

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 28 MAY 2010 at 1.30 pm**

**Present:-**

Mr G N Cook in the Chair

Councillors Allan, M Forbes, Rolph, T Wright and Mr J P Paterson

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillor Tate.

**Minutes**

1. RESOLVED that the minutes of the Committee held on 26 March 2010 be confirmed and signed as a correct record.

**Variation of Order of Business**

At the instance of the Chairman, it was agreed that the order of business be varied to allow contributors to the meeting to fulfil other commitments.

**Certification of Claims and Returns Annual Report 2008/2009**

The Audit Commission submitted their Annual Report on the certification of claims and returns for consideration by the Committee.

Gavin Barker from the Audit Commission presented the report and explained that it was a new initiative for the Commission to publish this. Sunderland City Council currently receives more than £516m funding from various grant paying departments and claims totalling £249m were certified in 2008/09.

The fees charged for grant certification work were £52,210, which was a considerable reduction on the level set a few years previously. Overall, following certification, one claim was reduced by £35,574 but it was reported that the Council had recovered £21,000 of this from a third party.

There had been some issues identified relating to the New Deal for Communities but this did not result in any loss of funding. A small number of recommendations had been made and agreed by officers and the Audit Commission was confident that these actions would be taken forward.

The Chairman commented that this was a very positive report and noted that a further £10,000 had been recouped following a technical adjustment for cash and the amount of grant claim loss was now less than £5,000.

Having expressed satisfaction in the Council's sound management of claims, it was:-

2. RESOLVED that the report be received and noted.

### **Audit Opinion Plan 2009/2010**

The Audit Commission submitted their Audit Opinion Plan 2009/2010 which sets out the work that they propose to undertake for the audit of financial statements 2009/2010. The plan reflects the audit work specified by the Audit Commission for 2009/2010, current national risks relevant to local circumstances and local risks.

Gavin Barker advised that the indicative audit fee was £313,700 which was 5% below the scale fee for the Council. £209,506 of the fee related to the audit of the financial statements.

Key risk areas had been identified within the report, including liabilities relating to equal pay claims. The liabilities on this were still unclear but a dialogue had been maintained with the authority so that the Audit Commission was kept up to date. Reference was made to changes in the SORP and the implementation of International Financial Reporting Standards (IFRS) and bringing PFI on to the balance sheet a year early. Accounting entries would be substantively tested in relation to this and the other areas of change in this year's accounts.

Another issue had been the inclusion of the Council's share of Newcastle Airport at fair value in the balance sheet. A full valuation was being undertaken through the lead authority for the airport and this would be reviewed as part of the Audit Commission's post statement work.

It was highlighted that an Opinion Audit Protocol had been agreed which sets out the detailed arrangements agreed with officers for the conduct of the audit and would lead to benefits for both the Commission and officers. Key milestones and deadlines were outlined and Gavin Barker stated that they were hopeful of a smooth audit process.

Councillor Wright concurred with the Audit Commission on the uncertainty around equal pay issues and commented that it seemed some time since the Committee had received an update on this. With regard to PFI, he asked if there was a list of these assets and would it include schools like Sandhill View.

The Director of Financial Resources advised that there were fortnightly meetings of officers to discuss equal pay and there were three tranches of claims currently going through the employment tribunal. Timescales were quite protracted and it had been suggested it could be 2013 before all the claims would be resolved. The situation did need to be kept under constant review and as the employment tribunal was only dealing with a particular cohort of claimants, if they were successful then more people could potentially lodge claims. The latest position on equal pay would be included in the notes to the Statement of Accounts.

In respect of PFI projects, the Council currently has two, namely Sandhill View School and Streetlighting. These had previously been excluded from the Council's balance sheet and would normally have been included after the contract expired and assets and liabilities were transferred to the Council. However, the requirements of the International Financial Reporting Standards (IFRS) had altered this.

Councillor Rolph referred to the Waste Management Partnership and the PFI which would be entered into in the future and queried if this would then appear on the balance sheet of all three authorities. The Director of Financial Resources reported that a contractual relationship for the Waste Management solution would not be established until 2013-2014 but as Gateshead were the lead authority then any PFI scheme would be included within their Statement of Accounts.

In response to a question from Councillor Forbes about PFI debt implications, the Committee were informed that the private sector partner would incur the borrowing and therefore the liability for the debt.

