

AUDIT AND GOVERNANCE COMMITTEE
Friday 13 December 2013

Present:

Mr G N Cook

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

In Attendance:

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

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Speding.

Minutes

21. RESOLVED that the minutes of the meeting of the Committee held on 27 September 2013 be confirmed and signed by the Chair as a correct record.

Appointment of Independent Member

The Chair of the Committee presented a report notifying the Committee of the appointment of Martin Knowles as an independent member of the Committee.

Mr Knowles had been interviewed on 15 November and his appointment confirmed by the Council on 27 November 2013.

The Committee welcomed Mr Knowles to his first meeting of the Audit and Governance Committee and: -

22. RESOLVED that the report be noted.

Corporate Assurance Map – Update 2013/2014

The Head of Assurance, Procurement and Projects 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 directed to the illustrated Corporate Assurance Map and it was highlighted that the overall view in relation to Strategic Risk Areas remained the same and that Risk and Assurance monitoring was ongoing in these areas.

With regard to the Corporate Risk Areas, the assurance on these had remained the same apart from Programme and Project Management which had changed from green to amber. This was due to Internal Audit giving a moderate assurance level for the implementation of the Economic Masterplan, which was a significant programme for the Council and improvements which were required in relation to the consistency of project management practices generally.

The Head of Assurance, Procurement and Projects drew Members' attention to Appendix 3 of the report which set out the work which the Risk and Assurance Team was currently undertaking. During the last quarter, work had included: -

- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle (LABV), Sunderland Care and Support Limited 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 had 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

The Committee were informed that Internal Audit was on target for all areas of performance apart from the percentage of medium risk recommendations which had been implemented which currently stood at 87% against a target of 90%. This was not of concern.

Members were reminded that they had considered the new Public Sector Internal Audit Standards at a previous meeting and one requirement of the standards had been that Internal Audit should have an external assessment at least once every five years. Mazars had been asked to carry out this review and would report back on this in 2014.

The Chair highlighted that the risk owners named in the Strategic Risk Profile needed to be amended to reflect that the Executive Director of Commercial and Corporate Services had now left the Council.

Mr Knowles asked if he could have further detail on the assurance within the Corporate Assurance Map from the senior executive team. The Head of Assurance, Procurement and Projects advised that in relation to management assurance, feedback was from Heads of Service rather than the Executive Management Team. Assurance from Legal Services, Financial Resources and other service areas was provided by the Head of Service for these services. The Executive Management Team was not asked to give assurance as a collective group, but as well as input from Heads of Service and Corporate Directors, the Map was also taken to the Corporate Assurance Group to be validated before it came to the Committee.

Councillor T Wright commented that as the first line of assurance was with Heads of Service, they were the individuals who knew the policies and objectives of the service most clearly and would have a greater tendency to rate things as green. The Head of Assurance, Procurement and Projects stated that whilst this was true, moving from left to right on the Corporate Assurance Map, the assurance became more credible and more independent.

Having considered the report, the Committee: -

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

Corporate Assurance Map – Consultation for 2014/2015

The Head of Assurance, Procurement and Projects submitted a report consulting the Committee on the development of the Internal Audit and Risk and Assurance Plans for the forthcoming year and providing the opportunity for Members to raise any issues which they feel should be considered.

The Internal Audit Plan and the allocation of resources within the Risk and Assurance team would continue to be flexible in order to respond to the changes which were taking place across the Council. Key financial systems would be audited as they always had been and this work would be planned in alongside priority areas for 2014/2015. The report listed a number of areas which were expected to be priorities and the Committee was invited to comment.

Councillor Farthing referred to the bullet point related to 'projects to support economic development' and asked what would be in mind for this area. The Head of Assurance, Procurement and Projects explained that this would be driven by what was in the Economic Masterplan and he could provide more information to Councillor Farthing outside the meeting if required. She commented that she was concerned about employment opportunities for young people and the need to make sure that what was being done was delivering the Council's objectives. The Audit, Risk and Assurance Manager advised that when risk information was examined, officers would also look at performance management data. The Chair agreed that it would be useful to pick this up in more detail and that an update, either verbal or written, should be provided to the Committee.

With regard to adult social care services, Councillor Wright asked if it was too soon to look at this, as it would be important to see how this was progressing at relevant points over the next few years and the picture may not be clear at this stage. Councillor Wright also noted the governance arrangements of the Port being included on the list and queried if this was related to the issues which had arisen around the Port accounts in September.

The Head of Assurance, Procurement and Projects stated that the adult social care services audit did not relate to the new Local Authority Controlled Company but to the part of the service that had remained with the Council. This area was experiencing great financial pressures and new operating systems were to be reviewed. The Risk and Assurance team had worked to support the development of the new Sunderland Care and Support company and to ensure that the necessary controls would be in place from day one. Once the Company had gone live, from an assurance perspective, it would be left to operate for approximately six to nine months and then a more formal audit would be carried out by the Internal Audit team.

