

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held on Friday 28 April 2023 at 1.30pm in Committee Room 1, City Hall, Plater Way, Sunderland, SR1 3AA

ITEM		PAGE
1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on Friday 3 February 2023 (Copy attached.)	1
4.	Annual Governance Review/Annual Governance Statement 2022/2023 Report of the Director of Finance (copy attached).	9
5.	Risk and Assurance Map 2023/2024 Report of the Assistant Director of Assurance and Property Services (copy attached).	23
6.	Forward Plan of Reports Report of the Director of Finance (copy attached).	39
7.	Member Training and Development Report of the Director of Finance (copy attached).	43

8. **Audit Progress Report**

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Report of Mazars LLP (copy attached).

Local Government (Access to Information) (Variation) Order 2006

The reports contained in Part II of the Agenda are not for publication as the Cabinet is considered likely to exclude the public during consideration thereof as they contain exempt information relating to the financial or business affairs of any particular person (including the authority holding that information) (Local Government Act 1972, Schedule 12A, Part 1, Paragraph 3). The public interest in maintaining this exemption outweighs the public interest in disclosing the information.

Part II

ITEM

9. **Cyber Security**

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Presentation by the Chief Information Officer.

10. **Dates and Times of Next Meetings**

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The meeting schedule for 2023/2024 is as follows: -

Friday 21 July 2023 at 1.30pm
Friday 22 September 2023 at 1.30pm
Friday 2 February 2024 at 1.30pm
Friday 26 April 2024 at 1.30pm

ELAINE WAUGH

Assistant Director of Law and Governance

City Hall
Sunderland

20 April 2023

AUDIT AND GOVERNANCE COMMITTEE
Friday 3 February 2023

Present:

Mr G N Cook in the Chair

Councillors P Gibson, Nicholson and P Wood.

In Attendance:

Paul Wilson (Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Tracy Davis (Senior Manager - Assurance), Cameron Waddell (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Stewart, Councillor Trueman and Mr Knowles.

Minutes

14. RESOLVED that the minutes of the meeting of the Committee held on 4 November 2022 be confirmed as a correct record.

Risk and Assurance Map 2022/2023

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The Assistant Director of Assurance and Property Services directed Members to the Risk and Assurance Map and in doing so reminded the Committee that the Map and the Strategic and Corporate Risk Profiles had been agreed in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

There were some updates in relation the Strategic Risk Profile; the risk description for R011 had been updated to be broader than Covid-19 and now read 'Unable to control variants of the Covid virus, and other communicable diseases, which could increase the spread of the infection across Sunderland.'

Internal Audit had carried out a number of pieces of work which had led to changes to the level of assurance provided. Assurance in relation to 'Access to equitable opportunities and life chances' was new and was rated Amber but had not changed the overall assurance level of Green. Assurance on 'Partnership working' was also new and had been judged as Amber. The assurance level for 'People enjoying independent lives' had moved from Green to Amber due to an audit of Assistive Technologies and this had changed the overall assurance level to Amber.

There had been some changes to the Corporate Risk Areas as follows: -

- Additional current controls had been added to the risks relating to Health and Safety due to new activity being undertaken by the Health and Safety Team. The changes were shown in red text in Risks R036 to R039.
- In relation to R41 'ICT Infrastructure is not resilient to disasters', an additional cause had been added 'Lack of 24/7 ICT support in the event of an incident'. This was identified during a recent exercise and work was ongoing to address the situation.
- Due to a number of pieces of internal audit work, the level of assurance provided by Internal Audit had changed as follows: -
 - Strategic Planning – assurance level changed from Green to Amber due to an audit of Partnership Arrangements. This had not changed the overall assurance rating of Green.
 - Service Delivery Arrangements – assurance level changed from Amber to Green due to audit work in relation to Planning and Development Control and Highways Work Programme.
 - Partnership/Integrated Working – new assurance level from Internal Audit which was Amber. This had moved the overall assurance level from Green to Amber.

