

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 26 June 2015**

**Present:**

Councillors Farthing, Forbes, O'Neil and Speding.

**In Attendance:**

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

**Procedure for the Meeting**

At the beginning of the proceedings, Committee Members were advised that due to unforeseen circumstances, both of the independent members of the Audit and Governance Committee were unable to attend the meeting. As the terms of reference for the Committee stated that it must be chaired by one of the co-opted committee members, there was no person present who could chair the meeting.

The Head of Law and Governance had advised that the Committee was able to control its own proceedings without a Chair and in such circumstances, the clerk to the Committee would be asked to call over the items of business.

It was therefore: -

1. RESOLVED that the meeting proceed without a Chair.

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Mr Cook, Mr Knowles and Councillor N Wright.

## **Minutes**

2. RESOLVED that the minutes of the meeting of the Committee held on 27 March 2015 be confirmed as a correct record.

Councillor O'Neil was welcomed to her first meeting of the Committee.

The Director of Finance highlighted that at the last meeting it had been agreed to have an update on changes taking place in the Council as part of this meeting. She advised that this would now be deferred until the September meeting but that there would be updates within the briefing on the Statement of Accounts.

## **Annual Report on the Work of the Committee**

The Director of Finance submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2014/2015 and the outcome of this work.

The report was intended to demonstrate how the Audit and Governance Committee had fulfilled its role over the last year and would be presented to Council once agreed by the Committee. The report outlined the role of the Committee, the matters considered and the monitoring of activity with regard to the Corporate Assurance Map and Treasury Management.

The Committee felt that the report provided a true reflection of their work throughout the year and it was: -

3. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

## **Annual Governance Review/Annual Governance Statement 2014/2015**

The Director of Finance submitted a report providing details of the 2014/2015 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A draft Annual Governance Statement and an improvement plan for the year ahead were also included.

The Annual Governance Review was undertaken by gathering assurance throughout the year from a number of sources via the Integrated Assurance Framework and led by the Corporate Assurance Group. The review had considered assurance provided by Heads of Service, Executive and Corporate Directors, specialist functions, the Risk and Assurance team, Internal Audit, the External Auditor and other external agencies.

Members were directed to the Corporate Assurance Map for the end of the year which showed that all Corporate Risk Areas were judged to be either green or amber in terms of assurance. The corporate governance improvement plan for 2014/2015

had included five actions and the Corporate Assurance Group had reviewed progress on these and found that all actions were either complete or being progressed.

During the year, all of the targets set for Internal Audit had been achieved apart from the implementation of medium risk recommendations which stood at 82% against a target of 90%; and audits complete by target date which stood at 79% against a target of 80%.

The Committee were advised that from the original 71 audits which had been included within the plan for the year, it was not considered appropriate to carry out four of these for the following reasons: -

- Sunderland Partnership – a review was being carried out on the operation of the partnership from within the service;
- Multi Agency Safeguarding Hub (MASH) – People Services, Health and the Police were working on redesigning the work of the MASH and the audit would be deferred into 2015/2016;
- Community Family and Wellbeing – monthly meetings were being held to monitor improvements being made and a new ICT solution was being put in place. It was considered appropriate to defer this into 2015/2016 to allow the work to be finalised.
- Corporate Service Planning arrangements – the development of the new Corporate Plan was underway and audit work would be undertaken in the next financial year in relation to future planning arrangements.

Three audits were also ongoing at the end of March meaning that 95% of the audit plan had been achieved. There were an additional three audits carried out during the year and sufficient audit work had been undertaken to provide an internal audit opinion on the Council's overall system of control.

The Head of Assurance, Procurement and Projects highlighted the Improvement Plan for 2015/2016 arising from the Annual Review of Corporate Governance Arrangements and it was noted that there were nine actions, some of which were already being addressed and were ongoing.

It was confirmed that Internal Audit continued to comply with the Public Sector Internal Audit Standards and that the local code of corporate governance had been reviewed and was considered to still be relevant.

The report concluded that the Council had robust and effective corporate governance arrangements in place and Members were advised that the Improvement Plan and the Annual Governance Statement would be presented to Cabinet.

Councillor Farthing referred to the recent Ofsted inspection of Safeguarding and asked if the Committee would receive a report on this. The Head of Assurance, Procurement and Projects stated that the final report was expected at the end of July and a report would come to the next meeting in September.

Councillor Forbes queried where Internal Audit now stood in relation to the review of the Sunderland Partnership and the Audit, Risk and Assurance Manager advised that this had not been rolled forward because the Risk and Assurance team had been due to do some work as part of the service review. It was possible that Internal Audit may look at this later but at the moment, it was not part of the Audit Plan. It was noted however, that issues arising from the review would be reported to the Audit and Governance Committee.

