The current score indicated the position as it was and the Profile outlined the mitigation and progress which had been made on the risk leading to the residual score. The Strategic Risk areas of People and Economy were coloured red on the Corporate Assurance Map but the Corporate Risk Areas were all rated as green or amber with a positive position being shown by the assurance activity on the right hand side of the Map.

The Key Performance Indicators for Internal Audit were shown at Appendix 4 and all of these were on target apart from two indicators; the percentage of audit reports issued within 15 days of completion which was 88% against a target of 90% and the percentage of medium risk recommendations implemented which was also 88% against a target of 90%.

The Chair highlighted that percentage of audits completed by the target date was well ahead of schedule and the Head of Corporate Assurance and Procurement advised that the timescale for completion of the audit was set for twice as long as the time taken to complete the audit fieldwork. The trends on this KPI would be reviewed to assess if this target should be revised upwards.

Turning to the Strategic Risk Profile, the Chair commented that this detailed some difficult issues and it was unlikely to show a lot of green areas for quite some time. Councillor Wright noted that some risk areas would never go beyond an amber rating as the impact of the risk would always be scored as a 4, even if the event was extremely unlikely to happen.

Having considered the report, the Committee: -

14. RESOLVED that the report and the updated Corporate Assurance Map be noted.

Public Sector Internal Audit Standards

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the requirements and the applicability of the Public Sector Internal Audit Standards (PSIAS) which came into force on 1 April 2013.

The PSIAS had been developed to create consistent standards for the practice of internal audit across the public sector and to establish the basis for its quality assurance. The standards replaced those currently in the CIPFA Code of Practice for Internal Audit.

The Council had carried out a self assessment and found that the existing arrangements already complied with the new Standards. Some minor updating of procedures would be carried out to reflect the new Standards and the Council's Audit Charter would be revised to incorporate the definition of internal audit contained in the Standards along with some other small changes. The revised Audit Charter was attached as Appendix 1 to the report.

Councillor Wright noted that over recent years, there had been more reference to EU accounting practices and queried whether this would affect the audit standards and whether officers were satisfied that the Council's agreements with partners would be strong enough to stand up to these standards.

The Head of Corporate Assurance and Procurement advised that he was not aware of any EU practices which would impact on the way the authority was working. There was a longstanding right of Internal Audit access included within the Council's partnership agreements and as the authority moved to develop more alternative service delivery models, then this would continue to be built in.

Following consideration of the report, the Committee: -

15. RESOLVED that the proposed revised Audit Charter be approved.

Treasury Management – Second Quarterly Review 2013/2014

The Executive Director of Commercial and Corporate Services presented a report outlining the Treasury Management performance for the second quarter of 2013/2014. The report also detailed amendments which had been made to the Lending List Criteria and Approved Lending List.

The Treasury Management function continued to look at ways of maximising financial savings and increasing the return on investments. One way of doing this was through debt rescheduling but as yet, this had not been possible in 2013/2014 as rates had not been considered sufficiently favourable. The Council continued to benefit from a low cost of borrowing, which at 3.51% was one of the lowest rates in the country.

The Treasury Management Prudential Indicators were regularly reviewed and the Assistant Head of Financial Resources reported that the Council was well within the limits set for all of these. The external debt limit was set at £398.602m and the Council was well within this limit.

A prudent approach was taken to investments and the Council continued to outperform the benchmark rate of 0.36% by achieving a rate of return of 1.01%. The rate of return on investments had fallen in recent months and indications were that this would continue until the Bank of England Base Rate began to increase but this was not expected until at least late 2016 according to the best information available. This date, however, could change but was dependent on how the wider economy performs in the future, as continued and sustained recent growth could result in interest rates rising sooner than anticipated. This position was being closely monitored by the Treasury Management team.

The Approved Lending List had been updated to take into account all recent financial institution mergers and changes in institutions' credit ratings and it was highlighted that the triple A rated Deutsche Managed Sterling Fund had been added to the list.

The Assistant Head of Financial Resources referred to the recent changes at the Lloyds Banking Group and highlighted that as yet, there was no credit rating for the TSB Bank and this position would be monitored. The Council's policy would not be affected at the present time as the Government still held shares in Lloyds, but when these shares were sold the credit rating of the bank, rather than the UK Government's rating, would be used to confirm its position on the Approved Lending List.

The Committee was informed that, in accordance with Treasury Management best practice, a risk analysis of Treasury Management functions had been carried out and was attached to the report at Appendix D.

The Executive Director of Commercial and Corporate Services advised that, under delegated powers, he had agreed to a request from the Association of North East Councils (ANEC) to hold funds for the organisation. This was subject to a small management fee from ANEC.

Accordingly, the Committee: -

16. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2013/2014 be noted: and
- (ii) the amendments to the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Audited Statement of Accounts 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation 2012/2013, the Audit Completion Report from Mazars LLP concerning the financial statements for 2012/2013 and the amended audited Statement of Accounts for 2012/2013.

The Audit Completion Report prepared by Mazars was a positive report and in summary showed that: -

- it was proposed that the external auditors would issue an unqualified audit opinion;
- most non-trifling misstatements had been adjusted by management and those not adjusted were set out with reasons accepted by the auditor in the Annual Audit report;
- no material weaknesses had been identified in the accounting and internal control systems;

- a number of presentational issues had been identified in relation to qualitative aspects of the Council's financial reporting and reference had been made in the Letter of Representation but these were not considered to be significant;
- no matters had been identified which were required by international auditing standards to be communicated to Members;
- no other relevant matters had been identified, relating to the audit, which needed to be brought to Members' attention
- the external auditors had reported that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and proposed to issue an unqualified value for money conclusion in respect of 2012/2013.

The Executive Director of Commercial and Corporate Services drew Members attention to his foreword to the Accounts and highlighted a number of key points.

The financial year had ended with a positive outturn and an underspend of £6m as a result of strong financial management. Savings of £28m had been delivered in 2012/2013, making a cumulative total of £100m of savings over the last three years, however the Council would have to deliver at least another £100m of savings over the next three years because of continued government grant funding reductions.

The Council had invested £55m in the city through the Capital Programme and had also participated in the refinancing of Newcastle International Airport Limited which had resulted in a strengthened public/private partnership for the Airport and its shareholders.

In the last year, the Council had settled some of its equal pay liabilities and this had been reflected in the Accounts and had also managed to downsize its workforce through implementation of a severance scheme without recourse to borrowing.

The Executive Director of Commercial and Corporate Services thanked the Assistant Head of Financial Resources and his team and colleagues from Mazars for their work and their contribution to the preparation of the Statement of Accounts.

Steve Nicklin, Engagement Lead from Mazars, stated that at the present time they were not in a position to issue the audit certificate but would do so once the Whole of Government Accounts was completed. He echoed the comments of the Executive Director and commended the excellence of the working papers which had been brought to him and his team. No issues had been identified which would impact on the bottom line and having heard how the Council was facing up to challenges, the external auditors had no hesitation in giving a positive view on the Accounts.

Members of the Committee were informed that the Audit Commission had requested that separate accounts should be produced for the Port of Sunderland to comply with Harbour Act requirements. The external auditors stated that this was not an issue that would impact on their opinion on the Council's accounts. The Executive Director, however, stated that the authority would comply with the judgement as most of the data was already available, as financial reporting was regularly made to the Port Board, and anticipated that a separate set of Port accounts would be achieved to comply with the requirements. These would be prepared separately and in addition

to the Council's accounts which fully complied with the accounts and audit regulations.

(a) Letter of Representation

The Committee considered the Letter of Representation prepared by the Executive Director of Commercial and Corporate Services which set out the principles used in preparing the accounts and provided the external auditor with the necessary assurances required by regulation.

17. RESOLVED that the Letter of Representation be received and noted.

(b) Audit Completion Report

The Committee considered the Audit Completion Report which had been produced by Mazars LLP in which the auditor's opinion was that the financial statements presented a true and fair view of the financial position of the Authority as at 31 March 2013 and its income and expenditure for the year then ended.

18. RESOLVED that the contents of the Audit Completion Report be noted.

(c) Amended and Audited Statement of Accounts 2012/2013

The Audited Statement of Accounts 2012/2013 were presented for consideration by the Committee.

The Accounts had been revised to reflect a few minor adjustments following the audit and was set out at Item 7 iii on the agenda.

Having considered the Audited Statement of Accounts, the Committee: -

19. RESOLVED that the Amended Audited Statement of Accounts for the financial year ended 31 March 2013 be approved.

Announcements

The Chair informed Members that Steve Nicklin was retiring and this would be his last meeting of the Committee. He thanked him for his support during his time as the Council's external audit lead.

Steve introduced Mark Kirkham to the Committee as the new Engagement Lead from Mazars for Sunderland City Council.

The Chair also offered his thanks and best wishes on behalf of the Committee to the Executive Director of Commercial and Corporate Services prior to him taking up his new post at Teesside University.

The next meeting of the Committee was scheduled to be held on Friday 13 December 2013 at 1.30pm. At the Chair's request, it was proposed that this be brought forward to earlier in the day and it was: -

20. RESOLVED that the next meeting of the Committee take place on Friday 13 December 2013 at 10.30am.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

13 DECEMBER 2013

APPOINTMENT OF INDEPENDENT MEMBER

Report of the Chair of the Audit and Governance Committee

1.0 Purpose of Report

- 1.1 The purpose of this report is to notify the Committee of the appointment of the Independent Member to the Committee.

2.0 Background

- 2.1 The Audit and Governance Committee includes two independent members (one of whom acts as Independent Chair). The other independent member has recently retired from the Committee, and as such a recruitment process was undertaken to appoint an appropriately experienced new independent member.