Following discussion, it was:-

3. RESOLVED that the Audit Opinion Plan 2009-2010 be received and noted.

### **Annual Audit Fee 2010/2011, the Audit Commission's Code of Audit Practice 2010 and Statements of Responsibilities of Auditors and Audited Bodies**

The Director of Financial Resources submitted a report informing the Committee of the recent notification from the Audit Commission of the work they intend to cover and the applicable fee for 2010/2011.

The planned fee for 2010/2011 was £376,482, an increase from the 2009/2010 fee of £353,950. This reflected that the Council had been charged below the scale fee for this area of work in the past and it had been agreed that this position would be corrected over time with the view that the Council will eventually pay the scale fee applicable.

Councillor Allan enquired if the Audit Commission would be assisting the Council in achieving efficiency savings by adjusting the audit fee during the year.

Gavin Barker advised that a rebate of £20,922 in relation to the 2010/2011 fee had already been paid to the Council in April. Since the new coalition Government had announced the abolition of the Comprehensive Area Assessment (CAA), the Audit Commission would cease all work on that area until the position became clear. The 2010/2011 fee was indicative and it was likely that it would reduce once the Audit Commission had determined its strategy.

A new approach to the Value for Money conclusion had been due to replace the Use of Resources element of the CAA, and this might also impact on the 2010/2011 fee and feed through to the 2011/2012 audit. However, it was highlighted that at this time, the Audit Commission was stepping back to look at its core responsibilities.

Having considered the report, it was:-

4. RESOLVED that the contents of the report be noted.

### **Economic Masterplan – Update**

The Head of Strategic Economic Development submitted a report informing the Committee of the progress made in developing Sunderland's Economic Masterplan and the final steps needed to complete the project.

The project to develop the Economic Masterplan had been overseen by a Steering Group who in turn commissioned consultants to begin work on the various elements of the Economic Masterplan.

The strategy would be an important document for the City over the next 15 years to guide what Sunderland could become in the future. The proposed vision is for Sunderland to become 'An entrepreneurial University City at the heart of a low carbon regional economy'. The plan is on budget but slightly delayed although it has to be agreed this Summer as the Sunderland arc is not funded beyond this financial year.

Although external consultants had been involved in the development of the strategy, the action planning had been done more by Council Officers than Consultants. The process was about making existing economic assets work harder, developing the economic motors of the City and taking all the residents of the City along with this.

The governance of the delivery of the Economic Masterplan had been discussed with the Cabinet and the Sunderland Partnership and an 'Economic Leadership Board' would be formed to effectively own the Economic Masterplan and act as the commissioning body for delivery activity across the aims of the plan. The structure was not complicated and it was based on replacing old partnerships with a smaller number of new ones.

The Economic Masterplan would be presented to the Cabinet in July 2010 and then to the full Council as a component of the Sunderland Strategy.

The Chairman asked where it was predicted that the job market would be in the future and the Head of Strategic Economic Development stated that the primary aim was to diversify into areas of strength. These would include electric vehicles, offshore energy and software development. Health and Well-being and creative industries had also been identified as sectors with potential for growth.

Councillor Rolph expressed an interest in seeing how each version of the Masterplan had evolved, for example there had been changes to university funding since the previous version of the plan had been considered. She also expressed concerns about the position of Sunderland University in league tables and how this might further impact on funding in the future.

The Head of Strategic Economic Development advised that earlier versions of the plan were retained but public documents were now available which showed how the aims of the plan had developed. It had always been recognised that the document was fluid and 'unknowns' had been allowed for in the budget.

The Economic Masterplan was much more about how the University operated within the City rather than what it did. For example, by looking at traffic and pedestrians on Chester Road and making the campus more open to non-students. Physical development of the City would be slow with demand having to be built up initially.

The Chairman thanked the Head of Strategic Economic Development for the report and asked that he come back and update the Committee periodically on the position with the Economic Masterplan.

It was:-

5. RESOLVED that the progress made in developing Sunderland's Economic Masterplan and next steps for the project be noted.

### **Annual Review of the Effectiveness of Internal Audit**

The Director of Financial Resources and the Chief Solicitor submitted a report setting out the findings of the annual review of the effectiveness of internal audit as required by the Accounts and Audit Regulations 2003.

The methodology for the review was approved by the Committee in March 2007 and was as follows:-

- Internal Audit Services undertake an annual self-assessment based on a checklist within the CIPFA Code;
- The self-assessment is independently reviewed by the Council's external auditors; and

- The Director of Financial Resources and the Chief Solicitor jointly consider the findings of the self-assessment and Audit Commission review and report their findings to the Audit and Governance Committee.