4. RESOLVED that: -

- (i) the report and updated Corporate Assurance Map be noted;
- (ii) the Improvement Plan at Appendix 1 to the report be agreed; and
- (iii) the draft Annual Governance Statement at Appendix 2 be agreed.

### **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 were informed that both the Strategic and Corporate Risk Areas had remained unchanged from the last quarter. The Head of Assurance, Procurement and Projects referred to the Strategic Risk Profile at Appendix 1 and confirmed that the headings related to risk score should read March 2015 and June 2015 rather than December 2014 and March 2015.

It was highlighted that a new element had been added to the map to take into account the Council's wholly owned companies, Sunderland Care and Support Limited and Sunderland Live Limited. Siglion and the Leisure Joint Venture would be considered within the overall Corporate Risk Areas as these were contract management arrangements and not wholly owned by the Council. There was not currently anything in the Management Assurance column but this would be completed for future maps. Finance had provided positive opinions on the companies and it was also intended to bring in performance information and Internal Audit views.

Councillor Farthing asked if the Leisure Joint Venture would come under partnerships or within the relevant service area. The Head of Assurance, Procurement and Projects advised that the outcome of assurance activity could be reflected in different risk areas depending on what was found. If assurance activity manifested any areas of concern, these may not been highlighted within the map but would form part of the narrative of the report.

The Head of Assurance, Procurement and Projects drew Members' attention to the centre of the map to highlight that there was now assurance from the ICT service in relation to ICT Strategy and Delivery. The Internal Assurance column was now

marked as red in relation to 'Partnerships' and this was in relation to work being done with the Corporate Partnership team which had found that the role of the team was not as clear as it could have been, reporting arrangements required clarification and the partnership register was not up to date. An Improvement Plan was in place to address these issues.

Work continued in relation to information governance but this was not yet sufficient to change the cumulative assurance position. However, when the positive impacts of improvement work were seen, then the position would be changed. The opinion in relation to Children's Safeguarding would remain red until the results of the Ofsted inspection were received.

The report detailed where the Risk and Assurance team were involved in major changes and projects in the Council, this included a significant amount of work in relation to Children's Safeguarding and senior officers would attend the next committee meeting to provide an update for Members.

In relation to the performance of Internal Audit, all Key Performance Indicators were being met with the exception of the percentage of audits being complete by the due date, which related to the one audit completed to date being a few days late, and the percentage of medium risk recommendations implemented which was 82%, a decrease from 83% reported at the last meeting.

Members had expressed concerns at the last meeting due to the implementation of significant recommendations being behind target and it was confirmed that immediate action had been taken to address the issue in response to the Committee's concerns.

Upon consideration of the report, it was: -

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

### **Statement of Accounts 2014/2015 (Subject to Audit)**

The Director of Finance submitted a report providing Members with a certified copy of the Council's Statement of Accounts 2014/2015 (Subject to Audit) and the draft Letters of Assurance required by the external auditor as part of the final accounts process. A further appendix to the report was circulated at the meeting to highlight minor amendments which had been made since the publication of the Statement of Accounts.

The Director of Finance advised that she would certify the Accounts by 30 June and once audited, these would be brought to the Committee to approve in September in accordance with the accounts and audit regulations. Members were asked to note the Accounts at this stage, to approve the Letter of Assurance from those charged with governance and to note the Letter of Assurance from those charged with discharging management processes.

The Committee were referred to the Foreword to the Accounts and advised that this gave a summary of the overall position and showed that the statements were compliant with the Code of Practice on Local Authority Accounting and the requirements of the Local Government Act and the Accounts and Audit Regulations.

Group Accounts had been prepared for the second financial year and these included and showed the scale of activities within the Council's Subsidiary Companies and Joint Venture arrangements it had in place in 2014/2015.

The overall budget requirement had been set out at the beginning of the financial year within the context of a prudent and robust approach and Council Tax was frozen for the fifth consecutive year. It was highlighted that £36m of savings had been achieved in setting the 2014/2015 budget through a range of service improvements which had impacted across all Council areas resulting from the Council's transformation programme and Community Leadership approach. Further in year savings had also been achieved of over £4.647m as a result of the implementation of Treasury Management policies (£1.517m) and in relation to lower draw down of Contingencies (£3.130m) where performance had been better than expected in areas such as the Port, utilities and winter maintenance. This had enabled the Council to earmark £3.998m of specific reserves to support increased pressures for some service areas and for identified one-off spending pressures, with the balance of £0.649m being transferred to the Strategic Investment Reserve to support the implementation of savings programmes in future years. The general reserve balance stood at £7.570m and the schools balance at £9.660m, but it was expected that the latter would be used in future to support planned spending commitments in schools.