3. Recruitment Process

- 3.1 The role was advertised in the Echo and Journal with a closing date for applications of 25 October. Three candidates were shortlisted, with interviews taking place on 15th November. The interview panel recommended that Council approve the appointment of Martin Knowles to the post.
- 3.2 Mr Knowles is currently retired, but has recently been Interim Chief Executive of South Tyneside Homes. Previously Mr Knowles has worked at CEO level for 14 years with Four Housing Group, and has also held Director of Finance roles with a number of NHS Trusts. In addition, Mr Knowles currently serves on the Audit Committees of New College Durham (where he is Audit Chair) and Two Castles Housing Association. As such, Mr Knowles has a vast range of experience relevant to the work of the Committee.

4. Confirmation of Independent Member

- 4.1 Council confirmed the appointment of Mr Knowles to the role of Independent Member to the Audit and Governance Committee on 27th November.
- 4.2 For information, Mr Knowles has also been confirmed as the Independent Member for the Tyne and Wear Fire Rescue Authority Audit and Governance Committee, following a meeting of the Fire Authority on 21st November.

5. Recommendation

- 5.1 The Committee is asked to note the report.

AUDIT AND GOVERNANCE COMMITTEE

13 December 2013

CORPORATE ASSURANCE MAP – UPDATE 2013/14

Report of the Head of Assurance, Procurement and Projects

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 consider the updated Corporate Assurance Map (the Map).

3. Background

- 3.1 In March 2013 the Committee approved the proposed Corporate Assurance Map for 2013/14 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 At that time, the Map 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 officers across the Council.
- 3.3 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

- 4.1 The updated Corporate Assurance Map, as at 27th November 2013, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.

Corporate Assurance Map

Assurance Position (as at 27 th November 2013) (Cumulative)		2013/14								
		1st Line Management Assurance	2 nd Line Other Internal Assurance Activity					Risk and Assurance	3 rd Line	
			Legal Services	Financial Resources	Transformation Programmes and Projects	Strategy, Policy and Performance	HR & OD		Business Continuity	Internal Audit
Strategic Risk Areas										
Current Risk	Residual Risk									
People							X			
Place							X			
Economy							X			
Organisational			X				X		X	
Corporate Risk Areas										
Customer Focus / Service		X			X		X	X		
Legality			X				X			
Service / Business Planning		X			X		X	X		
Programme and Project Management		X		X			X	X		
Change Management				X		X	X			
Partnerships		X					X	X		
Business Continuity Planning		X					X	X		
Procurement		X					X	X		
Relationship and Contract Management							X	X		
Financial Management		X	X				X	X	X	
Human Resource Management		X				X	X	X		
Information Governance		X	X				X	X		
Performance Management		X			X		X	X		
Asset Management		X					X	X		
ICT Strategy and Delivery							X	X		
Fraud and Corruption		X						X		
Risk Management (Service Delivery)		X					X			
Housing Benefits								X		
Schools		X	X				X	X		

Key: X=activity planned, White=no coverage, Green=full / substantial assurance, Amber=moderate assurance, Red=limited / no assurance

Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile has been updated with EMT for 2013/14 and is attached at Appendix 1. Given the longer term nature of these risks the current risk rating is shown (i.e. what would be the level of risk if no actions were taken to manage the risks), and the residual risk level (i.e. the level of risk taking into account ongoing actions and planned actions). Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

Assurance from Internal Audit

- 4.3 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. Appendix 2 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level.

Assurance from Risk and Assurance Team

- 4.4 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. Assurance work within the last quarter has included:
- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Sunderland Care and Support Ltd., and the future of ICT delivery.
 - Providing assurance on the delivery of the Transformation Programme.
 - Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).
 - Work has also been undertaken regarding Equal Pay Claims.
 - Supporting the delivery of the Workforce Planning project to help Heads of Service achieve their efficiency targets.
 - Significant work in support of the Customer Service Network migration.
 - Intelligence Hub.

Assurance from others within the Council

- 4.5 Assurance provided from others within the Council is shown in the Corporate Assurance Map. The levels of assurance have not changed since June 2013. However, assurance provided by Strategy, Policy and Performance now includes a view on equalities. Developments in relation to this area are continuing.
- 4.6 The assurance level provided by the Business Continuity Officer has been Amber over the last two reports. This has mainly been due to the need for the arrangements within Children's Services to be brought up to date. Given the changes that have occurred in the Council's directorate structure recently the arrangements are to be reviewed again.

Assurance from Management

- 4.7 Arrangements are in place to obtain assurance from service management in a number of areas. These arrangements are being further developed with the support of the assurance partner, PricewaterhouseCoopers. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

- 4.8 The Map shows five areas where Full or Substantial assurance has been received from external sources.

Overall

- 4.9 The overall level of assurance for Programme and Project Management has changed from Green to Amber due to a Moderate Assurance level being given by Internal Audit for the implementation of the Economic Master Plan, a significant programme for the Council.

5. Internal Audit Performance

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is on target for all KPI's apart from:
- The current percentage of medium risk recommendations implemented (excluding schools), which now stands at 87%.

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

Directorate / Body	Implementation Rate
People	84%
Office of the Chief Executive	83%
Commercial and Corporate Services	95%
Implementation Rate (exc. Schools)	87%
Schools	83%
Total Implementation Rate	85%

5.2 One of the requirements of the new Public Sector Internal Audit Standards is that Internal Audit should be subject to an external assessment at least once every five years against the Standards. It is proposed that this be undertaken by the Council's external auditors, Mazars, by a review of Internal Audit's self assessment against the Standards and a review of a sample of Internal Audit's working paper files and documentation to ensure that the Standards are being followed in practice.

6. Conclusions

- 6.1 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.
- 6.2 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.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Strategic Risk Profile

People

Desired Outcomes

A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing

A city with high levels of skills, educational attainment and participation

A city which is, and feels, even safer and more secure

A city that ensures people are able to look after themselves wherever possible

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
PE 1 Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures	Neil Revely, ED of Health, Housing & Adult Services	3x4 = 12	<ul style="list-style-type: none"> Implement the Health and Wellbeing Strategy to: <ul style="list-style-type: none"> Target prevention and early intervention Build capacity and reduce dependency to help individuals to be more independent and self-sustaining Manage demand by empowering customers to take up viable alternatives to council services Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations <p>Progress</p> <ul style="list-style-type: none"> Health & Wellbeing Board is developing funding application for the new Health Social Care Integration Fund. (Potential to obtain in excess of £20m per annum) First review of the JSNA completed, expected to be published by Dec 13 	2x4 = 8
PE 2 We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	<ul style="list-style-type: none"> As a Community Leadership Council we will strengthen self-help capacity in our communities Deliver the Voluntary Community Sector Relationship Transition project Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance Through the "PEOPLE" strand of communications 	1x3 = 3

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p>deliver an integrated campaign, which encourages people to help themselves</p> <p>Progress</p> <ul style="list-style-type: none"> Continuing to develop the approach to being a Community Leadership Council Implementing the Health & Wellbeing Strategy which includes supporting and motivating everyone to take responsibility for their health and that of others 	
<p>PE 3 Despite improvement, a range of health indicators across the city continue to be below national averages including levels of child and adult obesity, rates of breastfeeding and levels of teenage pregnancy</p>	<p>Neil Revely, ED of Health, Housing & Adult Services</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> Deliver the Public Health improvement responsibilities Progress the delivery plan and performance management to address improvement in health indicators <p>Progress</p> <ul style="list-style-type: none"> Delivery plans being developed to target specific health priorities 	<p>2x3 =6</p>
<p>PE 4 Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> Extend employment opportunities for people out of work and to ensure job progression and mobility for those people in work through the implementation of the Sunderland Employment Strategy Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET Maximise learning opportunities afforded by the Youth Contract and by 3rd sector providers to young people requiring most support, to move them towards employment opportunities. The Education Leadership Board to continue to improve the links between schools and employers Extend the environmental apprenticeship scheme across other Streetscene services <p>Progress</p> <ul style="list-style-type: none"> Intention to merge the Employment Strategy and Skills Strategy to provide integrated approach to employment, employability and skills development Education Leadership Board continue to work with business leaders to encourage links with schools 	<p>2x3 = 6</p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<p>PE 5 The current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy</p>	<p>Neil Revely, ED of Health, Housing & Adult Services</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> • Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors • Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families • The Education Leadership Board to continue to improve links between schools and employers • Set up the Combined Authority whose remit will include regional skills issues <p>Progress</p> <ul style="list-style-type: none"> • Responsibility for the “Skills” agenda now shared with the NELEP • Combined Authority to be in place by April 2014 	<p>2x3 = 6</p>
<p>PE 6 Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> • Continue to deliver the Welfare Reform “Social Fund” • Prepare for the introduction of “Universal Credit” • Implement the Community Resilience Delivery Plan • Continue to implement the Child and Family Poverty Strategy • Deliver the Strengthening Families project • Develop and implement a delivery plan for the Access to Housing Strategy <p>Progress</p> <ul style="list-style-type: none"> • “Social Fund” in place and continues to provide support to local communities • Introduction of “Universal Credit” is delayed 	<p>2x3 = 6</p>
<p>PE 7 Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities</p>	<p>Neil Revely, ED of Health, Housing & Adult Services</p>	<p>2x3 = 6</p>	<ul style="list-style-type: none"> • Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements • Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups • Develop an asset based approach to delivery, making better use of assets that already exist in families and communities 	<p>1x3 = 3</p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p>Progress</p> <ul style="list-style-type: none"> • Health and Wellbeing Board monitor the actions to reduce inequalities • Health and Wellbeing Board Strategy based on Equity – providing access to excellent services dependent on need and preferences • Equalities impact assessment undertaken 	
<p>PE 8 Failure to align partner services to ensure we have a city that is safe and secure</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Continue to deliver the Safer Sunderland Partnership's delivery plan: tackling alcohol, drugs, domestic violence, violent crime, anti-social behaviour, safety and feelings of safety and re-offending • Apply the Strengthening Families approach to support people out of offending <p>Progress</p> <ul style="list-style-type: none"> • The Safer Sunderland Partnership (SSP) which is made up of organisations from the public, private, community and voluntary sectors continues to deliver the Safer Sunderland Strategy 	<p>1x2 = 2</p>

