

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

**Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 11 December 2015 at 1.30pm**

ITEM	PAGE
1. <b>Receipt of Declarations of Interest (if any)</b>	
2. <b>Apologies</b>	
3. <b>Minutes of the Meeting of the Committee held on 25 September 2015</b>	1
(Copy attached.)	
4. <b>Corporate Assurance Map 2015/2016 – Update</b>	13
Report of the Head of Assurance, Procurement and Projects (copy attached).	
5. <b>Corporate Assurance Map – Consultation for 2016/2017</b>	51
Report of the Head of Assurance, Procurement and Projects (copy attached).	
6. <b>Public Sector Auditor Appointments – Update</b>	53
Report of the Director of Finance (copy attached).	
7. <b>Treasury Management – Third Quarterly Review 2015/2016</b>	57
Report of the Director of Finance (copy attached).	

For further information and assistance, please contact:

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8.	<b>Annual Audit Letter 2014/2015</b>	69
	Report of the Interim Head of Paid Service and the Director of Finance (copy attached).	
9.	<b>External Auditor – Audit Progress Report</b>	83
	Report of the Director of Finance (copy attached).	

ELAINE WAUGH  
Head of Law and Governance

Civic Centre  
Sunderland

2 December 2015

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 25 September 2015**

**Present:**

Mr G N Cook

Councillors Farthing, O'Neil, N Wright and Mr M Knowles.

**In Attendance:**

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

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillors Forbes and Speding.

**Minutes**

10. RESOLVED that the minutes of the meeting of the Committee held on 26 June 2015 be confirmed as a correct record.

The Chair noted that Councillor Forbes had requested information regarding the accounting change for PFI contracts and this had been provided to her outside of the meeting.

**Inspection of Children's Safeguarding Service and Progress of Improvement Activity**

The Head of Assurance, Procurement and Projects submitted a report providing an update in relation to the Children's Safeguarding Service and the action taken by the Council to address weaknesses identified in two independent reports and the recent Ofsted inspection report.

Members were reminded that Fiona Brown, Chief Operating Officer, People Services had attended previous meetings of the Committee to provide updates on the improvement work taking place in Children's Safeguarding. The Ofsted inspection report published on 20 July 2015 had judged services to be inadequate and had made 27 recommendations for the local authority to consider and seven for the Local Safeguarding Children Board.

Following the inspection, the Education Secretary had appointed Nick Whitfield as the Commissioner for Children's Services in Sunderland and Steve Walker had been appointed as interim Director of Children's Services. One off funds had been earmarked during the budget setting process for 2015/2016 to address the identified pressures but these pressures would continue to increase and the Council would have to consider this for future years.

The Head of Assurance, Procurement and Projects stated that the Risk and Assurance Team had been supporting the service in its improvement activities and it had highlighted that a number of planned actions in the 100 Day Plan, which had been developed in response to immediate issues raised during the Ofsted inspection, were either behind schedule or had not started. The Team would liaise with the interim Director about how they could provide support and report back to the Audit and Governance Committee.

Members were directed to the table at paragraph 6.2 of the report and advised that some of the baseline data that had been provided by the service was incorrect and as of 19 May 2015, there were 3,068 open cases, 300 unallocated cases and 607 with a check status. By 1 September 2015, these had been reduced by 503, 171 and 449 respectively.

Performance data showed significant improvements in relation to the timeliness of Initial and Core Assessments and Section 47 investigations, however there were a small number of Initial and Core Assessments showing as significantly overdue and requiring immediate attention on 1 September. The Committee was recommended to receive regular updates and to monitor the progress and impact of improvement activity in this area.

Neil Revely, Executive Director of People Services and Steve Walker, Interim Director of Children's Services were in attendance at the meeting and Neil reminded the Committee that they were aware of the seriousness in which the Council as a whole viewed the situation and that Ofsted had recognised the commitment of the Council to do what it needed to do to address the issues in Children's Safeguarding.

The Executive Director of People Services stated that Ofsted had reinforced some of the themes which had previously been identified but also highlighted greater concerns. Significant resources had already been brought to bear and this had now been increased with a significant emphasis on the Multi Agency Safeguarding Hub (MASH), to achieve better coordination of how to get a better return on investment. The future of Children's Services continued to be to ensure that good and outstanding services were achieved for the children and young people in Sunderland.

The Executive Director stated that the Improvement Plan was predicated on getting good and the best outcomes for children. Officers from People Services had worked with the Commissioner to develop a draft plan and this would be presented to the first formal Improvement Board meeting during the first week of October. There had been discussion about the need to inject strategic capacity into the service but day to day work and management was still required. The post of a dedicated Director of Children's Services had been agreed and Steve Walker had been seconded from Leeds City Council.

Steve Walker stated that he was pleased to attend the Committee meeting and sought to reassure Members that considerable action had already been taken. He made reference to Annexe H within the Ofsted report which contained cases which had been referred back to the authority due to there being serious concerns. 21 cases had been referred back in Sunderland and all had been reviewed and analysed to ensure that those children were safe. 11 of the cases related to the MASH and a great deal of work was being put into reviewing arrangements in this area and adding resource.

The report had highlighted a backlog which had now been managed through the system and additional staff recruited and placed in area teams to deal with this backlog. Caseloads had been brought down to a manageable level and there were now no unallocated Child Protection cases. A system was in place to monitor unallocated cases and a data set had been established to report to the Improvement Board and Commissioner and would be distributed as appropriate, including to the Audit and Governance and Scrutiny Committees.

Steve emphasised that he was working for Sunderland and would report back to the Commissioner as a permanent member of staff. He noted that there had been significant issues in producing accurate data for the initial Improvement Board and a system was being designed which would pull together more accurate data moving forward. He reassured the Committee that all of the basic information was there now, but a decision had been made to procure a system which would make this process easier in the future.

Steve informed Members that he was currently Deputy Director for Safeguarding, Specialist and Targeted Services at Leeds City Council and previously worked at Swansea City Council and stated that both of those authorities had been on a similar journey to the one which Sunderland was embarking upon now. He emphasised that the priority was to make sure that all children were safe and to restate the vision for children in Sunderland and to share with partners.

It was highlighted that the more cases which the authority had, the more social workers and placements which were needed and Steve said that there was a piece of work to be done around the structure and principles of practice which the authority wanted to establish. For example, the number of looked after children in Sunderland had increased by almost 100 since March this year and 44 children were in external residential placements. There were 22 children placed externally two years ago and only eight being looked after outside Sunderland four years ago. If this number was reduced back to 22, then the authority would save £3.5m and the current target was for 15 external placements which would achieve a saving of £4.7m.

The Council needed to be clear about the outcomes it was seeking, if the practice was right then outcomes would be achieved and financial savings would follow. Steve made a comparison with the situation in Leeds where there had been a reduction in the number of looked after children from 1,475 to 1,249 and residential placements had reduced from 110 to 49. This was not about shifting children but about looking at their plan and identifying where they needed to be in order to meet their needs. Allied to this would be the Practice Recovery Plan to evidence the cost of the service going forward.

Councillor Farthing commented that there had been nothing good in the Ofsted report at all and she asked if the Executive Director was surprised that leadership was still criticised a year after a peer review. The Executive Director of People Services stated that the authority was concerned about everything in the report and highlighted that when he came into post, there had been a feeling that the service was drifting and an independent review was sought through a scoping group and then a voluntary Improvement Board established. A peer review was carried out in November 2014 and an improvement plan drawn up with extra resources being put in place to move things forward. The service area was six to seven months into the plan when the Ofsted inspection took place and although the report was not a great surprise, it was disappointing that the improvement work which had taken place was not recognised, although it had always been known that this would not be a quick fix.

Councillor Wright stated that, as Chair of the Scrutiny Committee, she concurred with what had been said. Concerns had been raised, action was taking place and as far as Ofsted were concerned, some changes had been applauded but they did not think that these were taking place quickly enough. The Scrutiny Committee was, and continued to be, concerned about the situation.

Councillor Wright went on to say that when the Scrutiny Committee was first alerted to the issues, she and former members of staff, other councillors and the voluntary sector had raised concerns with the Leader and the Executive Director and it had been agreed that the Scrutiny Committee would set up a working group to monitor the implementation plan and the Sunderland Safeguarding Children Board. The working group had met with the Executive Director, the Chair of the Safeguarding Children Board and the Associate Director of Children's Services on a number of occasions and had been impressed by what had been put in place and the work already done. The Scrutiny Committee would continue to monitor the implementation plan and receive update reports. They had also asked to have the views of frontline staff and children reported.

The Committee were also informed that a review of the scrutiny arrangements in the Council had been agreed and it was hoped that a specific children's scrutiny committee would be established as part of this. Councillor Wright commented that there was no 'magic wand' solution to the problems being faced, and it was vital that changes continued to be made, but she paid tribute to the work which had been done by the Executive Director and his colleagues so far.

The Chair felt it would be useful for the Committee to be kept informed about the structure of scrutiny within the Council and also the reports which were presented to

the Improvement Board, and stated that he was determined that the Committee would be kept informed and involved.

Mr Knowles commented that the report had been extremely concerning but he felt reassured by the actions outlined by Steve Walker. He said that he would like to see the Commissioner's Plan and also hear how it would be managed. He asked how staff were on the ground at the moment and also for clarification of the position with regard to unallocated cases.

Steve Walker advised that there were no unallocated cases where the child was looked after or subject to a Child Protection Plan. There was now a process for monitoring unallocated cases and the average current caseload per social worker was 20. A number of newly qualified social workers had protected caseloads and there was an aim for caseloads to be reduced to 15 as a result of social workers providing more early help and support. A conference was being held for staff in November and the management team were trying to be as visible as possible for staff. The Improvement Plan was currently in draft format and members of the management were being allocated various elements of the plan prior to it being presented to the Improvement Board.

The Chair thanked Neil Revely and Steve Walker for their attendance and accordingly the Committee: -

11. RESOLVED that the significance of the work required to improve the Safeguarding Services in Sunderland be noted and that the Committee continue to receive regular reports to monitor the progress and impact of improvement activity in this area.

### **Corporate Assurance Map 2014/2015 – Update**

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

Members were directed to the map itself and informed that the assurance position with respect to the Strategic Risk Areas remained the same. The Head of Assurance, Procurement and Projects advised that the Strategic Risk Profile was out of date and the process of reviewing this was to begin during the next month. The strategic risks were those which impeded the Council in achieving its priorities and the corporate risks were those which were inherent to the authority. It was expected that the review of the risk profile would result in additional risk areas being added to the map.

It was highlighted that the assurance position for Sunderland Live Limited was showing as red with regard to Internal Audit as there had been a number of areas identified with limited assurance. The Audit, Risk and Assurance Manager had attended a Board meeting of the company to go through the findings of the audit report and these had been accepted by the Directors. It had been arranged for a

member of staff from the risk and assurance team to temporarily support the company.

There was still limited assurance in relation to information governance and although improvements were being made, it was felt that these had not yet had a significant impact on the assurance position. If the situation had not improved by the next quarter, then an officer would be asked to attend the Committee meeting to update Members on the position.

The Head of Assurance, Procurement and Projects advised that all of the Key Performance Indicators (KPIs) were on target with the exception of the percentage of draft audit reports which were issued within 15 days of the completion of field work, which stood at 76.5% against a target of 90%; and the percentage of medium risk recommendations implemented which was 83% against a target of 90%. It was highlighted that the performance against the target reflected the pressures that managers and teams were under and it was likely that more of this would be seen in the future.

Referring to the detail of the Strategic Risk Profile outlined in Appendix 1 to the report, Councillor Farthing highlighted that there was no delivery plan associated with the Education and Skills Strategy and the limited assurance for commissioning which had been identified by Internal Audit and outlined at Appendix 2. Councillor Farthing also commented that she had been concerned about the red rating for Sunderland Live Limited but accepted what had been said regarding the action which had been taken.

The Audit, Risk and Assurance Manager advised that the Education and Skills Strategy had only been launched fairly recently and the Risk and Assurance team were working with officers to develop the delivery plan. A risk register was also being drawn up so that actions could be managed by the Education Leadership Board.

The Head of Assurance, Procurement and Projects stated that the red areas related to Commissioning for 2015/2016 were based on the findings of audit work with regard to the substance misuse contract. Commissioning had also been judged to have limited assurance in 2014/2015 as a result of similar issues with the contract for community in-reach services. It was noted that some comments had been made by Internal Audit to the People Services commissioning team on more than one occasion.