The Foreword also outlined the major schemes which were being undertaken as part of the capital programme, reflecting the significant amount of resource being used to support developments in Sunderland. The overall financial health of the authority was reflected in the strong Balance Sheet which showed a net worth of £390m with cash backed reserves of £190m and long term assets of over £1billion.

The Council remained financially resilient but there were challenging requirements for the future. The outlook for Government funding continued to be challenging and there were £36m savings to be made in 2015/2016. The authority was on track to meet that savings target but further efficiencies would have to be made until at least 2020.

Councillor Speding referred to the recent publication of information by the Tax Alliance regarding the value of the Council's assets and the Director of Finance stated that the response to any questions in relation to assets could be based on what was included in the Accounts.

Councillor Forbes requested clarification in relation to PFI contracts as she noted that Council's share of the Joint Waste Disposal PFI was included within the Council's Balance Sheet on the assumption that the assets belonged to the Council at the end of the period, when she understood that the assets remained with SITA.

The Assistant Head of Financial Resources advised that Gateshead Council were the lead authority for the PFI accounting arrangements and had been treating this arrangement as a lease. However, following discussions with the external auditor, there had been a change in how this was reflected from an accounting point of view and Mazars had advised that the scheme should be placed on the Council's Balance Sheet for the duration of the contract. It was due to this accounting change that the authority's Operational Boundary for External Debt had been exceeded for 2014/2015.

Councillor Forbes went on to ask if this was a one off case and if there was any danger of being challenged in relation to the accounting arrangements. Gavin Barker stated that some of the tests applied were not always logical and related to the detailed terms of contractual arrangements but he assured the Committee that Mazars would look closely at this as part of the audit and would provide feedback through the Director of Finance.

The Assistant Head of Financial Resources added that within the Accounting Code of Practice, certain tests could be interpreted in a number of ways and qualitative judgements could turn a decision. Over the period, the PFI arrangement would be recognised as a diminishing value on the Balance Sheet and it would not be an asset belonging to the Council at the end of the 25 year period. This was a complicated area of local government finance and the external auditors had provided independent advice on the position which the Accounts for 2014/2015 reflected.

With regard to the Letters of Assurance, Councillor O'Neil asked if the banking fraud highlighted in the documents, had been dealt with. The Head of Assurance, Procurement and Projects provided a brief description of the incident and advised that the Committee had been made fully aware of this at the time when it came to light.

Having given due consideration to the report, the Committee: -

6. RESOLVED that: -

- (i) the Statement of Accounts 2014/2015 (Subject to Audit) be noted;
- (ii) the Letter of Assurance from those charged with governance be approved; and
- (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

### **Treasury Management – Review of Performance 2014/2015**

The Director of Finance submitted a report presenting the Treasury Management borrowing and investment performance for 2014/2015.

The Committee received quarterly reports updating them on the performance of the Council's Treasury Management function and this report brought together all of the information which had been presented throughout the 2014/2015 financial year.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate for Council borrowing at 3.11% was in the top quartile when benchmarked against other authorities. The rate of return achieved on investments was 0.76% for the year which was also in the top quartile against a benchmark rate of 0.36% and the Bank of England Base Rate of 0.5%.

Members were reminded of the basis of the Borrowing Strategy for 2014/2015 and that it had been reviewed by the Committee in June, September and December 2014. The strategy had agreed a benchmark financing rate of 5.00% for long term borrowing and during the year, borrowing rates had dropped below 4% and the Council had as a result taken out £50m of new borrowing as rates were considered low and opportune at the time. As a result of taking out this borrowing, the overall borrowing rate had reduced from 3.47% to 3.11% and this would have a beneficial impact on the finances of the authority.

All external borrowing and investments undertaken in 2014/2015 had been subject to the monitoring requirements of the Prudential Code and the Council had complied with the limits set for all of its Treasury Management Prudential Indicators apart from the Operational Boundary for External Debt as this had been exceeded when the value of the PFI contract for waste disposal had been brought unexpectedly onto the Council's Balance Sheet. There was no requirement to amend the Operational Boundary for 2014/2015 as the change had been made on 31 March 2015 when the financial statements were prepared, but the previously agreed 2015/2016 limits would need to be increased to reflect this accounting development. The Council remained well within its statutory Authorised Borrowing Limit for External Debt.

The Investment Strategy for 2014/2015 had been approved by the Council on 5 March 2014 and all investments placed in 2014/2015 had been in accordance with the prudent strategy agreed. The Council's Authorised Lending List and Criteria was regularly updated in the light of financial institution mergers and changes in institutions' credit ratings and also reflected the changes to the Government's guarantee scheme and the new 'Bail-in' arrangements. Changes made during 2014/2015 had been updated and reported to Members in detail as part of the quarterly Treasury Management reporting cycle.