PLACE

Desired Outcomes

An attractive, modern city where people choose to invest, live, work and spend their leisure time.
 A responsible, well looked-after city that is adaptable to change.
 A well connected city.
 A city where cultural identity and vibrancy act as a significant attraction

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<p>PL 1 The Local Development Framework is not adopted thereby restricting development opportunities for the City</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>2x4 = 8</p>	<ul style="list-style-type: none"> Develop the LDF to ensure it meets the required Government criteria <p>Progress</p> <ul style="list-style-type: none"> Draft plan is currently out for consultation. Publication plan expected to be develop by May 2014 	<p>1x4 = 4</p>
<p>PL 2 Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>2x3 = 6</p>	<ul style="list-style-type: none"> Adopt an ambitious, developer/investor friendly Core Strategy (Land Use Plan) that will guide high quality future physical development that is synonymous with a modern, vibrant, aspirational city Develop and implement the Sunderland Housing Strategy Set up the “Combined Authority” that will have responsibility for the creation of an area wide integrated transport authority and preparation of a local transport plan Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund <p>Progress</p> <ul style="list-style-type: none"> Combined Authority expected to be in place by April 2014 Road infrastructure Schemes being developed to access RGF funding. 	<p>1x3 = 3</p>
<p>PL 3 Delivery of capital investment priorities is too slow to realise opportunities available</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>Score 2x3 = 6</p>	<ul style="list-style-type: none"> Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity 	<p>1x3 = 3</p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<ul style="list-style-type: none"> • Continue to support the development of priority areas including <ul style="list-style-type: none"> ○ Vaux site ○ Sunnyside ○ Seaburn ○ City square, and Minster Quarter <p>Progress</p> <ul style="list-style-type: none"> • Procurement stage of LABV nearing completion and will be followed by the mobilisation scheme • First stage of Pier Works and tunnel surrounding the Lighthouse completed 	
<p>PL 4 Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p>2x3 = 6</p>	<ul style="list-style-type: none"> • Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign • Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre <p>Progress</p> <ul style="list-style-type: none"> • Make it Sunderland campaign continues to promote investment in the City • City Centre businesses have voted to form a Business Improvement District. A BID company should be set up by April 14 	<p>1x3 = 3</p>
<p>PL 5 The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility</p>	<p>Neil Revely, ED of Health, Housing & Adult Services</p>	<p>2x2 = 4</p>	<ul style="list-style-type: none"> • Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes • Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers) <p>Progress</p> <ul style="list-style-type: none"> • On going engagement with NEXUS in relation to community transport • Contributing to the Integrated Transport Authority Quality Contract as the preferred method for delivering 	<p>2x2 = 4</p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			the Bus Strategy project to improve bus services within Tyne & Wear	
PL 6 Fail to agree and implement a Cultural Strategy and associated action plan	Neil Revely, ED of Health, Housing & Adult Services	2x2 = 4	<ul style="list-style-type: none"> • Develop Cultural Strategy and implementation plan Progress <ul style="list-style-type: none"> • Cultural Partnership formed to bring a wider base to the development of the strategy 	1x2 = 2

ECONOMY

Desired Outcomes

A national hub of the low carbon economy

A prosperous and well connected waterfront city centre

An inclusive city economy for all ages

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
EC 1 The increased costs of university fees and restricted access to appropriate learning opportunities will dissuade some young people from attending HE and skills levels will not increase as quickly as anticipated	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> Education Leadership Board to promote the benefits of higher education North East Local Enterprise Partnership (NELEP) to support the promotion of higher education <p>Progress</p> <ul style="list-style-type: none"> Education Leadership Board has agreed a scoping document aimed at preparing children for future life. University is recognised as a key asset for its contribution and commitment to Sunderland – potential influence on young learners is very significant 	2x3 = 6
EC 2 The City doesn't attract inward investors because of a lack of sites / finance	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City Allocation of appropriate employment sites through the LDF process <p>Progress</p> <ul style="list-style-type: none"> Procurement stage of LABV nearing completion and will be followed by the mobilisation scheme Work continuing on master planning in relation to Nissan Enterprise Zone 	2x3 = 6
EC 3 The more highly qualified/skilled people in the City will leave to find suitable work outside of the region, reducing the proportion of highly qualified/skilled people living in the City	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> Deliver an Employment Strategy that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors Implement a Housing Investment Plan that ensures we have the right range and types of housing, in the right locations, to retain existing residents and attract new people into the City <p>Progress</p> <ul style="list-style-type: none"> Employment strategy being delivered by the aim 4 group 	2x3 = 6

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<ul style="list-style-type: none"> Housing Investment Plan to be included in the Housing Strategy 	
EC 4 Inability to deliver on the New Wear Crossing in line with the planned timescales	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> Complete the procurement phase and deliver the construction phase of the New Wear Crossing <p>Progress</p> <ul style="list-style-type: none"> New Wear Crossing is being re-planned. 	2x3 = 6
EC 5 Fail to ensure plans are in place to support carers, people with disabilities and mental health issues into or to maintain employment	Neil Revely, ED of Health, Housing & Adult Services	2x4 = 8	<ul style="list-style-type: none"> Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work Continue to support the Carers Strategy Group <p>Progress</p> <ul style="list-style-type: none"> On-going engagement with Remploy Council officers continue to chair the Carers Strategy Group 	1x4 = 4
EC 6 Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions	Janet Johnson, Deputy Chief Executive	2x4 = 8	<ul style="list-style-type: none"> Progress development opportunities, e.g. Vaux site, City Square, Sunnyside Support the Business Improvement District proposal <p>Progress</p> <ul style="list-style-type: none"> City Centre businesses have voted to form a Business Improvement District. A BID company should be set up by April 14 St Mary's Way realignment is underway, which will support development of the Vaux Site 	1x4 = 4
EC 7 Partners do not have a coordinated approach to supporting, developing and attracting business to the City	Janet Johnson, Deputy Chief Executive	2x2 = 4	<ul style="list-style-type: none"> Continue to support the Business and Innovation Centre which provides a joint approach for business support Implement the Enterprise and Innovation Strategy Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones <p>Progress</p> <ul style="list-style-type: none"> Enterprise and innovation strategy. Lead by University 	1x2 = 2

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p>of Sunderland. Action plan developed, delivered by individual partners</p> <ul style="list-style-type: none"> • Single point of contact established (supported by University, SCC and BIC) and a business support information database set up. • Business Support Group and Business Support Portal in place 	

ORGANISATION

Desired Outcomes

Achieving Community Leadership.
 Delivering High Quality Services That Are Led By Our Customers' Needs
 Ensuring Value for Money and Productive Use Of Resources

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<p>OR 1 The Council and the community may not have the required skills and capacity to deliver the City's priorities</p>	<p>Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive</p>	<p>3x3 = 9</p>	<ul style="list-style-type: none"> Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council Utilise workforce planning to develop and transfer skills across the council Deliver the Voluntary and Community Sector Relationship Transition project <p>Progress</p> <ul style="list-style-type: none"> VCS project looking to enable volunteer and community groups to support delivery of City priorities 	<p>2x3 = 6</p>
<p>OR 2 Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes</p>	<p>Malcolm Page, ED of Commercial and Corporate Services</p>	<p>2x4 = 8</p>	<ul style="list-style-type: none"> Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities Deliver the Business Transformation Programme Deliver New Service Delivery Models <p>Progress</p> <ul style="list-style-type: none"> Transformation Programme undergoing review NSDM projects include Care & Support, ICT and Leisure 	<p>1x4 = 4</p>
<p>OR 3 Council does not secure the required savings</p>	<p>Malcolm Page, ED of Commercial and Corporate Services</p>	<p>2x4 = 8</p>	<ul style="list-style-type: none"> Agree MTFS (in context of Community Leadership Council) Agree Service Area efficiency targets and monitor progress Deliver the Business Transformation Programme Deliver Alternative Service Delivery Models Deliver the Workforce Planning project 	<p>1x4 = 4</p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			Progress <ul style="list-style-type: none"> • MTFS in place subject to review • Sunderland Care and Support Ltd. (ASDM) on track for December • Proposals for New Library Service being implemented 	
OR 4 Failure to collect, analyse and use intelligence to enable customer insight to inform decision making	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	2x3 = 6	<ul style="list-style-type: none"> • Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council • Utilise workforce planning to develop and transfer skills across the council • Deliver the Voluntary and Community Sector Relationship Transition project Progress <ul style="list-style-type: none"> • VCS project looking to enable volunteer and community groups to support delivery of City priorities 	1x3 = 3
OR 5 Employee engagement falls as a result of ongoing significant changes	Sue Stanhope, Director of HR & OD	2x3 = 6	<ul style="list-style-type: none"> • Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities • Deliver the Business Transformation Programme • Deliver New Service Delivery Models Progress <ul style="list-style-type: none"> • Transformation Programme undergoing review • ASDM projects include Sunderland Care & Support Ltd., ICT and Leisure 	1x3 = 3