- Health and Safety – assurance rating had changed from Amber to Green due to follow up work which had confirmed all agreed actions from a previous audit had been implemented. This had not changed the overall assurance rating of Amber due to the opinion of the Health and Safety Team on the overall arrangements in the Council.

The Assistant Director of Assurance and Property Services advised that the original plan for the Council for the year included 67 audits. The Internal Audit team was currently carrying a vacancy and finding it difficult to recruit and an external public sector auditing company had been engaged to provide additional resources. However, not all of the planned audits would be able to be completed and some were no longer applicable including one for a maintained school which had converted into an academy, three grant certifications which were no longer required and two audits which were deferred into 2023/2024. It was expected that 91% of the original plan would be completed by the year end and one unplanned audit and 19 unplanned grant certifications had been undertaken.

Members were reminded that there had been eight significant risk recommendations made over three audits in the 2021/2022 audit plan. These were in relation to Corporate Business Continuity Arrangements, Cyber Security – Vulnerability Management and IT Disaster Recovery. The Committee had been updated with regard to the implementation of the recommendations at their last meeting and Internal Audit were currently undertaking follow-up work to verify that the recommendations had been implemented. Assurances had been given that management were taking action in relation to the recommendations and the Assistant Director of Assurance and Property Services had no significant concerns.

Performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Having considered the report, it was: -

15. RESOLVED that the report be noted.

Risk and Assurance Map – Consultation for 2023/2024

The Assistant Director of Assurance and Property Services submitted a report consulting the Committee on the development of the plans of work for Internal Audit and Risk and Assurance for the forthcoming year to give Members the opportunity to raise any issues which they feel should be considered in the plans.

The allocation of resources would continue to be flexible throughout the year, but there had been a number of priority areas identified for 2023/2024 as follows: -

- On-going audit work in relation to Council owned companies, such as Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Overall programme of City Development Regeneration projects
- Council's Smart Cities programme

- Council's approach to Cyber Security
- Compliance with the Asset Management Policy and Strategy
- Compliance with the Council's pay and grading model
- Compliance with the Civil Contingencies Act
- Management of Council operational proper leases
- Corporate Service Planning arrangements
- Preparation for potential devolution
- Management of vulnerable groups funding
- National Fraud Initiative and counter fraud work
- Key corporate functions/systems, particularly where significant changes/budget reductions are planned or have occurred.

Councillor Wood highlighted the reference to Cyber Security and queried to what extent the Council had a problem in this area. The Assistant Director of Assurance and Property Services advised that cyber attacks took place on a daily basis but the Council had many things in place to deflect these and good mitigation arrangements. However, as the Authority improved its defences, perpetrators also developed more sophisticated techniques and the ICT service commissioned external experts to conduct penetration testing and then report back on vulnerabilities.

The Chair suggested that it might be useful to have some further detail on this from the officer responsible.

Having considered the proposed priority work areas, it was: -

16. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2023/2024 be noted.

Treasury Management Third Quarterly Review 2022/2023

The Director of Finance submitted a report presenting the Treasury Management performance to date for the third quarter of 2022/2023 and setting out the Lending List Criteria and Approved Lending List.

The Chief Accountant highlighted that since Members last received an update in November 2022, volatility had continued in the economy with CPI inflation being over 10%. The Bank of England interest rates had risen to 3.5% in December and then 4.0% in February 2023. This was the tenth consecutive rise in interest rates and these were now at the highest level since 2008.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates had gradually risen since the start of the financial year but continued to be extremely volatile, however in line with discussions with the Council's treasury advisors, the Council had taken out £50 million of new borrowing during 2022/2023 to support the financing of the Capital Programme. The interest rate of 2.79% for a 48-year term was considered opportune at the time and would benefit the revenue budget over the longer term when compared with the current equivalent long-term rate of 4.19%. No further borrowing had been taken out in quarter 3.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 2.07% compared with a benchmark of 1.74%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. 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.