Councillor Farthing commended the Assistant Head of Financial Resources and his team for their work in maintaining the Council's borrowing and investment performance in the top quartile and accordingly the Committee: -

7. RESOLVED that the positive Treasury Management performance for 2014/2015 be noted.

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

The Director of Finance presented a report outlining the Treasury Management performance for the first quarter of 2015/2016. The report also set out the revised Prudential Indicators for the Authorised Borrowing Limit and the Operational Boundary for External Debt and detailed the Lending List Criteria and the updated Approved Lending List.

The Council's Treasury Management function continued to look at ways of maximising financial savings and increasing investment return to the revenue budget. The Assistant Head of Financial Resources reported that PWLB borrowing rates had fluctuated in the early part of 2015/2016 but the trend appeared to be upwards and consequently, no new borrowing had been taken out to date. The position continued to be monitored closely.

The interest rate on long term borrowing was 3.50% and Sunderland remained in the top quartile for the lowest rates of borrowing. This was an increase on the rate reported in the review of performance for 2014/2015 but this was due to the way interest which had been accrued compared to the level of borrowing taken out so the rate had increased but the debt had not. There had been no debt rescheduling in 2015/2016 as rates had not been considered sufficiently favourable.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was within the limits set for all of these. The investment policy was also 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 Authorised Borrowing Limit for External Debt was originally set at £454.227m for 2015/2016 and the maximum external debt limit as at 31 May 2015 was £336.211m. The value of 'Other Long Term Liabilities' within the debt limit calculations had been £27.508m but due to the change in accounting treatment for the Waste Management PFI, this had been increased to £89.659m leading to a revised Authorised Borrowing Limit of £516.408m and a revised Operational Boundary Limit of £422.196m.

Sunderland continued to outperform the benchmark of 0.36% for the rate of return on investments and was achieving 0.91%. The Assistant Head of Financial Resources reported that performance was more positive and that interest rates were being carefully monitored and managed so that the Council could take full advantage of the expected increase in rates when it occurred.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as an appendix to the report for information.

Councillor Farthing asked if the increase in 'Other Long Term Liabilities' was just the difference in relation to the value of the PFI contract and if the International Advanced Manufacturing Park (IAMP) would be treated in a similar way. It was confirmed that the increase was purely down to the PFI scheme and that the IAMP

was being funded through grants and borrowing and was part of Sunderland's capital programme.

Upon consideration of the report, the Committee: -

8. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2015/2016 be noted;
- (ii) the revised Authorised Borrowing Limit for External Debt of £516.408m and the Operational; Boundary for External Debt Limit of £422.196m be approved; and
- (iii) the Lending List Criteria at Appendix B and the updated Approved Lending List at Appendix C be noted.

### **External Auditor – Audit Progress Report**

The Director of Finance submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to June 2015.

Gavin Barker, Senior Engagement Manager, Mazars advised that work on the audit continued to progress well and there was nothing significant to report from the interim work on financial systems. He commended Council officers for their work in producing the Accounts and stated that the auditors had maintained a good ongoing dialogue with officers throughout the process. However, Mazars were increasingly mindful of the need to bring forward the accounts and audit timetable from 2017/2018 and had tried to do more early work than they had previously in preparation for this.

Members were informed that IT specialists were carrying out a review of IT general controls in financial systems and would present a full report to the Committee in due course.

Gavin outlined proposals to establish a North East Governance Forum for Chairs and Vice-Chairs of audit committees to discuss issues and key topics and to share best practice and promote good governance. It was hoped that local authorities would find peer group discussion beneficial and there were two free places available to Sunderland City Council.

In relation to emerging issues, Gavin highlighted a recent CIPFA briefing paper on health and social care integration, noting the importance of this agenda and the opportunity it presented for efficiencies.

CIPFA had confirmed that the local authorities would be required to account for transport infrastructure assets for the first time in 2016/2017 in line with the Code of Practice on Transport Infrastructure Assets. This would make large changes to

authority's balance sheets, significantly increasing the value of assets. Mazars were already working with officers on the implementation of the new requirements.

The Director of Finance commented on the challenges being experienced around health integration and explained that it was the norm across the country to have a Better Care Fund of £21m. In Sunderland this had been approached in a different way with a pooled budget of £152m and work being done to identify ways of integration with health. The Director of Finance was pleased to report that Council and Clinical Commissioning Group had been awarded Public Sector Finance Team of the Year at the North East Accountancy Awards in recognition of this work.

Having considered the report, it was: -

9. RESOLVED that the Audit Progress Report be noted.

(Confirmed as a correct  
record on behalf of the  
Committee)