Detailed Internal Audit Coverage

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Customer Focus		Children's Services – Safeguarding	L	Early Intervention and Locality Based Services	Review the governance arrangements for multi agency working, information sharing & performance management.	Insufficient work to enable opinion to be given	
		Personal Budgets	L	Out of Area Placements	Review implementation of new placements strategy.		
				Web Content Development	Review the arrangements for keeping the new website and intranet up to date, and for on line payments.		
				Crisis Loans / Social Fund	Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.		
Legality		Equality Impact Assessments	M			Substantial	
		Licensing (Compliance with Provision of Services Regulations 2009)	N				
		Corporate Legality	F				
Service / Business Planning	Responsive Local Services			Corporate Service/ Business Planning	L	Review of corporate process	Moderate
	Facilities Management	Children's Services – Safeguarding	L	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	
	Reablement at Home - Adults			Out of Area Placements		Review implementation of new Placements Strategy.	
	Business Support			Building Management		Assess arrangements in place to manage portfolio of operational buildings	
				Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Programme and Project Management	Project Management Information Governance (Project Server)			Implementation of the Economic Master Plan	M	Review progress against Business Investment Team projects within the plan	Moderate
		Landscape and Reclamation Service	M				
		Programme and Project Management - support to major projects	M				
		Operating Model – realisation of benefits	S				
Change Management				Payroll		Verification of input of new pay and grading information to SAP HCM.	None (new risk area)
				Health and Wellbeing Partnership Board		A review of governance arrangements and transaction checks on public health activity payments.	
Partnerships				Health and Wellbeing Partnership Board		As above	Moderate
Business Continuity and Emergency Planning	Major Incident Planning			HHAS Business Continuity Planning	L	Examination of the process for determining the level of criticality of each function, and the arrangements for recovery of non critical functions on a service by service basis. (Business recovery for critical functions is currently being reviewed by the Corporate Business Continuity Officer).	Moderate
	Business Continuity Planning - Children's Services						
Procurement	Purchasing Card Arrangements	Capital Procurement	S	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Substantial

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Procurement (continued)	Capital Procurement	Unplanned Audit – Revenue Procurement	S	Out of Area Placements	Review implementation of new placements strategy.		
	Revenue Procurement			Building Management	Assess arrangements in place to manage portfolio of operational buildings		
				Revenue Procurement	Transaction Testing		
Relationship and Contract Management		Care and Support Sunderland Ltd – contract management	M	Corporate Contract Management Arrangements	Assess the robustness of the new Corporate Contract Management Framework and the arrangements for its implementation.	Insufficient work to enable opinion to be given	
		Housing Related Support	L	Events Company Contract Management	Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.		
Financial Management	Corporate Budget Setting and Management	YPLA Schools Sixth Form Grant	S	EFA / SFA Funding	S	Grant Certification work	Substantial
	Adoption Allowances	YPLA Young Apprenticeships Cohort 6 Grant	S	DECC Fuel Poverty Grant	M	Grant Certification work	
	Social Care Resource Agency	YPLA Young Apprenticeships Cohort 7 Grant	S	Foster Care Allowances		Review the robustness of the arrangements for payment of allowances.	
	Personal Budgets - Adults	Department for Business Innovation & Skills – LEP Start Up Fund	S	Out of Area Placements		Review implementation of new placements strategy.	
	Port Governance Arrangements	Department for Business Innovation & Skills – LEP Capacity Fund	S	Direct Payments		Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.	
	Treasury Management	Deprived Areas Fund Grant	F	Charging for Non Residential Adults Care Services		Review of the arrangements for determining and collecting charges from service users.	
	1 Leisure Centre	Single Investment Programme Grant	F	Personal Budgets		Transaction Testing (to include verification of Direct Payments)	
Financial	Accounts Payable	Local Transport	S	Local Transport	S	Grant Certification work	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion	
Management - continued		Capital Block Funding Grant		Capital and Integrated Transport Grants		
	Accounts Receivable - Collection	Growing Places Funds 2, 3 and 7	F	Growing Places Funds 2, 3 and 7		Grant Certification work
	Periodic Income - Recovery and Enforcement	1 Leisure Centre	S	SAP Organisation Structures		Review of staffing structures as recorded on SAP HCM, and assessment of the adequacy of the arrangements for amendments and updates.
	Cash Receipting - Central System	35 Schools	S	Building Management		Assess arrangements in place to manage portfolio of operational buildings
	Council Tax - Setting	Home Improvement Agency – Loans and Mortgages	S	Asset Register / Capital Accounting		Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.
	Council Tax - Billing	Personal Budgets	L	Capital Programme Funding and Monitoring	S	Review of the arrangements for developing and financing the Capital Programme, and for monitoring expenditure against plans.
	Council Tax - Valuation	Direct Payments	L	BACS Processing	S	Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.
	Council Tax - Recovery	Care and Support Sunderland Ltd – compliance	S	Treasury Management		Review of borrowing and lending arrangements, and compliance with the Prudential Code.
	Business Rates – Recovery & Enforcement	Landscape and Reclamation Service	M	Cash Receipting		Transaction Testing, including a review of the arrangements for providing telephone facilities in Customer Service Centres to enable payments to the Council by credit / debit card.
	BACS Arrangements	BACS Payments	S	External Funding		A review of the arrangements that are in place to ensure that all possible sources of external funding are utilised and access to available funding is maximised.
	Charging for Services - HHA	Cash Receipting checks	S	Insurance Claims Handling	S	Review of the arrangements for dealing with insurance claims against the Council and South Tyneside Council.

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Financial Management - continued	Future Jobs Fund Grant	Capital Procurement	S	Payroll	Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	Overall Opinion	
	Deprived Areas Fund Grant	Payroll transactions checks	M	Council Tax Support Scheme	A review of the arrangements for implementing the new Council Tax Support Scheme.		
	Payroll Processing and Payment	Council Tax Transactions checks	S	Council Tax	S		Transaction Testing
	Unplanned Audit – SIB and Community Chest Grants	Business Rates transactions checks	S	Local Business Rates Scheme	S		A review of the arrangements for implementing the new Local Business Rates Scheme.
	Unplanned Audit – Future Jobs Fund – final audit certificate	Accounts Payable transactions checks	S	Business Rates			Transaction Testing
	Unplanned Audit – SWITCH Modelling	Accounts Receivable transactions checks	S	Crisis Loans / Social Fund			Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.
		Housing Related Support	L	Accounts Payable			Transaction Testing
				Accounts Receivable and Periodic Income			Review of key controls in income collection arrangements, together with transaction testing
				Troubled Families Performance Reward Grant	L		Grant certification work
				Derwent Hill	M		Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.
				Aquatic Centre	S		Examination of the arrangements for budget management, cash collection and purchasing.
				Events Company Contract Management			Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.
			Clusters of Empty Homes Grant	S	Grant certification work (unplanned)		

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Human Resource Management	Corporate Training and Development Arrangements	Corporate Attendance Management Arrangements	L	SAP HCM Organisation Structures	Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	Moderate	
	Personnel Administration Arrangement	Management of SWITCH	S	Corporate HR Management	Review of compliance with corporate HR procedures		
	Management of Employees in SWITCH						
Information Governance	Corporate Information Governance (including procedures for remote working)	Vulnerable Adults Protection Arrangements	S	Corporate Information Governance Arrangements	L	A survey of managers is to take place together with a general employee survey to gauge awareness and understanding of, and compliance with information governance policies and procedures.	Moderate
	Email Security	Information Governance compliance checks	L				
	Smarter Working – Remote Working in Children's Services						
	Document Management						
	Corporate Data Protection Arrangements						
	Follow Up – Customer Services Network Info Gov (2010/11)						
Performance Management	Responsive Local Services	Design of corporate performance management arrangements	S	Building Management		Assess arrangements in place to manage portfolio of operational buildings	Moderate
	Port Governance Arrangements			Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management	
	Customer Services Network						
	Reablement at Home -						

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions		2013/14 Audits / Opinions		Scope of 2013/14 Audit	Overall Opinion
	Adults						
	Social Care Resource Agency						
	Follow up – Sunderland Compact						
Asset Management	Asset Register/Capital Accounting	Asset management	M	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Moderate
	Unplanned Audit - Technoforge			Technology Forge		Examine progress in implementing the Technology Forge property management software.	
				ICT Asset Management		Review arrangements for identifying, recording and controlling ICT equipment.	
				Asset Register / Capital Accounting		Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.	
ICT Strategy and Delivery	ICT Remote Access Threats			ICT Asset Management		Review arrangements for identifying, recording and controlling ICT equipment.	Moderate
	Information Technology Infrastructure Library			ICT Strategy		Review of the ICT Strategy to assess whether that it supports delivery of Council Objectives	
Fraud and Corruption	Counter Fraud Testing (including in schools)	Counter Fraud Testing		Counter Fraud Testing			Substantial
	Access to IT systems - with movement of employees	National Fraud Initiative checks		National Fraud Initiative Case Investigations			
	1 Leisure Centre	Home Improvement Agency	S	Direct Payments		Transaction Testing	
	Asset Management - ICT Equipment	Direct Payments	L	Personal Budgets		Transaction Testing	
	Unplanned Audit – SIB and Community Chest Grants	Cash Receipting Transaction checks	S	BACS Processing	S	Transaction Testing	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Fraud and Corruption (continued)	Social Care Resource Agency	Payroll transaction checks	M	Cash Receipting	Transaction Testing		
		Council Tax transaction checks	S	Payroll	Verification of input of new pay grades to SAP HCM after Workforce Transformation Project.		
		Business Rates transaction checks	S	Council Tax	S		Transaction Testing
		Housing Benefit transaction checks	S	Business Rates	Transaction Testing		
		Accounts Payable transaction checks	S	Benefits	Transaction Testing		
		Accounts Receivable transactions	S	Accounts Payable	Transaction Testing		
				Accounts Receivable and Periodic Income	Review of key controls in income collection arrangements, together with transaction testing.		
Risk Management	Port Governance Arrangements					Substantial	
	1 Leisure Centre						
	Insurance Policies						
Housing Benefits	Housing Benefit Administration	Housing Benefit transaction checks	S	Benefits	Transaction Testing	Substantial	
				Council Tax Support Scheme	A review of the arrangements for implementing the new Council Tax Support Scheme.		
Schools	38 schools audits completed – 35 good, 3 satisfactory	29 schools audits completed – 7 full, 20 substantial, 1 moderate, 1 limited	S	34 schools 19 schools completed to date – 5 full, 10 substantial, 3 moderate, 1 limited	S	Review of governance and financial management arrangements at 34 schools.	Substantial

Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. Mitigating actions have been agreed and progress being monitored and reported in Appendix 1.
Transformation Programme	Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the related efficiency savings target. A progress report is presented to the Transformation Board on a monthly basis setting out the progress in relation to key project deliverables and the achievement of efficiency savings targets. Work is ongoing with Project Executives, Project Managers and Heads of Service to report the position and address any change control issues required.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the managing of risks through service planning, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	A new approach to supporting schools has been introduced in the current year. A number of workshops have been held for schools to attend to help them identify and manage their risks more effectively. This will allow Schools to support each other and manage their risks on a more ongoing basis, as well as reducing the resources required from the Risk and Assurance Team. Positive feedback has been received regarding the workshops and a number of Academies have also booked specific sessions at their schools.