It had always been intended to look at the new governance arrangements at the Port of Sunderland after it had been in operation for some time for new arrangements to become embedded. The planned work would be looking at the Port Board, its operation and governance, and also the Port business plan.

In relation to contract management, Councillor Wright commented that he had recently received a report on procurement and about efforts to use local Sunderland businesses and was pleased to note this approach.

Councillor Forbes enquired if the proposed Combined Authority would impact on the Corporate Assurance Map for Sunderland and the Head of Assurance, Procurement and Projects advised that at this stage, the proposals for the Combined Authority were in their infancy and it was not clear what it would do and how it would do it. As the purpose and scope of the Combined Authority became clearer then there would be a role for Internal Audit to play.

The Head of Financial Resources reported that the greater part of the Combined Authority's constitution would be around transport and the associated funding was part of the current Integrated Transport Plan. Other elements related to major transport allocations for capital and the North East Transport Board. This would not have a significant impact on Sunderland's resources at this stage.

The Chair noted that the overall Combined Authority budget was not included within the Council's finances but that the Authority would have a watching brief on the overall delivery. This cross referenced with the LEP accountable body arrangements within the plan for 2014/2015.

Having considered and commented on the areas expected to be priorities for the Internal Audit and Risk and Assurance plans of work for 2014/2015, the Committee: -

24. RESOLVED that the report be noted.

Annual Audit Letter 2012/2013

The Head of Financial Resources submitted a report presenting the Annual Audit Letter from Mazars, the Council's external auditors, covering the year 2012/2013. Mark Kirkham, the Council's Engagement Lead from Mazars, was in attendance to speak to the report. He reminded the Committee that his predecessor, Steve Nicklin, had set out the findings from the 2012/2013 audit of the Council's financial statements at the meeting held in September. The Annual Audit Letter summarised the findings of the audit and communicated the work done to close the audit.

The external auditors had issued an unqualified audit opinion on the Council's financial statements and an unqualified Value for Money conclusion. The key messages from the Annual Audit Letter were that: -

- The Accounts for 2012/2013 gave a true and fair view of Sunderland City Council's financial position;
- The Council had 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 the closure of the 2012/2013 Audit had been certified.

The Annual Audit Letter also recognised the challenges for the future but was positive about the arrangements which were in place and the ability of the Authority to meet these challenges. Mark highlighted the good relationship which the external auditor had with the Council and its officers and looked forward to seeing this continue.

The Chair thanked the external auditor for the positive report and the Committee therefore: -

25. RESOLVED that the Annual Audit Letter 2012/2013 be noted.

Certification of Claims and Returns – Annual Report 2012/2013

The Head of Financial Resources submitted a report detailing the work which the external auditors (Mazars) had carried out for grant claims and returns made by the Council for the financial year 2012/2013.

Mazars reviewed grant claims and returns totalling almost £249m and found that the Council only suffered a very minor grant reduction of £692 in total for the year in relation to the National Non Domestic Rates Return. This had been recovered from the Council by the Government.

Gavin Barker, Senior Engagement Manager from Mazars advised the Committee that there were fewer grants to be audited each year and the majority of the claims and returns which required an external audit opinion were related to large schemes.

Two further claims were amended slightly as a result of the audit work but the Council had suffered no loss in funding as a result.

There had been a qualification in relation to both the NNDR and the Housing and Council Tax Benefit Grant returns but these were of a relatively minor nature and there was no grant loss incurred as a result. Gavin commended Council officers for their assistance in carrying out this work and highlighted that these good working relationships were reflected in the reduction of the fees charged for the work. The fee for the work in 2012/2013 was £16,050 compared with £36,045 for the previous year.

Councillor N Wright commented that describing the Certification of Grants and Claims report as 'fairly' positive seemed to be underplaying the report findings. The Head of Financial Resources accepted that this was too prudent a statement and the covering report would be amended.

26. RESOLVED that the content of the Certification of Claims and Returns Annual Report 2012/2013 be noted.

External Auditor – Audit Progress Report

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to December 2013.

Gavin Barker, the Council's Senior Engagement Manager, informed the Committee that planning had begun for the 2013/2014 Final Accounts Audit and that this would culminate in the presentation of the Audit Strategy Memorandum. Mazars were to run a workshop session in February 2014 for finance staff in relation to the preparation of the 2013/2014 Statement of Accounts. Council officers had attended these workshops in the past and found them useful and were encouraged to attend the session in February.