The self-assessment concluded that the Council's internal audit arrangements continued to comply with the CIPFA Code. The external review by the Audit Commission also concluded that the service complied with the CIPFA Code but made a small number of minor recommendations for further improvements. The directorate had responded to the recommendations and established actions and timescales for dealing with each issue.

Councillor Wright commented that over the last few years, internal audit had been looked at, not just in terms of what it does, but also in terms of the physical set up of the service. He complimented the officers on the new procurement system which had been developed and commented that his constituents who had used it could not praise it highly enough. The Director of Financial Resources responded that the Head of Audit, Risk and Procurement and the Head of Corporate Procurement should receive the credit for this.

Having considered the report, it was:-

6. RESOLVED that the review of the effectiveness of internal audit be noted.

## **Governance Arrangements**

The Director of Financial Resources submitted three reports on the Council's governance arrangements. These were:-

- Internal Audit Annual Report 2009/2010
- Risk Management Annual Report 2009/2010
- Annual Governance Review 2009/2010

### **(a) Internal Audit Annual Report 2009/2010**

The Head of Audit, Risk and Procurement presented the report detailing the performance of Internal Audit Services during 2009/2010 and an opinion on the overall system of control in place within the Council.

The agreed plan for the year included 122 audits and 118 had been completed, which was 97% of the agreed plan.

There were no high risk recommendations made during 2009/2010 and only one significant recommendation which was made in relation to Corporate Information Scrutiny Management. All audits and resulting action plans had been agreed by management.

Attention was drawn to the fact that the 2008/2009 Annual Report highlighted that Business Continuity/Contingency Planning for ICT which had received an unsatisfactory opinion in relation to the recovery of key systems. Work had been ongoing throughout the year and the latest position was that 20 systems were now rated as Green and 4 as Amber with the overall rating now being satisfactory.

All schools had received their first assessment for the Financial Management Standard in Schools by the end of 2009/2010 in accordance with the timetable laid down by DCSF. A small number of schools did not meet all the requirements but they had 12 months to rectify this. A follow up of the National Fraud Initiative (NFI) data matching exercise had identified four duplicate payments made between April 2005 and October 2008. Action had been taken on this and all monies had been repaid. Underlying systems had been reviewed and recommendations made to address any weaknesses.

With regard to the implementation of agreed audit recommendations, 100% of high and significant risk recommendations and 90% of medium risk were to be implemented in accordance with the agreed timescale, however implementation rates were still below the target. There was a particular issue with Children's Services, although there was confidence that this was being addressed and would result in improved performance.

The results from post audit questionnaires had been good and Internal Audit Services had shown good performance against the Audit Plan and Key Performance Indicators.

Councillor Rolph referred to the additional audits carried out as a result of whistle blowing and asked if client views were sought from those who had gone through the whistle blowing procedure.

The Head of Audit, Risk and Procurement advised that some 'whistle blowers' remain anonymous so feedback could not be obtained and some were not always satisfied if Internal Audit concluded that there was no substance to the issue raised by the whistle blower. However, he did recognise that feedback was not systematically sought at the current time and would review how this could be achieved in the future.

Councillor Rolph went on to highlight that, from previous work a number of years ago on the former Policy and Co-ordination Review Committee, that an audit had recently been carried out for an area which had also been subject to a scrutiny review but the Scrutiny Committee had not been aware of this. The Head of Audit, Risk and Procurement agreed to liaise with the Head of Overview and Scrutiny about how the information from audits could be considered as part of the specific scrutiny reviews.

Councillor Wright enquired about the capacity of Internal Audit to be able to take on issues which were brought forward at any time and also if all posts which were required, had been filled.

It was stated that Internal Audit Services had 'contingency' time within the Audit Plan to ensure that they could be responsive. The Director of Financial Resources also commented that the structure of the directorate had recently been reviewed and the area of Risk Management brought together with Internal Audit. It was felt that this was a natural progression and the service had adequate human resources. Any further restructure would depend on wider organisation changes in the future.

**(b) Risk Management Annual Report 2009/2010**

The Head of Audit, Risk and Procurement introduced the Risk Management Annual Report which set out the arrangements in place for management of risk during 2009/2010, proposals for future improvement and the review of the Risk Management Policy and Strategy.