Area of activity	Work ongoing
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> • Local Asset Backed Vehicle • Workforce Transformation Project • Workforce Planning Project • Care and Support Services – Adults • Customer Service Network • Intelligence Hub • Training Centres new model • Transport and Fleet Management • ICT – Shared service model • Economic Master Plan • Leisure project • Adult Social Care • Development of the Intranet • Safeguarding – Childrens • Personalisation – Adults • Settlement of Equal pay claims • Streetscene projects • Development of the Voluntary and Charitable Sector
Partnerships	<p>Support is being provided to the following specific partnerships:</p> <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	One investigation is currently on-going (not significant)

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14

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) On target - 90%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 70%	3) Ahead of target - 92%

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) Significant – N/A 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	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) On target – 1.1 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Non undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 4 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

13 December 2013

CORPORATE ASSURANCE MAP - CONSULTATION FOR 2014/2015

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

- 1.1 Each year the Audit and Governance Committee is consulted at an early stage on the development of the Internal Audit and Risk and Assurance Plans for the forthcoming year to give members the opportunity to raise any issues which they feel should be considered.
- 1.2 The internal audit plan and the allocation of resources within the Risk and Assurance team will continue to be flexible given the increased level of changes that are occurring across the Council. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2014/2015. These are as follows:
- Significant support and guidance will be required to help the Council manage risks in developing alternative service delivery models, including new commercial models.
 - On-going support and audit work in relation to new service delivery models following their implementation and their relationship with the Council.
 - Review of the provision of services to Local Authority Controlled Companies and associated bodies.
 - Contract management across the Council to ensure that suppliers/contractors are performing as intended.
 - Proposed arrangements for the provision of ICT.
 - Arrangements arising from the creation of the Combined Authority
 - Safeguarding information governance arrangements.
 - Continuing support to the review of pay and grading and the downsizing of the workforce.
 - LEP Accountable Body arrangements.
 - People Services commissioning arrangements.
 - Delivery of the capital programme.
 - Adult social care services.
 - Migration of services to the Customer Services Network.
 - Family Focus and the development of the Strengthening Families agenda.
 - Governance Arrangements at the Port.
 - Projects to support economic development.

- 1.3 A discussion will be held at the Committee to seek its input for the Corporate Assurance Map, and the plans of work for Internal Audit and Risk and Assurance for 2014/2015.

2. Recommendation

- 2.1 The Committee is asked to consider and comment on the areas mentioned above and any additional areas which should be considered.

AUDIT AND GOVERNANCE COMMITTEE

13 December 2013

ANNUAL AUDIT LETTER 2012/2013

Report of the Head of Financial Resources

1.0 Purpose of Report

- 1.1 This report details the external auditors (Mazars) Annual Audit Letter (AAL) covering the year 2012/2013. A copy is attached.

2.0 Description of Decision

- 2.1 The Audit and Governance Committee is recommended to note and comment on the contents of this very positive report.

3.0 Introduction

- 3.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing AALs is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.

- 3.2 The AAL summarises the findings of the 2012/13 audit, which comprises of two elements:

- An audit of the Council's financial statements
- An assessment of the Council's arrangements to secure value for money in the use of its resources

4.0 Summary Position

- 4.1 The AAL is extremely positive overall providing a strong endorsement of the financial management and planning and governance arrangements in place across the Council.

- 4.2 The Auditor issued an unqualified audit opinion on the Council's financial statements and an unqualified Value for Money conclusion. The report confirms that the Council:

- Produced accounts for 2012/13 that gave a true and fair view of the council's financial position and that no objections to the accounts were received

- Accurately reported its financial performance to government via the Whole of Government Accounts process
- Had proper arrangements in place to secure value for money.
- Was financially resilient and had managed its financial position very well as both budget setting and close budget monitoring were consider robust which had culminated in an underspend of £6m despite having to successfully deliver continued significant financial savings of £28m in respect of cuts in government funding and other cost pressures without the need for redundancies.
- Had made significant changes to secure its future viability as a community leadership council in 2012/13.
- Is aware of the continued and significant further grant reductions it is facing and is continuing to identify ways of improving service efficiencies and new ways of working and to improve service delivery and outcomes with fewer resources, the details of which are set out on page 7 of the Auditors AAL.

5. Alternative Options

5.1 Not applicable as the report is for information only.

6. List of Appendices

Appendix A - Sunderland City Council Annual Audit Letter 2012/2013

Annual Audit Letter to:
Sunderland City Council



Audit 2012/13

October 2013



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- 03 Key messages
- 05 Financial statements
- 06 Securing economy, efficiency and effectiveness
- 08 Fees and closing remarks

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Key messages

The 2012/13 audit for Sunderland City Council was completed by the statutory deadline of 30 September 2013.

The Accounts for 2012/13 gave a true and fair view of Sunderland City Council's financial position.

The Council accurately reported its financial performance to Government through the whole of government accounting process.

Sunderland City Council had proper arrangements in place to secure value for money.

There were no objections to the Council's accounts and we have certified closure of the 2012/13 Audit.

This letter represents the completion of our first year as your appointed auditor. We are grateful for the cooperation and assistance provided by officers and Members in completing our work.

Looking to the future

In our view Sunderland City Council will have to respond to some key challenges over the next few years:

- Continuing to deliver good quality services but with fewer resources, and delivering some services in new ways and using alternative models of service delivery
- Making a success of major projects such as the local asset backed vehicle (LABV), City Deal and new Wear crossing
- Working with its partners to deliver the proposals for a Combined Authority and for the North East Local Enterprise Partnership (NELEP).

Our 2013/14 audit will focus on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

Financial statements

The financial statements are an important tool for Sunderland City Council to communicate how it has used public money. We issued an audit report including an unqualified opinion on the financial statements on 30 September 2013.

The draft financial statements were of a very good quality overall, as were the supporting working papers. The Council's accountancy team was very helpful and cooperative, enabling us to complete our audit work efficiently and effectively.

Audit findings

Our detailed findings were reported in our Audit Completion Report to the Audit and Governance Committee on 27 September 2013.

We did not identify any significant deficiencies in the accounting and internal controls systems during the course of the audit.

Our audit identified a small number of minor misstatements, presentational and disclosure issues and management amended the Accounts for nearly all issues. There was one unadjusted presentational error of £607k which was not material and officers and Members felt it unnecessary to make a correction.

Securing economy, efficiency and effectiveness

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on 30 September 2013 stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

We assessed your arrangements against the two criteria specified by the Audit Commission and set out below our conclusion against each of them.

Financial resilience

The Council managed its financial position very well. Budget setting was robust, and its close monitoring ensured delivery of spending within budget. The outturn report for 2012/13 shows that the Council underspent against its annual revenue budget by £6 million, whilst at the same time delivering the services it had specified. This saving will contribute towards helping the Council manage the further significant reductions in Government funding it faces in future years.

The latest VFM profiles, produced by the Audit Commission, show the General Fund Balance was close to the average for similar authorities, and that the Council is prudent in setting aside earmarked reserves. Earmarked reserves are in place for specific plans and projects and will help the Council manage the financial challenges it faces over the next few years. During 2012/13 the Council's usable reserves reduced by £15m overall and assisted in change management.

The Council is financially resilient. The Medium Term Financial Strategy sets out how the Council proposes to deal with the difficult economic prospects and the cuts in central government grant funding. The Council has also considered the impact of the retention of business rates and localisation of council tax support, which also has a potentially adverse financial impact, and is monitoring these areas closely.

Securing economy, efficiency and effectiveness

In recent years, the Council has made significant changes to secure its future viability as a community leadership council. In the financial years 2010/11, 2011/12 and 2012/13 the Council has delivered savings of almost £100m to meet grant reductions and cost pressures, and in the next 3 year period it is expecting to have to deliver a further similar amount.

The Council has delivered ambitious plans and has recognised that there is more to do:

- By redesigning key activity areas so they are financially sustainable, including exploring alternative models of service delivery, such as local authority trading companies, joint ventures and mutuals, and working more closely with local communities, partners and the community and voluntary sector
- Addressing the financial pressures in social care, created by the demand for services from an ageing population, in a time of financial constraints
- Promoting economic regeneration through a local asset backed vehicle (LABV) with a private sector partner
- Delivering its City Deal with Government, including developing a new advanced manufacturing site near Nissan, and developing the Vaux site and the city centre
- Delivering the new Wear crossing, and trying to maintain a strong capital programme to improve infrastructure and provide stimulus to the local economy
- Working with its local authority partners to develop a Combined Authority to deal with economic growth, skills and transportation and making a success of the North East Local Enterprise Partnership (NELEP), where the Council has a lead role as accountable body.