Noting what had been presented to the Committee in relation to safeguarding, Mr Knowles queried which other issues were contributing to the 'People' risk area being judged to have limited assurance. The Head of Assurance, Procurement and Projects advised that as part of the review of the risk profile, the level of detail under each strategic risk area would be examined along with how often the rating was updated. It was also intended to show performance information alongside risk to show if the situation was getting worse or better.

Councillor Wright noted that she had also been concerned by the rating giving to Sunderland Live Limited and commented that there had been a number of complaints received about the company through the North Area Committee. She was



pleased to hear that support had been offered to support the company and informed the Committee that she had queried the role of scrutiny in relation to this, and other arm's length organisations, as it was her understanding that the Council's Scrutiny Committee could scrutinise whatever it chose to.

Councillor Wright referred to the resources set aside for safeguarding and asked how far assumptions could be made on this and if there was reassurance that the necessary financial resources would continue to be available. She also commented on percentage of draft audit reports which were issued within the target time and noted that this reflected that officers were taking on more work and were under increased pressure.

Turning to the risk of failure to ensure appropriate health and wellbeing services were provided, Councillor Wright commented that although the Health and Wellbeing Board was delivering the Health and Wellbeing Strategy, health matters had not been brought to the Scrutiny Committee unless requested, however scrutiny would have that level of input when the new structure was brought in.

The Head of Assurance, Procurement and Projects stated that Safeguarding was a service area which had seen no budget reductions. People Services were currently undertaking an exercise to determine the minimum spend required to cover the provision of services with a view to achieving a sustainable financial position but there was a risk that bringing down the costs would take longer than the Council would like.

Upon consideration of the report it was: -

12. RESOLVED that the updated Corporate Assurance Map 2014/2015 be noted.

### **Review of the Remit and Effectiveness of the Audit and Governance Committee**

The Chair of the Committee and the Director of Finance submitted a joint report which presented the outcome of a review of the remit and effectiveness of the Audit and Governance Committee and a suggested updated Terms of Reference for the Committee.

The first review of the remit and effectiveness of the Committee had taken place in 2009 and it was decided that it would be undertaken every three years in line with good practice. The review had included an update of the self-assessment based on CIPFA guidance, a review of the Terms of Reference for the Committee and consideration of the Annual Reports from the last three years.

The Committee were asked to consider the self-assessment attached at Appendix 1 to the report, the proposed Terms of Reference at Appendix 2 and were advised that the Terms of Reference would be presented to the Council for approval.

Having considered the report, the Committee: -

13. RESOLVED that: -

- (i) the self-assessment be agreed; and
- (ii) the proposed updated Terms of Reference be agreed.

### **Treasury Management – Second Quarterly Review 2015/2016**

The Director of Finance presented a report outlining the Treasury Management performance for the second quarter of 2015/2016. The report also set out the revised Lending List Criteria, the Approved Lending List and the Risk Management Review of Treasury Management.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget. The Assistant Head of Financial Resources advised that PWLB rates had fluctuated since the beginning of 2015/2016 and consequently no new borrowing had been taken out.

The Committee were advised that the Council's interest rate on borrowing was very low, at 3.50% and the Council benefitted from this and the ongoing savings from past debt rescheduling exercises. Sunderland's rate of borrowing was in the lowest quartile compared to other authorities.

The Council's Treasury Management Team had achieved a rate of return on its investments of 0.90% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. In response to a question from Councillor Farthing, the Assistant Head of Financial Resources confirmed that this placed the authority in the top quartile of councils for rates of return. The investment policy was regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within its limits for all of these. Members were reminded that the Authorized Borrowing Limit for External Debt and the Operational Boundary Limit had been increased due to the change in accounting treatment for the Waste Management PFI and the Council was well within those revised limits.

The Council continued to operate a careful and prudent Treasury Management Strategy and further detail on the Treasury Management performance was included in Appendix A to the report. The regular updating of the Council's authorised lending list was required to take into account mergers of financial institutions and changes in institutions' credit ratings since the last report and the updated Approved Lending List was shown at Appendix C to the report.

Upon consideration of the report, the Committee: -

14. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2015/2016 be noted; and
- (ii) the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

### **Audited Statement of Accounts 2014/2015**

The Director of Finance submitted a report which presented the Letter of Representation for 2014/2015, presented the Audit Completion Report received from Mazars concerning the financial statements for 2014/2015, provided Members with a slightly amended Annual Governance Statement and presented the audited Statement of Accounts for 2014/2015.

The Assistant Head of Financial Resources presented the report on behalf of the Section 151 Officer and advised that the Accounts had been certified on 26 June 2015. Members were directed to Appendix A which detailed the changes made to the Accounts as a result of the audit and were also provided with a revised copy of the Comprehensive Income and Expenditure Statement which corrected an error which had been identified in the original Statement of Accounts.

A Letter of Representation had been prepared by the Director of Finance setting out the principles used in preparing the accounts and providing the necessary assurances required by regulation. Once the Audit and Governance Committee had noted the contents of the letter, Mazars would be able to formally provide an opinion on the Statement of Accounts for the year ended 31 March 2015.

Gavin Barker was in attendance to present the findings of the external auditors in relation to the Statement of Accounts and advised that it was intended to give an unqualified opinion on the financial statements and that Mazars had now received the required assurance from the Tyne and Wear Pension Fund which had not been available when the Audit Completion Report was finalised.

Gavin also advised that the external auditors had concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the areas which had been assessed as inadequate by Ofsted in their report on Children's Services and would be issuing a qualified Value for Money Conclusion.

The Audit Completion Report concluded that the Council had presented a very strong set of financial statements. Gavin thanked the Assistant Head of Financial Resources and his team for the high degree of co-operation with the external auditors and acknowledged the huge amount of work which had gone into the preparation of the Accounts.

With regard to the significant findings from the audit, Mazars had considered all of the significant risks which were outlined in the Audit Strategy Memorandum and found that there were no issues to bring to the attention of the Committee. There were also no issues highlighted with regard to internal control, it was noted that there were some issues in relation to IT controls but these were not significant.

In considering the Council's 'Value for Money', the external auditors were required to satisfy themselves that the Council had proper arrangements in place for securing financial resilience and for challenging how it secured economy, efficiency and effectiveness. Gavin reported that the Council had been judged to be in a good financial position with a sound financial base, whilst acknowledging the difficulties experienced in making efficiency savings and the achievements of the transformation programme. Mazars noted that the Accounts reflected these difficulties and the challenges which would be faced going forward.

Gavin highlighted the views of the auditors in relation to the Ofsted inspection and advised that there were a number of options in giving a qualified conclusion and that Mazars had given an 'except for' conclusion, which meant that they were satisfied with the adequacy of the arrangements, except for one matter which had been brought to their attention. The Assistant Head of Financial Resources advised that the Annual Governance Statement had also been amended to reflect the Ofsted judgement.

Having considered the report, the Committee: -

15. RESOLVED that: -

- (i) the contents of the Letter of Representation be noted;
- (ii) the contents of the Audit Completion Report provided by Mazars LLP be noted;
- (iii) the slightly amended Annual Governance Statement be approved; and
- (iv) the Amended Audited Statement of Accounts for the financial year ended 31 March 2015 be approved.

### **Review of Arrangements for Securing Value for Money 2014/2015**

The Director of Finance submitted a report to enable the Committee to consider and comment upon the external auditors' Review of Arrangements for securing Value for Money covering the year 2014/2015 which formed the basis of the external auditors' Value for Money Conclusion included within the Statement of Accounts.

The report was a new initiative with the aim of providing both members and officers of the Council with much more detail on the information, factors and data which the external auditors have drawn upon in assessing the Value for Money Conclusion issued to the Council. Mark Kirkham advised that Mazars would carry out a risk

assessment, consider the expected features of the Council's arrangements and determine whether there were any areas which required further work.

The Chair commented that it was a fascinating report but painted a rather bleak picture for the future, Mr Knowles added that the report did recognise that the Council had a strong record in achieving its objectives.

Councillor Wright concurred with the comments of the Chair and stated that the results of the cuts were being felt by the general public. On behalf of the Committee, Councillor Wright commended the auditors and officers involved in the work and for achieving positive outcomes in difficult situations.

16. RESOLVED that the report be noted.

(Signed) G N COOK  
Chair



**AUDIT AND GOVERNANCE COMMITTEE**

**11 December 2015**

**CORPORATE ASSURANCE MAP – UPDATE**

**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 covers work undertaken for the Council and Council owned companies.

**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 2015 the Committee approved the proposed Corporate Assurance Map for 2015/16 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 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 17<sup>th</sup> November 2015, 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.
- 4.2 The Map also shows assurance received in relation to the Council's wholly owned companies, Sunderland Care and Support Ltd and Sunderland Live Ltd.

## Corporate Assurance Map

Assurance Position (Cumulative)		2015/16									
		1st Line	2nd Line							3rd Line	
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
		Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR & OD	Business Continuity	Risk and Assurance		
<b>Strategic Risk Areas</b>											
Current Risk	Residual Risk										
People									X		
Place									X		
Economy									X		
Organisational			X						X		X
<b>Corporate Risk Areas</b>											
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	
Partnerships		X							X	X	
Business Continuity Planning		X						X	X	X	
Procurement		X							X	X	
Relationship and Contract Management		X							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	X	
Fraud and Corruption		X								X	
Risk Management (Service Delivery)		X							X	X	
Schools		X	X						X	X	
<b>Wholly Owned Companies</b>											
Sunderland Care and Support Ltd		X	X		X					X	X
Sunderland Live Ltd		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

- 4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile 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.
- 4.4 A refresh of the Strategic Risk Profile has been started with the Executive Management Team and shall be concluded alongside the production of an updated Corporate Plan.

### Assurance from Internal Audit

- 4.5 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

- 4.6 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, 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 Leisure Services joint venture, Sunderland Care and Support Ltd and place based services.
  - Children's Safeguarding.
  - Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3.
  - Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).
  - Risks in relation ICT business objectives and the future of the service.
  - Implementation of the Intelligence Hub.
  - Implementation of the Care Act and Children and Families Act.
  - Replacement of the SWIFT ICT system.
  - Information Governance

- 4.7 As has been reported to the Committee previously, a significant amount of work has been undertaken by the Risk and Assurance team to support Children's Safeguarding. Given the development of the new Improvement Plan discussions are ongoing with the Interim Director of Children's Services to agree the scope of work for the future.

#### Assurance from others within the Council

- 4.8 Assurance provided from others within the Council is shown in the Corporate Assurance Map.
- 4.9 Whilst the overall financial management arrangements continue to provide substantial assurance in respect of the council's overall financial position, costs in relation to children's safeguarding continued to increase following the Ofsted inspection, placing significant pressure on the council revenue budget position both in year and in the medium term. A review of the children's safeguarding improvement plan has been undertaken by the appointed Children's Commissioner. Provision for the on-going financial pressures in this area has been made within the budget planning for 2016/2017 and future years based on the work undertaken so far. This position will be kept under review throughout the budget planning process.

#### Assurance from Management

- 4.10 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

#### Assurance from External Sources

- 4.11 The Map includes assurance from relevant external sources.

#### Overall

- 4.12 All assurance levels remain the same.

### **5. Internal Audit Performance**

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4.

5.2 Performance is on target for all KPI's apart from:

- Percentage of draft audit reports issued within 15 days of the end of the field work – performance of 88.5% against a target of 90%.
- The percentage of medium risk recommendations implemented (excluding schools) which stands at 83, as shown below:

Area	Implementation Rate
Council services	83%
Schools	82%

## 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 overall opinion that the Council continues to have in place an adequate system of internal control, except for the arrangements in place for services for children in need of help and protection, children looked after and care leavers, and the effectiveness of the local safeguarding children board.