The Corporate Risk Management Group had reviewed the Policy and Strategy in April 2010 taking into account new guidance issued by the International Standards Organisation in November 2009.

The position for Risk Management at the end of 2009/2010 was summarised, including training for staff, further editions of Risk Watch magazine and a review of Directorate Risk Management Plans. Risk registers were being developed for the Council's Transformation Programme and the approach to Risk Management in Schools had been recognised as good practice by both DCSF and CIPFA. The Council also participated in a regional benchmarking group for risk management and had again scored the top score of 4 out of 4 for the Risk Management and Internal Control element of the Audit Commission's Use of Resources Assessment.

The Corporate Risk Management team had transferred to the Audit and Procurement Division within Financial Resources from 1 April 2010 which would facilitate closer working with the internal audit function. The Council continued to maintain robust risk management arrangements and the Corporate Risk Management team would continue to develop the service to meet the changing needs and pressures that the Council faces.

**(c) Annual Governance Review 2009/2010**

The Head of Audit, Risk and Procurement presented the joint report of the Director of Financial Resources and the Chief Solicitor on the findings of the 2009/2010 Annual Governance Review.

The Annual Governance Review brings together a range of sources of assurance and information relating to the Council and is undertaken by the Corporate Governance Steering Group. The Annual Governance Statement has been drafted taking into account the findings of the review and a small number of improvements had been identified to strengthen the current governance arrangements.

The Corporate Governance Steering Group had reviewed progress on actions identified in the 2008/2009 Governance Review and found that they were all either complete or well progressed. The Group found that the Council continues to have robust and effective governance and control arrangements in place and views elicited from Members, Chief Officers and senior managers demonstrated that the principles of good governance were embedded Council-wide.

Upon discussion, it was:-

7. RESOLVED that the Internal Audit Annual Report 2009/2010, the Risk Management Annual Report 2009/2010 and the Annual Governance Review 2009/2010 be agreed.

### **Treasury Management in Local Authorities – Review**

The Director of Financial Resources presented a report setting out a review of the Council's Treasury Management arrangements which had previously been approved by the Council on 3 March 2010, informing the Committee of a delegated decision made to amend the Lending List criteria and advising the Committee of new borrowing that had been taken out.

The review of the Treasury Management Strategy and Policy was to ensure that enough flexibility was built into the strategy and policy to meet current demands and particularly where surplus funds would be invested. The strategy is currently one of repatriation and placing funds with only UK institutions. However, the limits set by the original strategy would shortly be reached and it was requested that the rules be relaxed with regard to depositing with certain specified foreign banks, only when UK banks could not be used. The basic principles of the investment strategy would remain as security, liquidity and the rate of return, in that order.

The Committee were informed of the delegated decision made in consultation with the Portfolio Holder for Resources to amend investment limits on both the Lending Criteria and Lending List to help alleviate potential problems with placement of funds.

The Director of Financial Resources advised that the Borrowing Strategy was reviewed on a daily basis and the Council had taken out new borrowing of £500,000 on behalf of the Beamish Museum Joint Committee and had replaced some of its own rescheduled borrowing at preferential rates. It was also noted that as the consequence of a decision being made to reschedule debt, the Council was benefiting from a reduced amount of interest payments and that the money saved would go back into balances.

Following consideration of the proposals outlined in the report, it was:-

8. RESOLVED that:-

- (i) the delegated decision made to amend investment limits be noted;
- (ii) the proposed options set out in the report be approved to supplement the existing Treasury Management Strategy and Policy Statement for 2010/2011;
- (iii) the use of Money Market Funds be approved and the Investment Strategy updated accordingly; and
- (iv) the amendments to the Treasury Management Strategy and Policy Statement for 2010/2011 be recommended to the Cabinet.

### **Member Training and Development**

The Director of Financial Resources submitted a report providing an opportunity for Members of the Committee to identify areas for which they may require further training/refresher/awareness sessions.

It was felt that training on the International Financial Reporting Standards (IFRS) would be welcomed and also further information on the Statement of Accounts. It was also suggested that future topics to cover could include PFI schemes and whatever regime would replace the CAA.

Members would be canvassed for their availability for a training session prior to the next Committee meeting in June.

9. RESOLVED that arrangements be made for a Committee training session in June to brief Members on the Statement of Accounts and IFRS.

(Signed) G N COOK  
Chairman