Fees and closing remarks

Our audit fees for the year are in line with those communicated in our Audit Strategy Memorandum dated 19 February 2013, being £179,562 (plus VAT). In addition we carried out the audit of three grant claims and returns at an estimated cost of £16,050 (plus VAT).

We have also undertaken one non-audit service for the Council relating to 2012/13; the Executive Director of Commercial and Corporate Services commissioned a Review of Internal Audit for a fee of £3,500 (plus VAT).

We have discussed and agreed this letter with the Executive Director of Commercial and Corporate Services and copies will be provided to all Members. Further detailed findings and conclusions in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
2012/13 Audit Fee Letter	November 2012
Audit Strategy Memorandum	February 2013
Audit Completion Report	September 2013
Audit Opinion on the Financial Statements	September 2013
Audit Certificate	September 2013

Steve Nicklin
Director
Mazars LLP
October 2013

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AUDIT AND GOVERNANCE COMMITTEE

13 DECEMBER 2013

CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2012/2013

Report of the Head of Financial Resources

1. Purpose of the Report

- 1.1 This report details the external auditors (Mazars) work that they carried out for all grant claims and returns made by the Council for the financial year 2012/2013, which according to government regulations required an external audit opinion and / or an audit certificate.

2. Summary of the Report

- 2.1 The attached document (Appendix 1) advises members of the main coverage and findings of the audit work carried out on all grant claims and returns subject to external audit for 2012/13.

- 2.2 The report is fairly positive in that the council suffered only a very minor grant reduction of £692 in total in 2012/2013 which related to the National Non-Domestic Rates Return. This still represents an excellent outcome to the council as the amount of the grant claims / returns covered by the audit totalled almost £249m.

- 2.3 Amendment to grant claims / returns

There were some very minor amendments resulting from the audit work carried out which is referenced in the report at Appendix 1 (Page 5) and was in respect of the Housing and Council Tax Benefit Scheme Grant and the Teachers' Pensions Return where minor errors were amended on the return, which had no financial implications.

It should be noted that the above amendments meant that the council suffered no loss in funding in 2012/13 for these two claims.

- 2.4 Qualification of grant claims

The auditor tests all grant claim details and the level of testing is sometimes determined by the grant awarding body itself or alternatively is informed by the level of risks involved or identified from previous audit work.

In the case for the Housing and Council Tax Benefit grant the DWP agreed that all claims nationally should follow a standard audit process that can not rely on the Council's control environment.

Both the Housing and Council Tax Benefit Grant and the National Non-Domestic Rates Return were qualified by the auditor for relatively minor issues found during testing, which although were not considered significant, they were still required to report these to the relevant government department.

The fact no grant loss was incurred for the errors identified in respect of the Housing and Council Tax Benefit grant which totals almost £153m and £692 was identified as an overpayment, which the government has since recovered from the council, in respect of the error on the NNDR Return (which totalled almost £15m) is seen as a positive outcome. Actions to prevent similar errors from occurring in future years have now been put in place.

- 2.5 The cost of the work in 2012/13 was £16,050 compared to £36,945 for the previous year and represents almost a 57% reduction in this cost, which is welcomed (Page 4) and reflects the reduced fixed price approach for this work under the new auditing arrangements.
- 2.6 An officer from Mazars LLP will be in attendance to outline the content of the Report and to answer members questions.

3 Description of Decision

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

Sunderland City Council

Certification of Claims and Returns Annual Report 2012/13

November 2013



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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies.’ Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

01

Background

Sunderland City Council (the Council) receives more than £366m in funding from various grant-paying government departments. These departments may attach conditions and restrictions to these grants which the Council must meet otherwise funding may be withdrawn or clawed-back.

It is therefore important that the Council can demonstrate that it:

- Has put in place adequate arrangements to prepare and authorise each claim and return; and
- Can evidence that it has met the terms and conditions put in place by the grant paying body for each claim and return.

The scope of our work

As the Council's appointed auditor, we act as an agent of the Audit Commission to certify specified claims and returns.

The Audit Commission, in consultation with the grant-paying bodies, sets out a programme of work in the form of Certification Instructions (CIs) that we must follow. It also sets an overall framework under which we carry out our certification work:

- For claims and returns below £100,000 the Audit Commission does not make certification arrangements and as such we are not required to carry out any certification work.
- For claims and returns between £100,000 and £500,000, the Audit Commission requires us to undertake limited tests to ensure that entries on the claim form agree with underlying records.
- For claims and returns over £500,000, we assess the control environment the Council has put in place for preparing the claim to decide whether we can place reliance on these arrangements. Where we can place reliance on the Council's arrangements we undertake limited testing to ensure that entries on the claim form agree with underlying records (as above). Where we cannot place reliance on the Council's control environment we carry out the full programme of testing in the Audit Commission's CI.

Our certificate

On completion of the specified work we issue a certificate, the wording of which depends on the level of work we have performed on each claim. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter.

Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

02

Findings

The Council's control environment

As required by the Audit Commission's CIs, we have assessed the control environment for two claims and returns. There are specific arrangements for the certification of the Housing and Council Tax Benefit claim which do not require us to assess the control environment.

For the two claims we assessed, we were unable to rely on the control environment and carried out the full programme of testing in the Audit Commission's CI. This was because there have been some issues in relation to these claims in recent years.

Amendments and Qualifications

Of the three claims and returns we certified in 2012/13, two were qualified and two were amended by the Council. None of the issues identified were significant, particularly in the context of the claim and return values certified.

Our testing of the detailed transactions supporting entries in the Housing and Council Tax Benefit Subsidy claim identified minor errors. Due to the arrangements in place for the certification of this claim, we were required to report our findings to the responsible department, DWP. The financial impact of the errors identified and reported is nil to the Council due to technical adjustments which are reflected in the claim.

Our work on the National Non-Domestic Rates Return identified that there was a minor software issue affecting accounts where arrangements to pay by instalments had been made. The maximum financial impact to the Council would be a loss of £692, although it was for the sponsoring department, DCLG, to make a decision on this.

Appendix A to this report provides a full analysis of all claims and returns on which we carried out certification work.

03

Certification fees

For 2012/13 the total fees charged for certification work was £16,050. This represents a significant (56.5%) reduction on fees charged in 2011/12 (£36,945) as a result of a change in the way that the Audit Commission charges Councils for certification work. In previous years certification work was charged on the basis of actual hours spent undertaking the work; this has changed to be a set amount which is determined based on a 40% reduction of the actual fee which was charged for our certification work in 2010/11.

A breakdown of the fees charged for each claim or return is provided in Appendix A.

Appendix

Summary of certified claims and returns

Claims and returns above £500,000

Claim or return	Value	2011/12 fee	2012/13 fee	Reasons for significant movement	Amended	Qualified
Housing and Council Tax Benefit Scheme	£152,969,606	£23,822	£11,669	Significant decrease due to the change in the Audit Commission's approach to the setting of fees for certification work.	Overall subsidy payable to the Council increased by £90.	A qualification letter was issued in respect of this claim. Relatively minor issue.
National non-Domestic Rates Return	£80,612,953	£10,395	£2,828		No	A qualification letter was issued in respect of this claim. Relatively minor issue.
Teachers' Pensions Return	£14,980,831	£2,728	£1,553		Minor amendments were made to the claim.	No
Total	£248,563,390	£36,945	£16,050			

AUDIT AND GOVERNANCE COMMITTEE

13 December 2013

EXTERNAL AUDITOR – AUDIT PROGRESS REPORT

Report of the Head of Financial Resources

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) regular Audit Progress Report covering the period up to December 2013.
- 1.2 The report will be presented by Gavin Barker, the Council's Senior Engagement Manager.
- 1.3 The reports are a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities for the Council.
- 1.4 The council notes and welcomes Mark Kirkham, who has replaced Steve Nicklin as its Engagement Lead from 1st November 2013.
- 1.5 It is also pleasing to note that the work on the councils grant claims and returns has been completed and the report is fairly positive. Please see separate report on today's agenda.
- 1.6 The work on auditing a separate set of accounts prepared by officers for the Department for Transport in respect of the Port of Sunderland is almost complete and the outcome will be reported to this committee in due course.
- 1.7 In addition, the Auditors continue to tender for various assurance and advisory work and have been successful in the 3 areas of independently reviewing the Council's:
 - Fees and charges,
 - Advertising, and
 - Internal Audit service.
- 1.8 The report highlights emerging issues and developments that may be relevant and of interest to members in their role on the Audit and Governance Committee. These are detailed in pages 7 to 12 of their report.

2. Recommendations

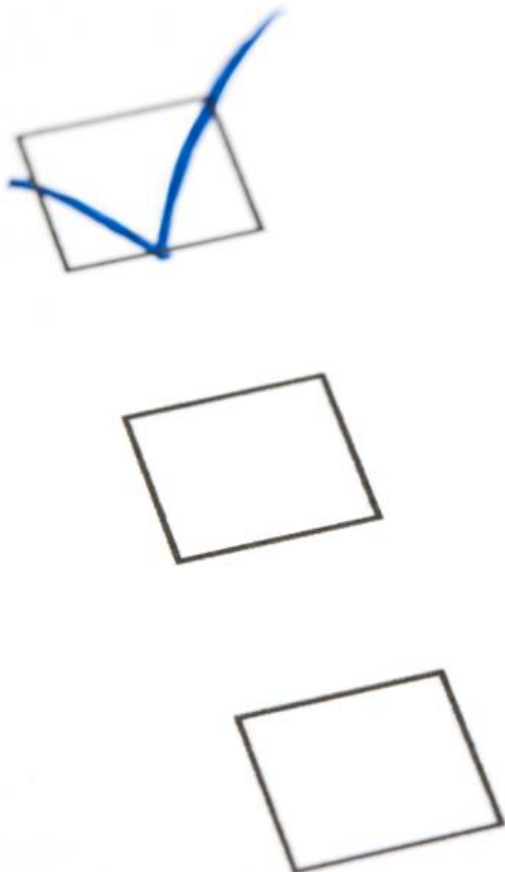
- 2.1 Members are asked to note the attached report.