## 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	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p><b>PE 1</b> Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures</p>	Neil Revely, ED of People Services	<b>2x4 = 8</b>	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>• Implement the Health and Wellbeing Strategy to:               <ul style="list-style-type: none"> <li>○ Target prevention and early intervention</li> <li>○ Build capacity and reduce dependency to help individuals to be more independent and self-sustaining</li> </ul> </li> <li>• Manage demand by empowering customers to take up viable alternatives to council services</li> <li>• Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Health and Wellbeing Board has responsibility for delivering the Health and Wellbeing Strategy</li> <li>• Delivery plan for the Health and Wellbeing Strategy</li> <li>• Continuing to integrate approach. Consideration being given to an integrated commissioning approach with Health</li> <li>• Joint Strategic Needs Assessment completed and signed off by the Health and Well Being Board</li> <li>• People Services plan on a page in place</li> <li>• Better Care Fund agreement in place</li> </ul>	<b>2x4 = 8</b>

Risk Description	Risk Owner	Score Sept 2015 LxI	Current Score Dec 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
<b>PE 2</b> We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>As a Community Leadership Council we will strengthen self-help capacity in our communities</li> <li>Deliver the Voluntary Community Sector Relationship Transition project</li> <li>Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance</li> <li>Through the “PEOPLE” strand of communications deliver an integrated campaign, which encourages people to help themselves</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Continuing to develop the approach to being a Community Leadership Council</li> <li>Voluntary Community Sector project complete, it developed an approach that aligns engagement with the VCS and day to day service delivery</li> <li>Community Resilience Plan being implemented in parts across all partners. Arrangements for monitoring of progress and effectiveness need to be developed.</li> </ul>	1x3 = 3
<b>PE 3</b> 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	Neil Revely, ED of People Services	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Deliver the Public Health improvement responsibilities</li> <li>Progress the delivery plan and performance management to address improvement in health indicators</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Plan on a page for the People Directorate in Place but needs refreshing given new management arrangements for Children’s Services</li> <li>Progress on overarching indicators to be reported to Health &amp; Wellbeing Board</li> <li>Board to challenge other under performing indicators</li> <li>University to review methods of measuring progress as to how things are being done differently</li> <li>People Services plan on a page includes Activity Policy</li> </ul>	2x3 =6

Risk Description	Risk Owner	Score Sept 2015 LxI	Current Score Dec 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				<ul style="list-style-type: none"> <li>• Education and Skills Strategy includes what 'great schools' look like, including healthy eating and activity</li> <li>• Joint Venture agreement for Leisure includes targets for increasing activity levels</li> </ul>	
<p><b>PE 4</b> 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>Neil Revely, ED of People Services</p>	<p><b>3x3 = 9</b></p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET</li> <li>• Maximise learning opportunities afforded by the Youth Contract and by 3<sup>rd</sup> sector providers to young people requiring most support, to move them towards employment opportunities.</li> <li>• The Education Leadership Board to continue to improve the links between schools and employers</li> <li>• Extend the environmental apprenticeship scheme across other Streetscene services</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• NEET interventions continue via work of Locality/Connexions team members. This is being supplemented through People Board initiatives</li> <li>• North East Leadership Board (Combined Authority) has been set up to deliver the shared ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally</li> <li>• "Work Discovery" which is now in its third year, was established through business leaders working directly with schools, supported by the Council, providing students with greater knowledge of job opportunities</li> <li>• Education and Skills Strategy launched which prepares young people for employment and successful careers, but no delivery plan in place</li> </ul>	<p><b>2x3 = 6</b></p>

Risk Description	Risk Owner	Score Sept 2015 LxI	Current Score Dec 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
<p><b>PE 5</b> 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 People Services</p>	<p><b>3x3 = 9</b></p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>• Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors</li> <li>• Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families</li> <li>• The Education Leadership Board to continue to Improve links between schools and employers</li> <li>• Set up the Combined Authority whose remit will include regional skills issues</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Education Leadership Board is in place with stakeholder involvement, i.e. employers, training providers, college/university, schools and nurseries, Council officer.</li> <li>• Combined Authority in place from April 2014</li> <li>• FACL continues to have increased participation and improved level of accredited course participation.</li> <li>• North East Leadership Board (Combined Authority) to deliver the shared ambitions of the seven councils to accelerate economic growth; focusing on skills, transport and inward investment, giving the area a stronger voice nationally and internationally</li> <li>• The Economic Leadership Board has established 3 Result Groups including Sector Growth and Skills, providing a greater focus on skills on a city wide basis</li> <li>• The North East Local Enterprise Partnership (NELEP) has been chosen by government as one of only three LEPs across the country to pilot innovative new approaches to skills development funding to help boost local jobs and business growth. NELEP will work jointly with the Skills Funding Agency to develop the skills model</li> <li>• Judgment of 'Good' received from the recent FACL OFSTED inspection</li> <li>• Education and Skills Strategy launched which prepares</li> </ul>	<p><b>2x3 = 6</b></p>



Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				young people for employment and successful careers, delivery plan being developed	
<b>PE 6</b> Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions	Sarah Reed, Assistant Chief Executive	<b>3x3 = 9</b>	<b>3x3 = 9</b>	<ul style="list-style-type: none"> <li>• Continue to deliver the Welfare Reform “Social Fund”</li> <li>• Prepare for the introduction of “Universal Credit”</li> <li>• Implement the Community Resilience Delivery Plan</li> <li>• Continue to implement the Child and Family Poverty Strategy</li> <li>• Deliver the Strengthening Families project</li> <li>• Develop and implement a delivery plan for the Access to Housing Strategy</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Uncertainty remains over the impact of introduction of “Universal Credit”</li> <li>• Strengthening Families approach being used to address poverty and cohesion issues an being positively supported by the intelligence service</li> </ul>	<b>2x3 = 6</b>
<b>PE 7</b> Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities	Neil Revely, ED of People Services	<b>1x3 = 3</b>	<b>1x3 = 3</b>	<ul style="list-style-type: none"> <li>• Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements</li> <li>• Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups</li> <li>• Develop an asset based approach to delivery, making better use of assets that already exist in families and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Health and Wellbeing Board monitor the actions to reduce inequalities. The Design Principles that underpin the approach to health and wellbeing includes Equity – providing access to excellent services dependent on need and preferences that are also based on evaluated models</li> <li>• People Services plan on a page to be refreshed given new management arrangements for Children’s Services</li> </ul>	<b>1x3 = 3</b>

Risk Description	Risk Owner	Score Sept 2015 LxI	Current Score Dec 2015 LxI	Mitigation and progress to reduce current score	Residual Score LxI
				<ul style="list-style-type: none"> <li>• Benefits co-ordination with Gentoo regarding people with complex needs</li> <li>• 2 GP federations established to co-ordinate communications with GPs in the City</li> </ul>	
<p><b>PE 8</b> 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><b>2x2 = 4</b></p>	<p><b>2x2 = 4</b></p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Apply the Strengthening Families approach to support people out of offending</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• The multi agency Strengthening Families Programme is starting to record success in reducing offending</li> <li>• Negative Ofsted report received and improvement plan being developed by external Commissioner</li> <li>• Integrated locality based teams being established</li> </ul>	<p><b>1x2 = 2</b></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	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>PL 1</b> The Local Development Framework is not adopted thereby restricting development opportunities for the City	Alison Follows, ED of Commercial Development	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Develop the LDF (Local Plan) to ensure it meets the required Government criteria</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Local Plan is being developed in line with government criteria. However adoption of Local Plan is expected to be late 2017/18. Development will not stop in the meantime however</li> <li>Area Action Plan to be developed in respect of the IAMP site</li> </ul>	1x4 = 4
<b>PL 2</b> Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> <li>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</li> <li>Develop and implement the Sunderland Housing Strategy</li> <li>Develop and implement City Transport Strategy</li> <li>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</li> <li>Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Combined Authority set up to                             <ul style="list-style-type: none"> <li>Provide leadership and a united voice on key</li> </ul> </li> </ul>	1x3 = 3

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<p>strategic transport issues.</p> <ul style="list-style-type: none"> <li>○ Link strategic transport planning with economic priorities.</li> <li>○ Provide strong representation on transport issues of national significance including rail, strategic road network and our ports.</li> <li>○ Provide more effective co-ordination enable improvement to the area's public transport network.</li> <li>○ Offer the best framework to maximise and manage devolution of transport funding</li> </ul> <ul style="list-style-type: none"> <li>● Funding secured for New Wear Crossing - construction commenced</li> <li>● Funding secured for scoping of the IAMP development</li> <li>● City Transport Strategy has been developed – to be approved</li> <li>● City Housing Strategy in development</li> <li>● Potential capital pipeline developed, to focus horizon scanning for external funding opportunities</li> </ul>	
<p><b>PL 3</b> Delivery of capital investment priorities is too slow to realise opportunities available</p>	<p>Alison Follows, ED of Commercial Development</p>	<p><b>Score 2x3 = 6</b></p>	<p><b>Score 2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>● Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity</li> <li>● Continue to support the development of priority areas including <ul style="list-style-type: none"> <li>○ Vaux site</li> <li>○ Sunnyside</li> <li>○ Seaburn</li> </ul> </li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>● Realignment of St Mary's Way and development of city centre square completed, which will support development of the Vaux Site and City Centre.</li> <li>● New Washington Leisure Centre opened.</li> <li>● Creation of the LABV should expedite the delivery of investment priorities, including the Vaux site – LABV</li> </ul>	<p><b>1x3 = 3</b></p>

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<p>now fully operational and working on 3 key sites</p> <ul style="list-style-type: none"> <li>• Vaux planning application for Building 1 and site-wide infrastructure due to be submitted early 2016</li> <li>• Planning applications for Seaburn and Chapelgarth also due to be submitted early 2016</li> <li>• Capital programme planning and governance reviewed and new arrangements implemented, linked to funding processes</li> <li>• Other planning applications for the development of key city centre sites expected in early 2016</li> <li>• Masterplanning work being developed on other key city areas e.g. Holmeside, Minster Quarter, Sheepfolds</li> <li>• College Holmeside campus under construction, due for opening Sept 2016</li> </ul>	
<p><b>PL 4</b> Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre</p>	<p>Andrea Winders, ED of Enterprise Development</p>	<p><b>2x3 = 6</b></p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign</li> <li>• Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The Board membership currently stands at 17 who are elected from businesses and city stakeholders. The Board is responsible for ensuring projects are delivered on time and within budget. A small operational team is now in place to support Ken Dunbar, the first Chief Executive of the new BID Company. The company has have developed a business plan to invest at least £3.4 m in the city centre over the next 5 years</li> <li>• Make it Sunderland campaign continues to promote</li> </ul>	<p><b>1x3 = 3</b></p>

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> <li>investment in the City</li> <li>Inward investment secured in respect of The Bridges, Sunnyside Leisure and a new hotel complex.</li> </ul>	
<b>PL 5</b> The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility	Neil Revely, ED of People Services	2x2 = 4	2x2 = 4	<ul style="list-style-type: none"> <li>Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes</li> <li>Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers)</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>On-going engagement with NEXUS in relation to community transport. Government funding in respect of community transport may be reduced</li> <li>Active Travel Plan</li> <li>Refreshing All Age Friendly City Policy</li> <li>City Transport Strategy has been developed – to be approved</li> </ul>	2x2 = 4
<b>PL 6</b> Fail to agree and implement a Cultural Strategy and associated action plan	Neil Revely, ED of People Services	2x2 = 4	2x2 = 4	<ul style="list-style-type: none"> <li>Develop Cultural Strategy and implementation plan</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Cultural Partnership formed to bring a wider base to the development of the strategy</li> <li>Cultural Strategy being launched</li> <li>Heritage lottery schemes being progressed</li> <li>Fulwell Mill – the Activity Centre has been transferred to Sunderland North Community Business Centre (SNCBC) under a 3 year lease and they will develop a Business Plan for the Centre, which will also include future funding options for the Mill.</li> <li>Monkwearmouth Station – discussions with Sunderland AFC are on-going as to the potential for them taking on the building. An options paper has</li> </ul>	1x2 = 2

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<p>been produced</p> <ul style="list-style-type: none"> <li>• Museum and Heritage Service Vision – a vision document has been produced for submission to Arts Council England to enable accreditation to be secured for the Museum and Winter Gardens and options for the future delivery of the Museum are being considered</li> </ul>	

## 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	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>EC 1</b> 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	Neil Revely, ED of People Services / Andrea Winders, ED of Enterprise Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> <li>Education Leadership Board to promote the benefits of higher education</li> <li>North East Local Enterprise Partnership (NELEP) to support the promotion of higher education</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>NELEP and the Education Leadership Board continue to promote the benefits of higher education</li> <li>Council, schools, colleges and the NE Chamber of Commerce are engaged to strengthen ties between education and business in the city</li> </ul>	2x3 = 6
<b>EC 2</b> The City doesn't attract inward investors because of a lack of sites / finance	Alison Follows, ED of Commercial Development / Andrea Winders, ED of Enterprise Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> <li>Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City</li> <li>Allocation of appropriate employment sites through the LDF process</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Funds secured in respect of the Enterprise Zone</li> <li>City Deal has been signed, providing funding to begin development of the 100-hectare International Advanced Manufacturing Park (IAMP)</li> <li>Local Growth Fund and ERDF funding secured in respect of transport infrastructure and the Low Carbon Zone transport scheme</li> <li>LABV expected to deliver investment for priority areas (see PL3 above)</li> <li>EZ applications submitted in respect of Port and IAMP</li> <li>Housing Strategy in development</li> </ul>	2x3 = 6



Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>EC 3</b> 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	Alison Follows, ED of Commercial Development / Andrea Winders, ED of Enterprise Development	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Continue to deliver the Make It Sunderland campaign that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors</li> <li>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</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Housing Strategy in development</li> <li>Housing Investment Plan to be updated and included in the Housing Strategy</li> <li>Make it Sunderland campaign continuing to attract jobs and investment into the City</li> </ul>	2x3 = 6
<b>EC 4</b> Inability to deliver on the New Wear Crossing in line with the planned timescales	Alison Follows, ED of Commercial Development	2x3 = 6	2x3 = 6	<ul style="list-style-type: none"> <li>Complete the procurement phase and deliver the construction phase of the New Wear Crossing</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Construction phase for the new bridge has commenced</li> <li>Contract management strategy and governance arrangements in place, including detailed assurance arrangements</li> </ul>	2x3 = 6
<b>EC 5</b> 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 People Services	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work</li> <li>Continue to support the Carers Strategy Group</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>On-going engagement with Remploy and the Carers Strategy Group</li> <li>Sunderland Carers Centre successful in bid to run the Independent Supporters Programme in Sunderland</li> <li>Implementation of the Care Act improves the assessments of carers for adults and young carers</li> </ul>	1x4 = 4

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p><b>EC 6</b> Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions</p>	<p>Alison Follows, ED of Commercial Development and Andrea Winders, ED of Enterprise Development</p>	<p><b>2x4 = 8</b></p>	<p><b>2x4 = 8</b></p>	<ul style="list-style-type: none"> <li>• Progress development opportunities, e.g. Vaux site, City Square, Sunniside</li> <li>• Support the Business Improvement District proposal</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Sunderland BID Limited has been established in the form of an independent, not-for-profit company controlled by the private sector. The company has developed a business plan to invest at least £3.4 m in the city centre.</li> <li>• LABV set up with the development of the Vaux Site as one of its priority objectives</li> <li>• City Centre has undergone ambitious programme of place shaping to open up a range of investment sites. Opening of Keel Square and realignment of St Mary's Way to support the regeneration of the former Vaux site and the wider city centre nearing completion</li> <li>• Construction started on the new Sunderland College campus on the Holmeside site</li> <li>• See PL3 above</li> </ul>	<p><b>1x4 = 4</b></p>
<p><b>EC 7</b> Partners do not have a coordinated approach to supporting, developing and attracting business to the City</p>	<p>Andrea Winders, ED of Enterprise Development</p>	<p><b>2x2 = 4</b></p>	<p><b>2x2 = 4</b></p>	<ul style="list-style-type: none"> <li>• Continue to support the Business and Innovation Centre which provides a joint approach for business support</li> <li>• Implement the Enterprise and Innovation Strategy</li> <li>• Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• University has secured funding to develop a Business Support centre</li> <li>• Software Centre and Washington centre providing incubation and business space with business support activity</li> <li>• Sector growth and Results group of the Economic Leadership Board tasked with simplifying business support in the city</li> </ul>	<p><b>1x2 = 2</b></p>

## 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	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<b>OR 1</b> The Council and the community may not have the required skills and capacity to deliver the City's priorities	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	3x3 = 9	3x3 = 9	<ul style="list-style-type: none"> <li>Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council</li> <li>Utilise workforce planning to develop and transfer skills across the council</li> <li>Deliver the Voluntary and Community Sector Relationship Transition project</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>VCS project completed having developed an approach that aligns engagement with the VCS and day to day service delivery</li> <li>Both workforce planning and transformation projects are progressing which have/will allow the Council to become more flexible in the use of the Council's human resources</li> <li>Future priorities require individuals and communities to become more self-supporting</li> </ul>	2x3 = 6
<b>OR 2</b> Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Sarah Reed, Assistant Chief Executive	2x4 = 8	2x4 = 8	<ul style="list-style-type: none"> <li>Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities</li> <li>Deliver the Business Transformation Programme</li> <li>Deliver Alternative Service Delivery Models</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Role of Community Leadership Council developing</li> <li>Sunderland Care &amp; Support Ltd set up in December 2013. Leisure JV live on 1<sup>st</sup> June 2015</li> </ul>	1x4 = 4

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
				<ul style="list-style-type: none"> <li>Further iteration of the Transformation programme is being developed along with the development of the Council's plan for 2020</li> </ul>	
<b>OR 3</b> Council does not secure the required savings	Sonia Tognarelli, Director of Finance	<b>2x4 = 8</b>	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>Agree MTFS (in context of Community Leadership Council)</li> <li>Agree Service Area efficiency targets and monitor progress <ul style="list-style-type: none"> <li>Deliver the Business Transformation Programme</li> <li>Deliver Alternative Service Delivery Models</li> <li>Deliver the Workforce Planning project</li> </ul> </li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>MTFS in place</li> <li>Plans for 2015/16 savings in place</li> <li>Actions being progressed to deliver 2015/16 savings</li> <li>Five year budget planning approach being developed involving a fundamental review of all services which will provide the necessary intelligence aligned to strategic aims to allow Members to prioritise savings proposals as funding becomes clearer for future financial years</li> <li>Planning for 2016/17 progressing in accordance with timetable and subject to spending review and local government settlement late December.</li> </ul>	<b>1x4 = 4</b>
<b>OR 4</b> 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	<b>2x3 = 6</b>	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>Development and delivery of the Intelligence Hub</li> <li>Strategic planning and service redesign to reflect the needs and preferences of our customers and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Intelligence Hub is now in the deployment phase with specialist resources available to support the introduction of the intelligence approach</li> </ul>	<b>1x3 = 3</b>

Risk Description	Risk Owner	Score Sept 2015 Lxl	Current Score Dec 2015 Lxl	Mitigation and progress to reduce current score	Residual Score Lxl
<p><b>OR 5</b> Employee engagement falls as a result of ongoing significant changes</p>	<p>Sue Stanhope, Director of HR &amp; OD</p>	<p><b>2x3 = 6</b></p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Position continues to be monitored via information obtained from employee surveys, consultations and feedback from unions. Recent results suggest employees continue to remain engaged</li> <li>• There is a degree of uncertainty in the Workforce pending the implementation of the Workforce Transformation proposals and the results of the forthcoming Spending Review</li> </ul>	<p><b>1x3 = 3</b></p>

Detailed Internal Audit Coverage

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
Customer Focus	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network	M	Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate
	Out of Area Placements	L			Adoption Service		To review the stability of placements prior to adoption.	
	Web Content Development	M			Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
	Crisis Loans / Social Fund	S			Safeguarding and Quality Assurance Unit		To review progress against any agreed action plans resulting from Safeguarding Inspection.	
					Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
					Accounting / General Ledger	S	To review the interfaces between SAP, Capita and the Council's website	
					Personal Budgets		To review the operation of the new assessment and resource allocation tool	
Legality					Constitution		To assess the level of compliance with constitutional requirements following recent changes.	Substantial
Service / Business Planning	Corporate Service/ Business Planning	M			Community and Family Wellbeing		Review of planning and performance management arrangements.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion	
	Community and Family Wellbeing - Governance Arrangements	L			Adoption Service	To review the stability of placements prior to adoption.		
	Derwent Hill	M			Multi Agency Safeguarding Hub	Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.		
	Out of Area Placements	L	Port Governance Arrangements	M	Commissioning	L		Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.
	Operational Asset Management	M	LEP Accountable Body Arrangements	S	Corporate Service Planning Arrangements	To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.		
Programme and Project Management	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Corporate Service Planning Arrangements	To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	Moderate	
			Realisation of Benefits & Savings	M	Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.		
Partnerships			Corporate Partnership Arrangements	L	Follow Up of 2014/15 audit	To review progress against actions agreed following previous audit work.	Limited	
Business Continuity and Emergency Planning	HHAS Business Continuity Planning	M	Corporate Business Continuity Planning	M	Emergency Planning	S	To review the arrangements to maintain an up to date fit for purpose Major Incident Plan.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
Procurement	Derwent Hill	M	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Out of Area Placements	L	Contract Management	M	Revenue Procurement	M	Review of compliance with Procurement Procedure Rules	
	Revenue Procurement	S	Capital Procurement	S				
Relationship and Contract Management	Streetlighting PFI Contract Management	M	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	Moderate
	Events Company Contract Management	M			Leisure Contract Management		To review the client arrangements for the Leisure Joint Venture.	
					LABV		To review the LABV client role arrangements.	
					Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	
Financial Management	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	S	Grant Certification work	Substantial
	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Grant Certification work	
	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant	M	Troubled Families Performance Reward Grant		Grant Certification work	
	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Personal Budgets - Resource Allocation System		To review the operation of the new assessment and resource allocation tool	



Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Financial Verification of Leavers from the Direct Payments Scheme	S	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	
	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Port Income	M	To review the arrangements for billing and collection of income to the Port.	
	Out of Area Placements	L	Commissioning	L	Commissioning	L	Review of working arrangements for the new integrated commissioning arrangements, including contract management arrangements.	
	Foster Care Allowances	M	Port Governance Arrangements	M	Corporate Service Planning Arrangements		To review the development of the five year plan in relation to the Council's savings targets and strategic priorities.	
	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements	S	Personnel Administration Arrangements		To assess the robustness of the personnel administration arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
			Personal Budgets / Direct Payments	L	LABV		To review the LABV client role arrangements.	
	Direct Payments	L	Accounting / General Ledger	S	Accounting / General Ledger	S	To review the interfaces between SAP, Capita and the Council's website	
	34 Schools	S	32 Schools	S	18 schools	S	Transaction testing in relation to income and expenditure	
	SAP Organisation Structures	S	SAP Organisation Structures		Capital Programme Funding and Monitoring		To review the arrangements for monitoring performance against the capital programme.	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	BACS Processing		Transaction testing	
	BACS Processing	S	BACS Processing	S	Cash Receipting		Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Accounts Payable	M	Transaction testing	
	Payroll	M	Payroll	M	Accounts Receivable		Transaction testing	
	Council Tax	S	Council Tax - Valuation	S	Periodic Income		Transaction testing	
	Business Rates	S	Business Rates - Valuation	S	Benefits Administration		To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Accounts Payable	S	Accounts Payable	M	Business Rates - Liability	S	Transaction testing	
	Accounts Receivable	S	Accounts Receivable	S	Business Rates - Revised Billing	S	Transaction testing	
	Aquatic Centre	S	Periodic Income	S	Enforcement Section		A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll		To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Council Tax Support Scheme	S	Recovery of Benefit Overpayments	M	Revenue Procurement		Review of compliance with Procurement Procedure Rules	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Operational Asset Management	M	Elections Hardware Grant	S	Autism Innovation Grant	S		Moderate
	Asset Register / Capital Accounting	S	Cash in Transit / Parking Services Income	M	Agency Workers (Unplanned)	N		
	Building Maintenance	N			Go Smarter to Work Grant	S		
	Capital Programme Funding and Monitoring	S						
	Treasury Management	S						
	External Funding	S						
	External Funding - Support to Partners / VCS	M						
	Insurance Claims Handling	S						
	Council Tax Support Scheme	S						
	Local Business Rates Scheme	S						
	Crisis Loans / Social Fund	S						
	Derwent Hill	M						
	Events Company Contract Management	M						
Human Resource Management	SAP Organisation Structures	S	SAP Organisation Structures		SAP Organisation Structures		To review the arrangements for grading new posts / staffing structures in the future.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements	L	Induction Procedures	M	To review the level of compliance with induction procedures following movement of staff into new roles.	
	Corporate HR Management	M			Code of Conduct / Whistleblowing		To review the level of awareness of and compliance with the Employee Code of Conduct and the Council's whistle blowing arrangements.	
					Personnel Administration Arrangements		To assess the robustness of the personnel administration arrangements and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD.	
					Agency Workers (Unplanned)	N		
Information Governance	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	To review progress on the development and implementation of an information governance improvement plan. Review to include physical security checks.	Limited
					Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	
Performance Management	Operational Asset Management	M	Corporate Performance Management Arrangements	M	Multi Agency Safeguarding Hub		Review of Information Sharing arrangements, and response to safeguarding incidents / serious case reviews.	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion	
	Community and Family Wellbeing - Governance Arrangements	L			Community and Family Wellbeing	Review of planning and performance management arrangements.		
					Capital Programme Funding and Monitoring	To review the arrangements for monitoring performance against the capital programme.		
					Safeguarding and Quality Assurance Unit	To review progress against any agreed action plans resulting from Safeguarding Inspection.		
Asset Management	Derwent Hill	M			LABV	To review the LABV client role arrangements.	Moderate	
	Technology Forge	L			Corporate Asset Management	To review the Council's property asset management arrangements against recommended practice.		
	Operational Asset Management	M						
	ICT Asset Management	M						
	Asset Register / Capital Accounting	S						
ICT Strategy and Delivery	ICT Asset Management	M	Physical and Environmental Controls	S	ICT – Cyber Security	Review of the arrangements required for the future of the Council.	Moderate	
			Mobile Phone Contract	L				
Fraud and Corruption			Counter Fraud Testing	M	Financial Verification of Leavers from the Direct Payments Scheme	S	To review the arrangements to ensure that Direct Payments are used in line with the agreed support plan.	Substantial
			National Fraud Initiative Case Investigations	S	BACS Processing		Transaction testing	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
	Direct Payments	L	Schools Counter Fraud Checks	S	Cash Receipting		Transaction testing	
			Personal Budgets	L	Accounts Payable	M	Transaction testing	
	BACS Processing	S	BACS Processing	S	Accounts Receivable		Transaction testing	
	Cash Receipting	S	Cash Receipting	S	Periodic Income		Transaction testing	
	Payroll	M	Payroll	M	Benefits Administration		To review the arrangements for administration of Housing Benefit and Council Tax Support, including the completeness and accuracy of the subsidy claim.	
	Council Tax	S	Council Tax - Valuation	S	Business Rates - Liability	S	Transaction testing	
	Business Rates	S	Capital Procurement	S	Enforcement Section		A review of the arrangements for enforcement of debts owed to the Council. To include the bailiff function.	
	Benefits	S	Benefits Administration	S	Payroll		To assess the robustness of the payroll arrangements, and to ensure adequate separation of duties is in place with the transfer of the payroll function to HR & OD. Also to carry out transaction testing following implementation of the new Pay and Grading arrangements.	
	Accounts Payable	S	Accounts Payable	M	Revenue Procurement		Review of compliance with Procurement Procedure Rules	
	Accounts Receivable	S	Accounts Receivable	S	Agency Workers (Unplanned)	N		
			Periodic Income	S				
			SAP Organisation Structures					