Following issues that had been raised regarding the Council as the statutory harbour authority for the Port of Sunderland, it had been agreed that a separate set of financial statements would be produced for the Port. The audit of these statements was ongoing and would be signed off by the end of the calendar year. An additional fee of £3,500 plus VAT had been agreed for this work.

Mazars were able to offer a range of advisory work in addition to prescribed audit work and had won tenders from the Council to carry out independent reviews of fees and charges, of advertising and had again been commissioned to carry out a review of Internal Audit for 2013/2014.

Turning to emerging issues and developments, Gavin advised that the Audit Commission was currently consulting on fees for the 2014/2015 audit and it was proposing no change to fees meaning that they would remain the same for a third consecutive year.

The publication of the Annual Fraud Indicator report was also highlighted. This reminded councils to be vigilant, however it was noted that Mazars were aware that Sunderland took this matter seriously and had sound arrangements in place.

The Audit Commission had also recently published its updated Value for Money profiles and these could be viewed and downloaded through the Audit Commission website. The Audit Commission were trying to promote the use of this data and publications on their website.

The Chair asked if it would be useful to publicise the availability of Value for Money profiles more widely. The Head of Financial Resources stated that the profiles were used when looking at service reviews but that this may be a good opportunity to highlight this to others within the Council.

Councillor Farthing referred to the briefing which flagged up that charging was bringing in more income than council tax in some council areas and asked how this position was looking for Sunderland in 2012/2013. The Head of Financial Resources advised that the level of income from fees and charges at this time was similar to that for council tax. Fees and charges were being reviewed within the budget planning process and there were some areas where increases would be proposed. The Committee would be able to receive an update on this in the next few months.

27. RESOLVED that the Audit Progress Report be noted.

Treasury Management – Third Quarterly Review 2013/2014

The Head of Financial Resources presented a report outlining the Treasury Management performance for the third quarter of 2013/2014. The report also detailed amendments which had been made to the Approved Lending List.

The Council's Treasury Management function continued to look at ways of maximising financial savings and increasing investment return to the revenue budget. One option for this was to make savings through debt rescheduling, however no rescheduling had been possible in 2013/2014 as rates were not considered sufficiently favourable. The Council's overall interest rate on borrowing was very low at 3.48% and looking at the current comparable rate for PWLB loans, borrowing could only be taken for a period of eight to nine years, whereas the Council's borrowing spanned up to 50 years. This did have a beneficial impact on the revenue budget year on year for both Council and the Tyne and Wear Fire and Rescue Authority as the cost of borrowing was low compared to other authorities across the country.

It was possible that the longer term borrowing rate of 4.5% might have to be reviewed in the future and the Treasury Management Policy would be presented to the Committee in February 2014 as interest rates for borrowing had crept up in the last year.

The Assistant Head of Financial Resources advised that no Treasury Management Prudential Indicators had been exceeded and the Council was well within its Authorised Borrowing Limit of £398.602m.

The Treasury Management team continued to scour markets for investment opportunities and the rate of return of 1.04% was three times above the benchmark rate. The rate of return on investments had fallen markedly in recent months however as expected and special tranche investment rates (which offer better than market average returns) had also followed this trend. Returns on investments would be significantly lower than those achieved in recent years until interest rates began to rise, which was not expected before mid 2015 at the earliest.

Members' attention was drawn to the Lending List Criteria and Approved Lending List. All of the Council's funds were currently held in UK institutions and this was regarded as prudent at the current time. Changes in credit ratings since the last quarterly report were highlighted in bold and these ratings determined the amount of funds placed with each institution.

Councillor Farthing noted that Sunderland was in the top quartile for borrowing but asked where the Authority stood with regard to income. The Assistant Head of Financial Resources reported that Sunderland was also in the top quartile for this indicator, was top out of all metropolitan authorities and 26th in the country. Councillor Farthing felt it would be useful to report these statistics within the Treasury Management review.

The Chair asked what the change to a 'BBB' credit rating would mean and the Assistant Head of Financial Resources highlighted that this rating did not feature on the Council's list of counterparty criteria. However, where the UK Government had a shareholding in an institution, then their credit rating of AA+ would apply.

Councillor Farthing commented that she understood that tax payers were no longer going to be allowed to support institutions and it was noted that whilst this practice had bolstered cash reserves, it had meant that banks did not want or need investments from local authorities.

Mr Knowles commended the report and asked about the relationship between fixed and floating debt in the Treasury Management Strategy. The Assistant Head of Financial Resources stated that there were tolerances. Investments could be held for up to two years, but they were only held for up to the maximum of a year depending on the institution to reflect the risk that things could change. There were limits within both the policy and operationally to provide the necessary flexibility.

Having thanked the Assistant Head of Financial Resources for his presentation, the Committee: -

28. RESOLVED that: -

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

(Signed) G N COOK
Chair