Sunderland City Council



Audit Progress Report

December 2013



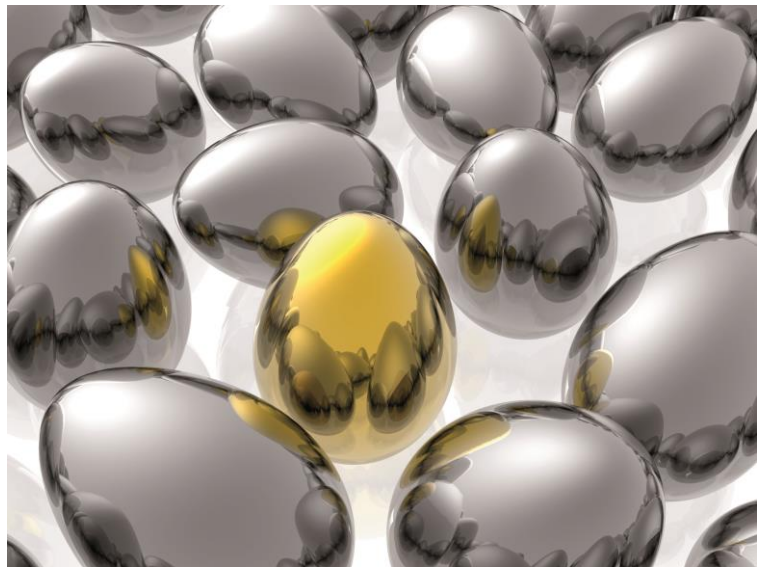
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01



Purpose of this paper

The purpose of this paper is to update the Audit and Governance Committee on progress in meeting our responsibilities as your external auditor. We also include in this paper key emerging national issues and developments which may be of interest to members of the Committee.

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If you need any additional information please contact Mark Kirkham or Gavin Barker using the contact details at the end of this update.

02

Summary of audit progress



The 2012/13 audit is complete and recent work has focussed on finishing the remaining grant claims that required audit certification by the end of November 2013; the housing and council tax benefits grant claim and the teachers pensions return.

Mark Kirkham took over as engagement lead for your audit on 1 November 2013, following Steve Nicklin's retirement.

We have now begun planning the 2013/14 audit, including our initial assessment of what the significant risks are and how we will liaise effectively with the Council. We also plan to carry out our walkthroughs of the key financial systems in the next quarter.

Summary of audit progress

We will present our Audit Strategy Memorandum to the Audit and Governance Committee in March 2014. This document will set out the risks we identify for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

In February 2014, Mazars will once again provide a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2013/14 statement of accounts. These workshops have been well received in the past. The Council's officers have attended previously and we hope that they will attend them again. Invitations will be sent out in the near future.

Port of Sunderland

Members will recall from the Audit Completion Report presented to the Audit and Governance Committee on 28 September 2013, that there were some issues potentially impacting on the Council as the statutory harbour authority for the Port of Sunderland.

Following further discussion with officers, it was agreed that the Council would produce a separate set of financial statements for the Port, which are to be provided to the Department for Transport in accordance with statutory requirements. We have carried out the required independent assurance procedures on these accounts at an agreed cost of £3,500 plus VAT. The Audit Commission approved this fee variation.

Advisory work

In our report to the Audit and Governance Committee in March 2013, we highlighted that in addition to our prescribed audit work we are able to offer a wide range of additional assistance.

We have recently tendered for and won in competition two pieces of advisory work for the Council:

- An independent review of fees and charges
- An independent review of advertising

In addition, the Executive Director of Commercial and Corporate Services has again commissioned a Review of Internal Audit from us for the 2013/14 audit year.

In undertaking this work, we can confirm that we fully comply with ethical standards and we have ensured that there is no conflict with our role as your external auditor.

The total fees for advisory work for 2013/14, which are only payable by the Council when the work is completed satisfactorily, currently stands at £34,000 plus VAT.

03

Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments in respect of:

- Annual Fraud Indicator Report 2012/13
- A Guide to Forecasting Methods in the Public Sector
- Code of Practice in Local Authority Accounting in the UK: Disclosure Checklist 2013/14 accounts
- Accounting and Auditing Standards: A Public Services Perspective
- Audit Commission consultation on 2014/15 fees
- Charging brings in more income than council tax for one in five councils
- Protecting the Public Purse
- £1.2 billion owed to councils in uncollected business rates
- Audit Commission Value for Money profiles
- Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14

Emerging issues and developments

Issue / development	Implications
<p>Annual Fraud Indicator Report 2012/13 In June 2013, the National Fraud Authority published its Annual Fraud Indicator report for 2013. The Report updates the Authority's estimates for fraud in all sectors of the economy, including the public sector. The methodology used in reporting is updated every year, which makes the analysis of trends and the drawing of conclusions difficult, but the report can still make interesting reading.</p>	<p>Provides national context. Sunderland City Council prides itself on having a strong anti-fraud culture.</p> <p>The report is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf</p>
<p>A Guide to Forecasting Methods in the Public Sector CIPFA have produced a detailed guide to forecasting that describes each of the methods available to councils and their pros and cons. It recognises that robust forecasting is critical to long-term service provision that meets increasing demand within tightening budgets.</p>	<p>Information is available at http://www.cipfa.org/policy-and-guidance/publications/a/a-guide-to-forecasting-methods-in-public-services-book</p>
<p>Code of Practice on Local Authority Accounting in the UK: Disclosure Checklist 2013/14 Accounts CIPFA published the key guidance for the preparation of the 2013/14 accounts in May 2013. This checklist can be used to self-assess compliance with this guidance during the closure process and we will use it as part of our audit of the 2013/14 accounts.</p>	<p>For information. Previous work has shown Sunderland City Council to comply well with CIPFA's accounting Code of Practice. We work with officers to ensure any new requirements are addressed.</p>

Emerging issues and developments

Issue / development	Implications
<p>Accounting and Auditing Standards: a Public Services Perspective</p> <p>CIPFA have updated a 2003 guide to reflect the subsequent adoption of international standards for accounting (IFRS) and auditing (ISAs). These standards are already embedded in the accounts you produce and our audit approach. However, the guide is a useful summary of how these standards apply to local authorities, fire and police bodies. It includes descriptions of the:</p> <ul style="list-style-type: none"> • Key differences between private sector and local authority financial reporting; • Wider responsibilities of public service auditors; and • Role of the various standard setting bodies. 	<p>This is a useful summary of accounting and auditing standards.</p> <p>Previous work has shown Sunderland City Council to comply well with accounting standards.</p> <p>We have arrangements in place to ensure that we comply with all auditing standards.</p>
<p>Audit Commission consultation on 2014/15 fees</p> <p>The Audit Commission is consulting on its 2014/15 proposed work programme and scales of fees. The proposal is that 2014/15 scale audit fees are set at the same level as the fees applicable for 2013/14, thus locking in the 40 per cent reduction made to fees from 2012/13.</p> <p>The consultation closes on Friday 10 January 2014 and the Commission plans to publish the final work programme and scales of fees for 2014/15 in March 2014. The proposed 2014/15 scale fee for Sunderland City Council is therefore £179,562.</p>	<p>The 40% reduction in audit fees will be delivered for another audit year.</p> <p>The report can be found at http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/</p>

Emerging issues and developments

Issue / development	Implications
<p>Charging brings in more income than council tax for one in five councils</p> <p>The Audit Commission has published a briefing drawn from its Value for Money (VFM) Profiles. The briefing presents the Commission’s analysis of the £10.2 billion that English councils raised through charging for services in 2011/12.</p> <p>Charging in 2011/12 funded 9 per cent of single-tier and county councils’ overall service expenditure, and 20 per cent of district councils. Although nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs.</p>	<p>In 2011/12, Sunderland City Council’s income from charging funded 10.8% of expenditure compared to an average of 8.05% for metropolitan councils. The income from sales, fees and charges was 77.7% of the income from council tax.</p> <p>The report can be found at http://www.audit-commission.gov.uk/2013/09/charging-brings-in-more-income-than-council-tax-for-one-in-five-councils/</p>
<p>Protecting the Public Purse</p> <p>The Audit Commission’s annual report on fraud, published in November 2013, highlights that £178 million of fraud was detected by local government in the last year. Just over three quarters of that total was detected by one quarter of councils.</p> <p>The Commission stated “This shows what can be achieved and we encourage all councils to play their part and do as much as they can to detect fraud. If the other 75 per cent of councils had found as much, we would see much higher overall rates of fraud detection”.</p>	<p>This annual report sets out the national context. Sunderland City Council participates in the Commission’s annual fraud survey.</p> <p>The report can be found at http://www.audit-commission.gov.uk/2013/11/councils-find-178m-in-frauds-against-local-government-but-detection-rates-are-patchy/</p>