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		Scope of 2015/16 Audit	Overall Opinion
			Cash in Transit / Parking Services Income	M				
Risk Management			Port Governance Arrangements	M				Moderate
Schools	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	30 schools completed to date - 24 substantial, 5 moderate, 1 limited	S	18 schools 9 completed 7 - substantial 2 - moderate	S	Transaction testing in relation to income and expenditure	Substantial
Sunderland Care and Support Ltd	Direct Payments	L	Governance Arrangements	L	Governance		Review of integration of Care and Support Sunderland Ltd into the Company and overall governance arrangements to take the Company forward	Moderate
			Farmborough Court	S	Transaction / compliance testing		Compliance with new policies and procedures - to include visits to Supported Living establishments	
			Financial Procedures in Residential and Daycare Units (Establishment Visits)	L	Unit Costing		Audit of methodology / approach to identifying and assessing unit costs	
	Procurement Arrangements	S	Management and Security of Service Users Monies - Compliance with Procedures	S	Reablement		Review of integrated health and social care reablement services	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions	Scope of 2015/16 Audit	Overall Opinion	
	Risk Management Arrangements	L			Grace House Partnership Working	M	Review how key objectives are being delivered, including partnership governance	
	Information Management Arrangements	S			Community Equipment Service	M	Counter Fraud Testing	
	Transaction Testing	S						
Sunderland Live Ltd	Governance Arrangements	M	Airshow Income - Transaction Testing	M	Procurement		Review of the procurement procedure rules, including compliance with them and the arrangements for subcontracting of event services	Limited
	Verification of Expenditure and Income Transactions	M	Income	L	Transactions testing		Review of expenditure transactions	
			Event Management	L	HR management		Review of HR policies, including compliance with them	
					Information Governance		Review of arrangements to keep information secure and comply with appropriate legislation	



## 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 is being monitored and reported in Appendix 1. A review of the profile has been started in line with the development of the next Corporate Plan.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the management of risks through services, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	Risk workshops for schools will take place again later in the year. An assurance framework for schools is being developed with key officers within the People's Directorate. A number of Academies have also bought in the risk service.
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"> <li>• Workforce Transformation Project</li> <li>• Sunderland Care and Support Ltd.</li> <li>• Intelligence Hub</li> <li>• ICT – various activity</li> <li>• Leisure project</li> <li>• Adult Social Care, Care Act and Children's and Families Act</li> <li>• Safeguarding – Childrens and Adults</li> <li>• Replacement of the SWIFT ICT system</li> <li>• City Deal and Enterprise Zones</li> <li>• New Wear Crossing construction and SSTC Phase 3</li> <li>• Information Governance</li> <li>• Place based services</li> </ul>



## Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2015/16

## 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 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 80% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) Behind target -- 88.5% 3) Ahead of target – 96.2% 4) On target - £496 v £865 average

## 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 actions agreed by the service are 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 – on target – 100%  Behind target - Medium 83% (excluding schools)

## Client Satisfaction

Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.0 to date 2) Non undertaken 3) 4 compliments 0 complaints



**AUDIT AND GOVERNANCE COMMITTEE**

**11 December 2015**

**CORPORATE ASSURANCE MAP - CONSULTATION FOR 2016/2017**

**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 plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year to give members the opportunity to raise any issues which they feel should be considered.
- 1.2 The allocation of resources will continue to be flexible given the 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 2016/2017. 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, including the Leisure Joint Venture.
  - Arrangements for managing the delivery of the Transformation Programme and budget reductions.
  - Proposed arrangements for the provision of ICT.
  - Children's Safeguarding arrangements.
  - Workforce Transformation Project (proposed new pay and grading model)
  - Economic Development, including the construction phase of the New Wear Crossing, SSTC Phase 3 and work on the International Advanced Manufacturing Park.
  - Children's Safeguarding
  - Adult social care, including the Better Care Fund, integration with health and budget reductions.
  - Commissioning and contract management
  - Key corporate functions/systems, particularly where significant changes / budget reductions are planned or have occurred.
- 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 2016/17.

## **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**

**11 December 2015**

**PUBLIC SECTOR AUDITOR APPOINTMENTS - UPDATE**

**Report of the Director of Finance**

**1. Purpose of Report**

- 1.1. This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

**2. Background**

- 2.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.2. The Council's contract with Mazars is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA). When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share across NHS and local government bodies.
- 2.3. The scope of the audit will still be specified nationally by the National Audit Office which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

### **3. Options for local appointment of External Auditors**

- 3.1. The Council has until December 2017 to appoint its external auditors. In reality, this means deciding on a process and implementing it by Spring 2017 in order for the appointment to be made in good time. There are a number of options open to the Council under the Local Audit and Accountability Act 2015 (the Act):

#### **Option 1 - Make a stand-alone appointment**

- 3.2. In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This could be a sub-committee of the current Audit and Governance Committee.

##### *Advantages/benefit*

- 3.3. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

##### *Disadvantages/risks*

- 3.4. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.5. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

#### **Option 2 - Joint Auditor Panel/local joint procurement arrangements**

- 3.6. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement. This option could also be exercised through the North East Purchasing Organisation.

##### *Advantages/benefits*

- 3.7. The costs of setting up the panel and running the procurement exercise will be shared across a number of authorities.
- 3.8. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.



### *Disadvantages/risks*

- 3.9. The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. It should be noted that the procurement process is largely however a technical exercise.
- 3.10. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement. This could be avoided by appointing a second 'fall-back' company in these cases.

### **Option 3 - Opt-in to a sector led body**

- 3.11. The LGA are working on developing a sector led body which would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. Councils are being asked whether they would be interested in the option of opting into a sector led body

### *Advantages/benefits*

- 3.12. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 3.13. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation
- 3.14. Any conflicts at individual authorities would be managed by the sector led body who would have a number of contracted firms to call upon.

### *Disadvantages/risks*

- 3.15. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 3.16. In order for the sector led body to be viable and to be placed in the strongest possible negotiating position Councils will need to indicate their intention to opt-in before final contract prices are known.

#### **4. Conclusion and Next Steps**

- 4.1. The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018. Although it is a Council decision, the Committees views on its preferred approach are welcomed.
- 4.2. The Council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to Councils.

#### **5. Recommendations**

- 5.1. Members are requested to consider their preferred approach of either:
  - a) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in”
  - b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
  - c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities
- 5.2. A report is to be taken to the Council on the preferred approach.

**AUDIT AND GOVERNANCE COMMITTEE**

**11 December 2015**

**TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2015/2016**

**Report of the Director of Finance**

**1. Purpose of Report**

- 1.1 To report on the Treasury Management (TM) performance to date for the third quarter of 2015/2016.

**2. Description of Decision**

- 2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 3 of 2015/2016.
- Note the Lending List Criteria at Appendix B and 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 2015/2016, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

**4. Summary of Treasury Management Performance for 2015/2016 – Quarter 3**

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates have fluctuated since the start of 2015/2016 and continue to be volatile. Consequently no new borrowing has been taken out to date during 2015/2016 but the position continues to be monitored closely.
- 4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2015/2016 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.51%, and as such the Council benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Performance continues to see the Council's rate of borrowing in the lowest quartile as compared to other authorities.
- 4.3 Treasury Management 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 £516.408m for 2015/2016. The Council's maximum external debt at 30th November 2015 was £336.181m and 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.

- 4.4 The Council's 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.
- 4.5 As at 30<sup>th</sup> November 2015, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.92% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is a little more positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market. The rate of return achieved is also in the top quartile according to our external Treasury Management advisors who have benchmarked our performance with other authorities.
- 4.6 The rate of return on investments, as previously reported, has remained at very low levels compared to previous years, mainly due to UK-based financial institutions having accessed funding from alternative sources (such as the Government's Funding for Lending Scheme which has been extended to January 2016) to increase their capital/cash reserves in line with revised regulatory requirements. Consequently demand for local authority funds continues to be low and whilst interest rates have improved slightly there is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate. Even special tranche investment rates (which offer better than market average returns) have followed the downward trend.

Interest rates are being carefully monitored and managed so that the Council can take full advantage of the expected increase in rates when it does occur.

- 4.7 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.8 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 since the last report. The updated Approved Lending List is shown in Appendix C for information.

## **5. Recommendation**

- 5.1 Members are requested to note the Treasury Management (TM) performance for the third quarter of 2015/2016.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

## Detailed Treasury Management Performance – Quarter 3 2015/2016

### A1 Borrowing Strategy and Performance – 2015/16

A1.1 The Borrowing Strategy for 2015/2016 was reported to Cabinet on 11<sup>th</sup> February 2015 and approved by full Council on 4<sup>th</sup> March 2015.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2015, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until September 2016 before steadily rising to 2.00% by March 2018 and that PWLB borrowing rates would increase during 2015/2016 across all periods.

The Bank Base Rate has remained at an all time low of 0.50% since March 2009 with monetary policy set by the Bank of England (BoE) to meet a 2% inflation target in the medium-term. Financial analysts continue to speculate on the timing of an increase in the current Bank Rate. Most do not anticipate a rise until at least the second quarter of 2016, a view shared by the Council's economic advisers Capita Asset Services, with rates then increasing gradually to 2.00% by September 2018.

The Spending Review and Autumn Statement announced in November 2015 predicted GDP growth to continue at a solid pace of between 2.3% and 2.5% per annum until 2020. Consumer Price Inflation is currently negative at -0.1% and forecast to be well below the 2% target throughout 2016 and is not anticipated to reach 2% until 2019. with significant downside risks through lower growth in emerging markets such as China leading to lower import prices and if wage growth is offset by increased productivity. The Conservative Government have confirmed austerity measures, will continue throughout the current Parliament and they plan for significant cuts in government expenditure to reduce the budget deficit, there is a risk that these plans could also slow growth.