Emerging issues and developments

Issue / development	Implications
<p>£1.2 billion owed to councils in uncollected business rates</p> <p>The Audit Commission has published a briefing, drawn from its Value for Money (VFM) Profiles Tool. The briefing presents the Commission's analysis of English councils' collection rates and costs of collecting business rates.</p> <p>It was found that in 2012/13, councils collected £21.9 billion in business rates of £22.4 billion due. Councils collect most business rates in the year they fall due, but business rates arrears are substantial and currently stand at £1.2 billion. In 2012/13, the uncollected in-year amount was £513 million.</p>	<p>In 2012/13, Sunderland City Council collected 97.5% of NNDR due, which was in the highest third of metropolitan councils where average collection rates were 96.7%.</p> <p>The report can be found at http://www.audit-commission.gov.uk/2013/10/1-2-billion-owed-to-councils-in-uncollected-business-rates/</p>
<p>Audit Commission Value for Money profiles</p> <p>The Audit Commission published its updated VFM profiles on 11 November 2013.</p> <p>The Value for Money (VFM) profiles bring together data about the costs, performance and activity of local councils and fire authorities, displayed under sections that give an overview of the chosen organisation and the services it delivers.</p>	<p>Sunderland City Council's VFM profiles can be viewed and downloaded via the Audit Commission website, by following the links to 'VFM Profile Tools'.</p>

Emerging issues and developments

Issue / development	Implications
<p>Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14</p> <p>The Audit Commission's latest research, published in November 2013, Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14, shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. But, the Commission says, with uncertainty ahead, councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.</p>	<p>As reported in our Annual Audit Letter and VFM conclusion for 2012/13, our view is that Sunderland City Council has shown strong financial resilience.</p> <p>In line with this national report, we also identified that the Council faces significant financial challenges and difficult decisions will need to be considered.</p> <p>The report can be found at http://www.audit-commission.gov.uk/2013/11/councils-show-financial-resilience-but-must-continue-adapting/</p>

04

Contact details



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AUDIT AND GOVERNANCE COMMITTEE

13 December 2013

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2013/2014

Report of the Head of Financial Resources

1. Purpose of Report

- 1.1 To report on the Treasury Management (TM) performance for the third quarter of 2013/2014.

2. Description of Decision

- 2.1 The Committee is requested to note the Treasury Management performance during Quarter 3 of 2013/2014.
- 2.2 To note amendments (bold type) to the Approved Lending List at Appendix C.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2013/2014, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council on 6th March 2013.

4. Review of Treasury Management Performance for 2013/14 – Quarter 3

- 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 possible in 2013/2014 as rates have not been considered sufficiently favourable. It should be noted however the Council's interest rate on borrowing is very low, currently 3.48%, as the Council continues to benefit from this low cost of borrowing which reflects savings from past debt rescheduling exercises and other proactive Treasury Management activity.
- 4.2 Treasury Management (TM) Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £398.602m for 2013/2014 and the Council is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.

- 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 30th November 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.04% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, although market conditions remain challenging.
- 4.5 The rate of return on investments has fallen markedly in recent months as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced considerably since April 2013 and still continue to follow a downward trend. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. Forward guidance announced in the Bank of England's Quarterly Inflation report (November 2013) shows that whilst unemployment may fall to 7% during 2015, this would not automatically trigger any increase in the Bank Base Rate. The implication of this is that returns on investments will be significantly lower than those achieved in recent years until interest rates begin to rise which is now estimated as being mid year 2015 at the very earliest although some including the Council's advisors predict mid year 2016. This position helps to show how uncertain the financial markets are expected to perform in the medium term at the moment.
- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.7 The regular updating of the Council's authorised lending list takes into account all recent financial institution mergers and amendments to institutions' credit ratings. The Approved Lending List as detailed in Appendix C has been updated to reflect these changes.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management (TM) performance for the third quarter of 2013/2014.
- 5.2 Members are requested to note amendments to the Approved Lending List at Appendix C.

Detailed Treasury Management Performance – Quarter 3 2013/14

A1 Borrowing Strategy and Performance – 2013/14

A1.1 The Borrowing Strategy for 2013/2014 was reported to Cabinet on 13th February 2013 and approved by full Council on 6th March 2013.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2013, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until December 2014 before steadily rising to 1.75% by March 2016 and that PWLB borrowing rates would increase during 2013/2014 across all periods.

The Bank of England's November Quarterly Inflation report has revised its view of the economy since August to offer a more upbeat assessment of the UK economic recovery. As a consequence of the ongoing improved data, growth forecasts have increased from 1.4% to 1.6% for 2013 and from 2.5% to 2.8% for 2014. However, there are still reasons to believe that economic recovery may not necessarily translate to employment growth at the rate financial markets are expecting. The Bank has an unemployment threshold of 7% as the point at which it would consider an increase in the current 0.5% Base Rate (in place since March 2009). At this point, any decision would also be dependant upon forecasts for inflation and growth.

The headline CPI inflation figure fell to 2.2% in October and analysts anticipate this downward trend will continue. The Bank of England now forecast inflation to fall to around the 2% target over the next year or so. Problems persist within the Eurozone, the UK's largest trading partner, where political unease over the scale and pace of austerity measures continues. Unemployment levels in the region are expected to remain at their current historic highs in all but a few countries. In addition the price of oil is vulnerable to geo-political events such as the ongoing unrest in parts of the Middle East.

During 2013/2014 there has been a sharp rise in UK gilt yields which has led to an increase in PWLB rates as investors have switched from bonds into equities, with share markets now standing at or near new highs. Potential upside risks for further increases remain, especially for longer term PWLB rates, as follows:

- UK inflation remains significantly higher than in the wider EU and US.
- A reversal of Quantitative Easing, either by allowing gilts to mature without being replaced or sale of gilts currently held.
- A reversal in Sterling's safe haven status following financial improvements in the Eurozone.
- Further increase in investor confidence causing continued flow of funds out of bonds and into equities.

However, bond yields remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone and the US. This uncertainty is expected to continue into the medium term.

As a consequence of the Bank of England forward guidance and expectations of continued recovery in the UK economy, financial markets are expecting a first increase in Bank Rate in the second quarter of 2015. However, the Council's treasury advisor Capita Asset Services (formerly Sector Treasury Services) does not anticipate any movement in the rate until the second quarter of 2016, 12 months later.

The following table shows the average PWLB rates for Quarters 1, 2 and 3.

2013/2014	Qtr 1* (Apr - June) %	Qtr 2* (July - Sep) %	Qtr 3* (Oct – Nov) %
7 days notice	0.31	0.31	0.35
1 year	1.02*	1.07*	1.12*
5 year	1.75*	2.27*	2.36*
10 year	2.81*	3.47*	3.52*
25 year	3.95*	4.32*	4.28*
50 year	4.09*	4.37*	4.29*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

- A1.2 The strategy for 2013/2014 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 2013/2014. Due to high levels of volatility in the financial markets, no new borrowing has been undertaken in the current financial year up to 30th November 2013, but this position will be kept under review.
- A1.3 The Borrowing Strategy for 2013/2014 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.

Interest rates have not been sufficiently favourable for rescheduling in 2013/2014 and are not expected to rise to a level that would make rescheduling a viable option until the medium term. The Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide “improved information and transparency on their locally determined long-term borrowing and associated capital spending plans”. The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31st October 2014.

A1.4 The Council’s treasury portfolio position at 30th November 2013 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	137.9		
	Market	39.5		
	Other	<u>1.7</u>	179.1	3.95
Variable Rate Funding	Temporary / Other		<u>28.2</u>	0.54
Total Borrowing			207.3	3.48

A2 Treasury Management Prudential Indicators – 2013/2014

A2.1 All external borrowing and investments undertaken in 2013/2014 have been subject to the rigorous 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 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 2013/2014 as follows:

	£m
Borrowing	366.139
Other Long-Term Liabilities	32.463
Total	<u>398.602</u>

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	322.863
Other Long-Term Liabilities	32.463
Total	<u>355.326</u>

The maximum external debt in respect of borrowing in 2013/14 (to 30th November 2013) was £213.106 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 approved in March 2013 have been complied with:

Prudential Indicators		2013/2014 (to 30/11/13)	
		Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	235,000	74,070
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	50,000	-35,812
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% 5% 3% 79%
P13	Upper limit for total principal sums invested for over 364 days	75,000	0

A3 Investment Strategy – 2013/2014

A3.1 The Investment Strategy for 2013/2014 was approved by Council on 6th March 2013. 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 30th November 2013, the funds managed by the Council's in-house team amounted to £185.948 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 and ANEC which agreed with its member authorities that the council would invest its surplus funds as appropriate and which was reported to members separately at its last meeting. The table below shows the overall return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2013/2014 Actual to 30/11/13 %	2013/2014 Benchmark to 30/11/13 %
Return on investments	1.04	0.36

- A3.3 Investments placed in 2013/2014 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 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 Council's advantage.
- A3.5 Investment rates available in the market have continued at historically low levels and are forecast to remain at low levels until 2016 at the earliest.
- A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with 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) which have an AA+ rating applied to them or in respect of Money Market Funds which are 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 notified changes to credit ratings.

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 advisers.

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> £m	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	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)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	(#) 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ 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:

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 £350m 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	350
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	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
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 AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

	Fitch				Moody's			Standard & Poor's			Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	
UK	AA+				Aa1			AAA		350	2 years
Lloyds Banking Group (see Note 1)										Group Limit 90	
Lloyds Banking Group plc	A	F1	bbb+	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb+	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										Group Limit 90	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	BBB	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A-	A-2	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A-	A-2	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB	A-2	90	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	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

	Fitch				Moody's			Standard & Poor's			Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	
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	Baa2	P-2	D+	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	c	5	Caa1	NP	E	-	-	0	
Virgin Money ***	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-	-	-	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+	20	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+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

	Fitch				Moody's			Standard & Poor's			Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	10	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Insight Liquidity Fund	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Ignis Sterling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Deutsche Managed Sterling Fund	-	-	-	-	AAA	-	-	AAA	-	40	Liquid

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme
The counterparties in this section will have an 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.