Forecasts for PWLB interest rate levels have increased for 5 and 10 year durations with benchmark rates of 2.3% for 5 years and 2.9% for 10 years. Longer term rates have fallen slightly with benchmark rates of 3.5% for 25 and 50 years. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2016. The volatility is highly correlated to geo-political and sovereign debt crisis developments, with movements of up to 0.5% in a quarter not unusual. The ECB began a huge programme of quantitative easing measures in March 2015 which will last up until September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment in the Eurozone.

The following table shows the average PWLB rates for Quarters 1 to 3 to date.

<b>2015/2016</b>	<b>Qtr 1* (Apr - Jun) %</b>	<b>Qtr 2* (Jul - Sept) %</b>	<b>Qtr 3* (Oct-Nov) %</b>
7 days notice	0.36	0.36	0.37
1 year	1.23*	1.29*	1.24*
5 year	2.09*	2.15*	2.04*
10 year	2.75*	2.78*	2.69*
25 year	3.37*	3.40*	3.42*
50 year	3.29*	3.28*	3.29*

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

A1.2 The strategy for 2015/2016 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 4.25% for long-term borrowing was set for 2015/2016 in light of the views prevalent at the time the Treasury Management policy was set in March 2015. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 30<sup>th</sup> November 2015, but this will be kept under review.

A1.3 The Borrowing Strategy for 2015/2016 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2015/2016 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

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 1<sup>st</sup> November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31<sup>st</sup> October 2016.

A1.4 The Council's treasury portfolio position at 30<sup>th</sup> November 2015 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
<b>Borrowing</b>				
Fixed Rate Funding	PWLB	177.9		
	Market	39.6		
	Other	0.8	218.3	3.90
Variable Rate Funding	Temporary / Other		27.6	0.41
<b>Total Borrowing</b>			<b>245.9</b>	<b>3.51</b>

## A2 Treasury Management Prudential Indicators – 2015/2016

A2.1 All external borrowing and investments undertaken in 2015/2016 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other 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 2015/2016 as follows:

	<b>£m</b>
Borrowing	426.719
Other Long-Term Liabilities	<u>89.659</u>
<b>Total</b>	<b><u>516.408</u></b>

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

	<b>£m</b>
Borrowing	332.537
Other Long Term Liabilities	<u>89.659</u>
<b>Total</b>	<b><u>422.196</u></b>

The Council's maximum external debt in respect of 2015/2016 (to 30<sup>th</sup> November 2015) was £336.181m and is well within the limits set by both of these key indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators	2015/2016 (to 30/11/15)	
	Limit £'000	Actual £'000
<b>P10 Upper limit for fixed interest rate exposure</b> Net principal re fixed rate borrowing / investments	245,000	38,883
<b>P11 Upper limit for variable rate exposure</b> Net principal re variable rate borrowing / investments	60,000	9,314
<b>P12 Maturity Pattern</b> 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%	11.74% 0.04% 5.75% 82.69%
<b>P13 Upper limit for total principal sums invested for over 364 days</b>	75,000	0

### A3 Investment Strategy – 2015/2016

A3.1 The Investment Strategy for 2015/2016 was approved by Council on 4<sup>th</sup> March 2015. 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 30<sup>th</sup> November 2015, the funds managed by the Council's in-house team amounted to £265.835 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	<b>2015/2016 Actual to 30/11/15 %</b>	<b>2015/2016 Benchmark to 30/11/15 %</b>
Return on investments	0.92	0.36

- A3.3 Investments placed in 2015/2016 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which 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 very low levels.
- 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 to shorter term periods.
- A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) which have a AA+ rating applied to them, or separately 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.



**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.

<b>Fitch / S&amp;P's Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P's Short Term Rating</b>	<b>Moody's Long Term Rating</b>	<b>Moody's Short Term Rating</b>	<b>Maximum Deposit £m</b>	<b>Maximum Duration</b>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					350	2 years
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
<b>Local Authority controlled companies</b> (# 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.

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 £100m 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.

<b>Country</b>	<b>Limit £m</b>
UK	350
Non-UK	100

**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:

<b>Sector</b>	<b>Limit £m</b>
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

**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 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		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
<b>UK</b>	AA+	-	Aa1	-	AAA	-	350	2 years
<b>Lloyds Banking Group</b> (see Note 1)							<b>Group Limit 100</b>	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	100	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	100	2 years
<b>Royal Bank of Scotland Group</b> (See Note 1)							Group Limit 100	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	100	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	BBB+	A-2	100	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	BBB+	A-2	100	2 years
Ulster Bank Ltd	BBB+	F2	A3	P-2	BBB	A-2	100	2 years
<b>Santander Group</b>							<b>Group Limit 65</b>	
Santander UK plc	A	F1	A1	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank / Yorkshire Bank <sup>*/**</sup>	A	F1	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	A1	P-1	A	A-1	65	364 days
Standard Chartered Bank	<b>A+</b>	<b>F1</b>	Aa2	P-1	A+	A-1	70	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A2	P-1	-	-	50	364 days
Newcastle BS <sup>**</sup>	BB+	B	-	-	-	-	0	
Nottingham BS <sup>**</sup>	-	-	Baa1	P-2	-	-	0	
Principality BS <sup>**</sup>	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS <sup>**</sup>	BBB+	F2	Baa2	P-2	-	-	0	
West Bromwich BS <sup>**</sup>	-	-	B1	NP	-	-	0	
Yorkshire BS <sup>**</sup>	A-	F1	A3	P-2	-	-	50	364 days

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
<b>Money Market Funds</b>							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
<b>Australia</b>	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
<b>Canada</b>	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
<b>Finland</b>	AAA		Aaa		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Pohjola Bank	A+	F1	Aa3	P-1	AA-	A-1+	70	364 days
<b>Germany</b>	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
<b>Netherlands</b>	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	<b>AAA</b>	A-1+	100	2 years
<b>Singapore</b>	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
<b>Sweden</b>	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
<b>USA</b>	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

## 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 £100m.

\* 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 Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.**



## **AUDIT AND GOVERNANCE COMMITTEE**

**11 December 2015**

### **ANNUAL AUDIT LETTER 2014/2015**

#### **Report of the Interim Head of Paid Service and Director of Finance**

#### **1.0 Purpose of Report**

1.1 This report details the external auditors (Mazars) Annual Audit Letter (AAL) covering the year 2014/2015. A copy is attached.

#### **2.0 Description of Decision**

2.1 Members are recommended to:

- Note and comment on the contents of this 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 an AAL 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 2014/15 audit, which comprises of two key elements:

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

#### **4.0 Summary Position**

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

4.2 The Auditor issued an unqualified audit opinion on the Council's financial statements and in this respect the report confirms that the Council:

- Produced "good quality" accounts for 2014/15, within the statutory timescales and gave a true and fair view of the council's financial position;
- Produced an accurate Annual Governance Statement which was found to be consistent with the views of the auditor;
- Received no questions or objections to the accounts;

- Accurately reported its financial performance to government via the Whole of Government Accounts process.

4.3 The Auditor also issued a qualified audit opinion on the Council's Value For money Conclusion however they noted that, in all significant respects, the council had proper arrangements in place to secure economy, efficiency and effectiveness of its use of resources, "except for" the areas that were assessed as inadequate by Ofsted in their report on children's services published in July 2015. This issue is fully set out on page 6 of the Auditors correspondence.

4.4 For information the opinion noted that the Council:

- Was financially resilient and had robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future;
- Was prioritising its resources within tighter budgets by achieving significant cost reductions and by improving efficiency and productivity;
- Continued to manage its financial position very well as both budget setting and close budget monitoring were considered robust which had culminated in a small underspend of £0.6m despite having to successfully deliver continued significant financial savings of over £36m in respect of cuts in government funding and other cost pressures in the financial year;
- Had already delivered £171m of savings for the period 2010/2011 up to the end of 2014/2015 and had made significant changes to secure its future viability as a community leadership council, through implementing alternative models of service delivery (e.g. Sunderland Care and Support Ltd), working with partners (most notably establishing the Better Care Fund with Sunderland Clinical Commissioning Group) and finalising the local asset backed vehicle (LABV) via Siglion to accelerate economic regeneration in the city;
- Invested in infrastructure (through its ambitious capital programme) which includes the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor including the new Wear bridge; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre;
- Has also made other significant transformational changes to deliver challenging savings targets whilst improving service delivery;
- Is aware of the continued and significant further grant reductions it is likely to face (estimated at £149m over the next 4 years) and is therefore continuing to identify ways of improving service efficiencies and ways of working to further improve service delivery and outcomes within this very challenging environment with fewer resources.

## **5. Alternative Options**

5.1 Not applicable as the report is for information only.

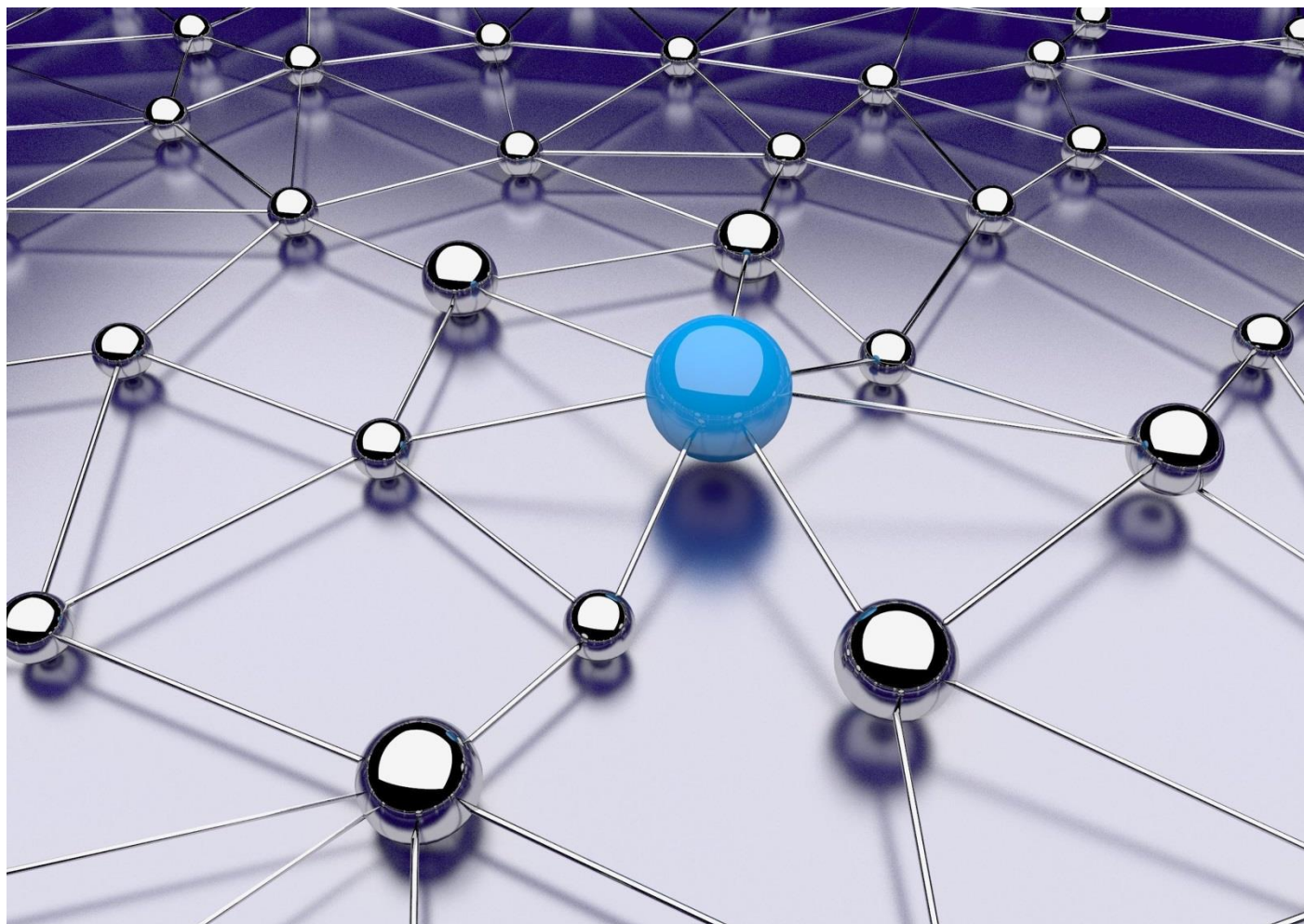
## **6. List of Appendices**

6.1 Appendix A - Sunderland City Council Annual Audit Letter 2014/2015.



# Annual Audit Letter 2014/15

Sunderland City Council



Sunderland  
City Council

October 2015

Mazars LLP  
Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Members  
Sunderland City Council  
Civic Centre  
Burdon Road  
Sunderland  
SR2 7DN

30 October 2015

Dear Members

**Sunderland City Council - Annual Audit Letter 2015**

I am delighted to present to you Sunderland City Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2014/15 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

2014/2015 has been another challenging year for the Council and like most other authorities in the North East, Sunderland City Council made some tough decisions on its spending priorities and plans for the future. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts. In relation to value for money, we concluded that, in all significant respects, the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015. We explain this further in the value for money part of this letter.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee; the continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Gavin Barker on 0191 383 6300.

Yours faithfully

Mark Kirkham  
Partner  
Mazars LLP

# Contents

01 Key messages .....	2
02 Financial statements.....	3
03 VFM conclusion.....	4
04 Future challenges .....	7
05 Fees.....	8

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.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

# 01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Members and other interested parties.

In 2014/15 our audit of the Council included the following main elements:

- auditing your financial statements; and
- assessing arrangements for achieving value for money (VFM) in your use of resources.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 25 September 2015.

The key conclusions for each element are summarised below.

## **Our audit of the statement of accounts**

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

## **Our VFM conclusion**

We carried out sufficient, relevant work, in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We were required to consider two specified criteria:

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued our VFM conclusion on 30 September 2015. This included an 'except for' qualification which is explained further in section 3 of this report.

## **Whole of Government Accounts**

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 30 September 2015.

## **Our other responsibilities**

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions or objections in relation to your 2014/15 accounts from local electors, nor did we exercise our wider reporting powers.

# 02 Financial statements

## Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 25 September 2015. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2015.

## Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. The working papers supporting the statement of accounts were of good quality and officers were responsive in following up the queries we raised.

## Issues arising from the audit of the accounts

We highlight the following key points:

- officers prepared good quality draft statements and working papers;
- we identified very few errors requiring adjustment in the financial statements;
- there were no unadjusted errors and no errors impacting on the Council's general fund balance or earmarked reserves;
- we recorded no significant deficiencies in internal control (noting our work is not intended to express an opinion on the effectiveness of the system of internal control); and
- the positive outcome of the audit and in particular the continued constructive and responsive approach of officers is noteworthy.

## Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

# 03 VFM conclusion

We performed our work in line with the Audit Commission’s Code of Audit Practice for Local Government bodies and the guidance on the VFM conclusion for 2014/15.

Our work in this area focused on the two criteria specified by the Audit Commission namely:

Criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review your Annual Governance Statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine to be appropriate.

We are not required to consider, nor have we, all aspects of the Council’s arrangements. We adopt a risk based approach, designed to identify any significant issues that might exist. We report if significant matters come to our attention which prevent us from concluding that the Council has put in place proper arrangements.

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We carried out work to address this risk area.

There was one report by other regulatory bodies or inspectorates that was relevant to our work this year. This was the Ofsted report in relation to the Council’s children’s safeguarding services.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council’s arrangements for managing financial risks and securing a stable financial position. We included the results of our review of arrangements for securing VFM in a separate report to the Audit and Governance Committee on 25 September 2015.

## Overall conclusion

Our audit report included a conclusion that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children’s services in July 2015.



## Significant risk

### VFM risk

#### Description of the risk

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

#### How we addressed this risk

We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on service delivery. We reviewed the plans that were developed to deliver savings.

#### Conclusion

There is strong evidence of the Council's delivery of savings. Over the five year period from 2010/11 to 2014/15 the Council has achieved savings of £171m. In 2014/15, the Council delivered significant savings and still achieved a small net budget underspend of £0.6m. The Council has identified the need for significant future savings and plans are in place or are being developed to address these challenges.

## Financial resilience and securing economy, efficiency and effectiveness

The Council has a strong track record of delivering savings and keeping within budget. The Council also has a reputation for strong leadership and innovation. Measures taken have included:

- significant changes in the way the Council provides services including new models of service delivery, for example, establishing Sunderland Care and Support Ltd, and closer working with partners, for example, with Sunderland Clinical Commissioning Group through the Better Care Fund;
- investment in regeneration including the establishment of Siglion LLP, a local asset backed vehicle, as a joint venture with the private sector to accelerate investment in the City; and,
- other investment in infrastructure including: the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre.

The future looks even more challenging. The Government has not yet clarified how much funding levels will reduce but the outlook for the Council is that resources available will not be sufficient to pay for the services it currently provides. The Council forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be a further £149m and shows an understanding of what these challenges will mean:

*"The outlook is therefore extremely challenging and it is clear that as more savings are required the ability to protect frontline services will become increasingly difficult.*

*The Council continues to plan for these further significant reductions and risks. As set out in the Medium Term Financial Strategy, the achievement of savings will be through a programme of activity based around the council's Community Leadership approach. The Council's role will increasingly shift from delivering services to enabling individuals, communities and other organisations in the public, private and voluntary sectors to work together to address the needs of the city and to encourage people to be more self-supporting."*

*Source: Explanatory Foreword, Sunderland City Council Financial Statements 2014/15*

## Ofsted inspection

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators.

In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate.

We have identified much good practice in the Council's overall corporate arrangements, however, the Ofsted assessment of children's safeguarding services as 'inadequate' provides evidence of a significant service failure. We note that corporate management had identified that there were significant issues that needed to be addressed, had already taken action and planned further improvement measures. This provides some evidence of the Council's corporate arrangements operating effectively in terms of identifying risks and seeking to address them. Progress with the actions to date, however, has not yet led to the improved outcomes that are needed.

The Ofsted report, although acknowledging some of the measures that have been taken, concluded that they have not yet improved practice or outcomes for young children. The issues raised by Ofsted focus on "widespread, systematic poor practice" in the management of social work for children, which has left significant numbers of cases that have not been fully assessed or progressed, issues over the stability of the workforce and high caseloads, and issues over partnership working, performance management and quality assurance and oversight. Ofsted describe this as "a corporate failure by senior leaders and management that leaves children and young people unsafe."

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our VFM Conclusion. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015 'except for' the areas that have been highlighted as inadequate in the Ofsted report.

The Council is addressing the issues raised in the Ofsted inspection, and has appointed an Interim Director with experience of leading improvement. Following the inspection, the Government appointed a Commissioner for Children's Services in Sunderland to work with the Council to advise on improvements and to inform ministers about progress.



# 04 Future challenges

## Financial challenges

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council's budget for 2014/15 reflected £36m of savings, and overall there was an underspend of £0.6m against the original budget.

The Council identified that significant savings of £39.8m are required in 2015/16, and forecasts that the savings requirements in the next 5 years from 2015/16 to 2019/20 will be £149m.

## Other challenges

Improving children's safeguarding services is a key priority for the Council, and is being closely monitored.

The wider difficulty of maintaining good service performance levels at the same time as reducing budgets is recognised by the Council. The Council is exploring a number of options including alternative models of service delivery.

The Council faces a number of other challenges in the coming year which include:

- Better Care Funding and associated pooled budgets;
- joint working with health and others; and
- the ongoing impact of the Welfare Reform Act.

With a financial outlook that is increasingly challenging, to develop locally responsive services that maintain standards of access and quality, the Council will need to continue to:

- carefully forecast and effectively monitor budgets;
- identify and address financial pressures as they emerge;
- deliver a long term financial strategy that addresses immediate pressure while allowing scope for strategic service change;
- maintain effective arrangements for public engagement; and
- use constructive relationships with partners to safeguard service quality and resilience.

We will focus our 2015/16 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you 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.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key area in this respect includes liaising with officers as they make preparations for the change in valuation basis for transport infrastructure required by the accounting Code. This will require significant changes in the 2016/17 financial statements and we are already working with both finance and highways officers to ensure all required systems are in place.

# 05 Fees

As outlined in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 27 March 2015, the Audit Commission sets a scale fee for our audit and certification work. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 As previously reported	2014/15 Final Fee
Code audit work	£183,802	£181,032	£181,032
Certification work	£12,412	£10,300	£10,300
Non-audit work	£35,500	£7,955	£16,870
<b>Total</b>	<b>£231,714</b>	<b>£199,287</b>	<b>£208,202</b>

*All fees are shown excluding VAT*

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

Analysis of non-audit work for 2014/15:

Non-audit services	2014/15 Actual Fee
2013/14 Teachers' Pensions Return (included in 2014/15 fees due to the timing of this work)	£2,750
2013/14 Review of s256 Agreements (included in 2014/15 fees due to the timing of this work)	£5,205
2014/15 Teachers' Pensions Return	£2,750
Officer attendance at Mazars' accounting workshops relating to Transport Infrastructure Assets and Group Accounting	£300
Tax advisory services	£865
Advisory review of Better Care Fund plans for health and social care integration	£5,000 <sup>1</sup>
<b>Total fee</b>	<b>£16,870</b>

*All fees are shown excluding VAT*

<sup>1</sup> Plus travel expenses

Mazars is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and taxation services to the company.

Should you require any further information on this letter or on any other aspects of our work, please contact:

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**AUDIT AND GOVERNANCE COMMITTEE**

**11 December 2015**

**EXTERNAL AUDITOR - AUDIT PROGRESS REPORT**

**Report of the Director of Finance**

**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 2015.
- 1.2 The report (Appendix A) 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 to the Council.
- 1.4 Members will be pleased to note that the audit work in respect of both the 2014/15 accounts and Value For Money conclusion was finalised within the required statutory timescales which culminated in production of the Annual Audit Letter which features separately on today's agenda.
- 1.5 The report also sets out that:
  - a) the auditor's IT audit review has been completed which covered the general IT controls throughout the council. It is pleasing to report that the audit specialists concluded that the significant IT risks were being substantially mitigated by the control environment. The detailed findings for members information are set out on page 4 of the report;
  - b) The Auditors now only carry out grant certification work on the Housing Benefit Subsidy Claim on behalf of the DWP and again it is pleasing to report that only minor issues were reported, which is an excellent outcome for the council as there was no loss of grant.
  - c) Work outside of the national arrangements saw the auditors carry out work on the 2014/15 Teachers Pensions Return at a net cost of £2,750 and they had no issues to report from their audit.
  - d) The auditors have recently been appointed to carry out certification work on the Council's Skills Funding Agency Return for an agreed fee of £3,550 plus VAT.
  - e) The Council has agreed to provide the Department for Transport with unaudited Port accounts.
  - f) The auditors also provide an update on the work they are planning to carry out for the current financial year which will be reflected in their Audit Strategy Memorandum which they will report to this Committee in March 2016.

1.6 The report also usefully highlights national publications and other 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 6 to 10 of the report.

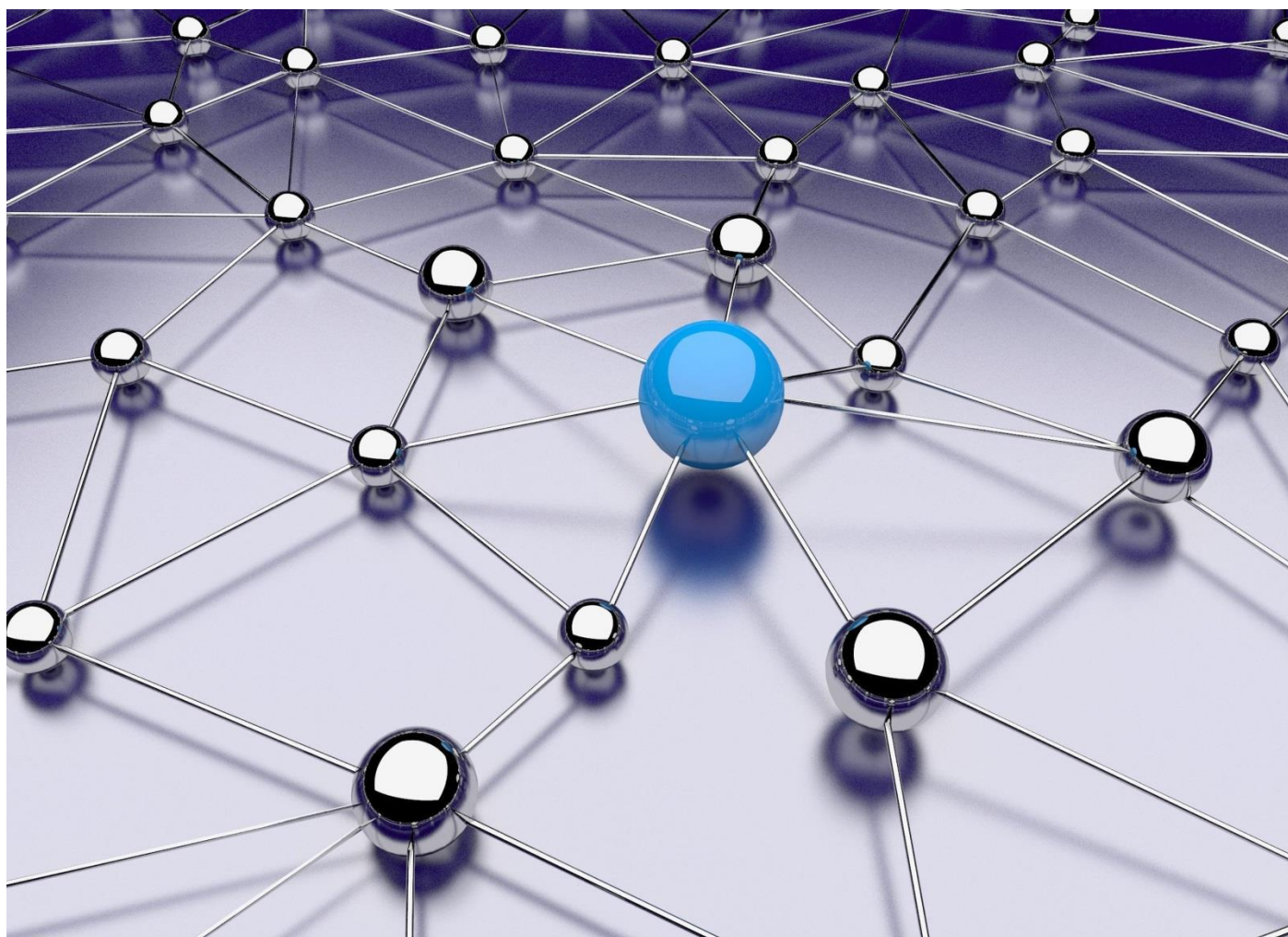
## **2. Recommendations**

2.1 Members are asked to note the report.

# Sunderland City Council

## Audit Progress Report

### December 2015



# Contents

01 Introduction.....	2
02 Summary of audit progress .....	3
03 National publications and other updates.....	6
04 Contact details.....	11

*Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Sunderland CityCouncil, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.*



# 01 Introduction

The purpose of this report is to update the Audit and Governance Committee of Sunderland City Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address ([www.mazars.co.uk](http://www.mazars.co.uk)) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

# 02 Summary of audit progress

## Completion of 2014/15 audit

We completed our 2014/15 by the statutory deadline of 30 September 2015 and issued:

- an unqualified opinion on the Council's financial statements;
- an 'except for' qualification of the value for money conclusion, in respect of the assessment by OFSTED of children's safeguarding services as 'inadequate'.

We reported to the National Audit Office (NAO) on 30 September 2015 that the Council's 2014/15 Whole of Government Accounts consolidation pack was consistent with the audited financial statements.

We discussed our annual audit letter with senior management and it was finalised by the deadline of 30 October 2015. This marks the formal conclusion of our 2014/15 audit and summarises our work and findings as well as outlining future challenges. We will be presenting the letter to the Audit and Governance Committee as a separate agenda item. The letter will also be presented to Cabinet and Scrutiny Committee and be reported to full Council.

## IT audit review

Members may recall that as part of our 2014/15 audit, our IT specialists carried out a review of IT general controls, including:

- physical security;
- back-up and disaster recovery arrangements;
- access management and logical security;
- strategy and internal control; and
- change management.

In the Audit Completion Report we informed Members that our IT specialists had concluded that the significant IT risks were being substantially mitigated by the control environment in place, and they did not identify any significant weaknesses which could significantly threaten IT reliability in respect of the production of the financial information in the financial statements for 2014/15.

At that time, detailed findings were still being discussed with officers, and we promised to report a summary for Members in due course.

Our findings have now been discussed and agreed, and the matters arising are summarised below:

- Data restoration is regularly tested. However, although business users have the option to take part in the data restoration testing, only SAP (the general ledger) and Swift (social care payments system) users are regularly included in the process. To avoid compromising data availability and integrity, we recommend ensuring business users are involved in the data restoration tests. ICT officers responded that they will endeavour to involve end users at every point where practicable and where capacity and willingness exist.
- Windows screensaver is in place, however it is limited to the Office of the Chief Executive users, and disabled for the rest of the groups due to the performance overhead. To avoid unauthorised access to data, we recommend considering enforcing the screensaver to all operational users. If due to special requirements this is not possible, we recommend ensuring compensating controls are in place: staff enforcing to lock their workstations when away, automated logout from business systems after a period of inactivity, etc. ICT officers responded that the Council has a use of facilities policy in place which insists that staff lock their machines when not in use. They are looking into rolling a standard timeout to all users.
- Some generic accounts were identified at application level. To ensure access is appropriately restricted, and proper traceability and accountability of operations at application level are in place, we recommend: Ensuring generic accounts are disabled when not used; and considering assigning nominal users to all administrative and privileged users. ICT officers responded that Internal audit was undertaken, and many generic accounts have already been removed. The rest are scheduled to be removed and or reviewed over the coming months.
- Applications password settings are not aligned to best practice. To avoid unauthorised access to the Council's programs and data, we recommend aligning the application password settings to the best practices - Minimum length should be at least 8 characters; Complexity should be enforced, for passwords to contain both alphanumeric characters as well as special characters; Expiry: passwords should be regularly changed; History: users should not be allowed to use the same passwords several times in a row; Account lockout: accounts should be locked after several unsuccessful logon attempts. ICT officers responded that Government guidance is that these should be reviewed on a risk basis. This is the approach that we currently take; this will be reviewed over time as part of our usual internal processes.
- Although for most changes segregation of duties between development and migration of changes into production is respected, one developer also migrated changes into production in the audited period. However, mitigating controls tested showed that these SAP transports have no impact on the financial statements. To avoid unauthorised changes being deployed on the Council's programs, we recommend ensuring segregation of duties between development and migration of changes into production. If due to special requirements or restrictions the segregation is not possible, we recommend ensuring close monitoring of changes being implemented into production. ICT officers responded that upon review none of the transports containing SAP changes were implemented into the production environment by the developer. Only the BASIS technical staff were able to implement changes through all environments and only changes containing software vendor content.

## **Certification of claims and returns**

Work on the 2014/15 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014. Only minor issues were reported.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission.

## **Additional schemes outside the national arrangements**

The Council is required by funding bodies to arrange independent certification of certain grant claims and returns that are now outside the PSAA regime.

As reported in the annual audit letter, we made arrangements for the certification of the Teachers' Pension Return for 2014/15, for an agreed fee of £2,750 plus VAT.

The work on the Teachers' Pensions return has now been completed and reported ahead of the deadline of 30 November 2015. There were no issues arising from this work.

Since finalising the annual audit letter we have been commissioned to carry out the certification work on the Skills Funding Agency return, for an agreed fee of £3,550 plus VAT. This work will be recorded as non-audit work as part of the 2014/15 audit.

## **Port of Sunderland**

The Council has indicated to us that it no longer requires the Port accounts to be audited by us, and provided an explanation of the reasons for this.

## **2015/2016 planning**

This is our first progress report in respect of the 2015/2016 audit year; in the coming quarter we will:

- carry out our initial planning in respect of 2015/2016, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- walkthrough the key financial systems;
- liaise with your internal auditors to both share common knowledge and ensure no duplication;
- maintain on-going liaison with senior officers and consideration of key agendas and papers; and
- plan and carry out any interim substantive testing.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit and Governance Committee meeting on 18 March 2016.

# 03 National publications and other updates

This section contains updates on the following:

1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**
2. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
3. **Whistleblowing e-learning for the public sector**
4. **Consultation on regulation of auditors, Financial Reporting Council, May 2015**
5. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**
6. **Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015**
7. **Extension of existing external audit contracts by one year**
8. **A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015**
9. **Social Value: defining, delivering, reporting CIPFA, November 2015**
10. **An Introductory Guide to Local Government Finance, 2015 edition CIPFA, November 2015**

## 1. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.

There are two strands to their monitoring:

- audit quality – applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance – reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment.

The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions and Whole of Government Accounts (WGA).
- an assessment as to whether they could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
- the results of inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;

- the results of each firm’s compliance with 17 key indicators relating to Terms of Appointment requirements;
- a review of each firms' systems to ensure they comply with regulatory requirements; and
- a review of each firm’s client satisfaction surveys for 2013/14 work.

The report summarising the results of our monitoring work for Mazars LLP is available on the PSAA website. <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars’ combined audit quality and regulatory compliance rating was **green** (the highest available).

**2015 Comparative performance for audit quality and regulatory compliance**

<b>BDO</b> Amber	<b>Deloitte</b> Amber	<b>EY</b> Green	<b>GT</b> Amber	<b>KPMG</b> Amber	<b>Mazars</b> Green	<b>PwC</b> Amber
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The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2014/15 indicators scored as green.

The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

**2. Regulatory Compliance and Quality Report, Quarter 1 2015-16**

This report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators and is available on the PSAA website <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

**3. Whistleblowing e-learning for the public sector**

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify ‘grey areas’ around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing
- the arrangements you have in place
- how best to blow the whistle/raise concerns
- where staff can blow the whistle/raise concerns

- what staff can expect and how their organisation will support them
- rights and options for support
- why whistleblowing is so important.

#### **4. Consultation on regulation of auditors, Financial Reporting Council, May 2015**

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014, that is:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.

<https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx>

The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

#### **5. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;

- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

[http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015\\_16.pdf](http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf)

### ***Code of Audit Practice applying to 2015/2016 audits***

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

## **6. Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015**

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/2017 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/2017. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/2016 previously set by the Audit Commission. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/2015 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies.

The work that auditors will carry out on the 2016/2017 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

<http://www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

## **7. Extension of existing external audit contracts by one year**

The current local government audit contracts with audit firms end with completion of the audit of the accounts for 2016/17, with an option to extend contracts after this date. The Government has taken a decision to extend local authority contracts by one year to cover the 2017/18 audit, the first year in which the accounts and audit deadline is to be brought forward significantly. From the 2018/19 audit, local authorities, including Sunderland City Council, will be required to make their own auditor appointments. The auditor for 2018/19 must be appointed by 31 December 2017. CIPFA is preparing guidance for local authorities on appointing auditors.



## **8. A Practical Guide for Local Authorities on Income Generation, 2015 edition CIPFA, November 2015**

CIPFA has published its latest practical guide on income generation. Income from fees and charges is a key financial area for local authorities, and much has happened since CIPFA published the last edition of this guide in 2013. In 2015 local authorities will look at income in its widest sense as a key factor in their funding equation. Financial uncertainties continue to motivate local authorities to evaluate every possible funding source.

## **9. Social Value: defining, delivering, reporting CIPFA, November 2015**

This CIPFA publication looks at social value and its practical application and assessment. It covers:

- the legislation and related guidance;
- how this links to guidance on best value;
- the range of definitions of social value;
- how social value relates to outcomes commissioning;
- examples of how social value is being interpreted by local authorities; and
- approaches to measuring social value.

## **10. An Introductory Guide to Local Government Finance, 2015 edition CIPFA, November 2015**

2015/16 has seen a change in the landscape of local government with the growth of the devolution agenda, with Manchester leading the way. The Cities and Local Government Devolution Bill is currently progressing through Parliament.

The pace of fiscal devolution has been slower and pressure is still being brought to bear for greater freedoms for local authorities around the financing of local services. These freedoms are not reflected in the current financing options but with the changes to business rates in Manchester and Cambridge and the debates currently taking place, the issue of how local government is financed will continue to be important.

<http://www.cipfa.org/policy-and-guidance/publications?tab=&filters=%7b7D9EAA93-8748-4746-9B73-DE0D7A0A7695%7d#filters>

# 04 Contact details

Please let us know if you would like further information on any items in this report.

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