Appendix A also set out some of the forecasts for the economy and it was currently forecast that the Bank of England Base Rate would peak at 4.50% in May 2023 which was lower than the peak of 5.25% expected by the financial markets. It was projected that the Base Rate would peak and then gradually fall back to 2.50% by the end of the forecast timeframe in September 2025. It was expected that PWLB rates would remain gradually fall through to December 2025.

The Chief Accountant directed the Committee to the Investment Summary at paragraph 3.2, Appendix A which showed the fluctuation in the rates for fixed term deposits which had been up to 5.18% in September and were at 4.15% in December 2022.

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 Appendix C to the report for information. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Councillor Wood referred to paragraph 1.5 which suggested that inflation looked to have peaked at 11.1%, and he noted that it had been reported that food price inflation was running at 16%. He asked if there was an inflation rate which applied to council services.

The Director of Finance explained that this depended on the nature of the service; adult social care inflation was driven by labour costs and Together for Children were experiencing pressures on home to school transport due to fuel costs. The Port was impacted by fuel and energy costs and construction and capital projects were also affected. There was not a single inflation rate applicable to local authorities and plans to mitigate the effects were made on an individual basis.

Consideration having been given to the report, it was: -

17. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2022/2023 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Treasury Management Policy and Strategy 2023/2024 including Prudential Indicators for 2023/2024 to 2026/2027

The Director of Finance submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2023/2024. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2023/2024 to 2026/2027 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent, and sustainable. The Prudential Indicators reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2021. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Prudential and Treasury Indicators for 2022/2023 to 2026/2027 were set out in Appendix 1 and the Chief Accountant advised that the authorised limit and external boundary would increase over the next few years in line with the planned capital programme.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report; these were both unchanged from the previous year. Members of the Committee were directed to section 2.1.4 which outlined the Council's potential Borrowing Strategy and it was noted that the basis of the proposed strategy for 2023/2024 was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions are considered favourable; and
- current (January 2023) long-term PWLB rate (50 years) 4.17%, Forecast rates over the financial year 2023/2024 are 4.30% Q1, 4.20% Q2, 4.10% Q3 and 3.90% Q4. Should interest rates fall below these rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

Annex A of the report set out interest rate forecasts based on a range of intelligence sources and it was highlighted that this was still a volatile position. The Lending List Criteria and Approved Lending List were shown at Annex B and C of the report.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

18. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2023/2024 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2023/2024 to 2026/2027 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

External Auditor's Progress Report

Mazars, the Council's external auditors, had submitted a report which outlined the progress in delivering its responsibilities as the external auditors and included, at Section 2, a summary of recent reports and publications.

Cameron Waddell was in attendance to talk to the report and advised that the Whole of Government Accounts auditor's return for 2020/2021 had been submitted but detail was yet to be received from the National Audit Office on the sample components and any further work required. The audit would be formally closed when this work was fully complete.

In respect of the 2021/2022 audit, Cameron stated that the Pension Fund auditor assurance was still required and it was unclear when this would be received. The Director of Finance noted that this was not just a Sunderland, or even Tyne and Wear, issue.

The other outstanding national issue for the audit was infrastructure and progress had been made with updated guidance being issued recently and a statutory override being approved by Government in December 2022. The external auditors were working with the finance team to get assurance on this and to make the required amendments to the 2021/2022 Statement of Accounts so they could be signed off. The Value for Money Assessment would be updated following this.

Mazars had also been engaged to complete assurance work on the Teachers Pensions Return and the Housing Benefit Subsidy Assurance. There were no matters arising from either of these pieces of work.

Turning to the strategic planning for the 2022/2023 audit, Cameron advised that the approach to materiality would remain the same and the risks would also be very much the same as the previous year. The revised auditing standard was set out and it was noted that the Authority should be in a good place in relation to this.

The report highlighted a large number of recent publications from the Financial Reporting Council, CIPFA, the Public Audit Forum, National Audit Office, Public

Sector Audit Appointments Ltd and the Department for Levelling Up, Housing and Communities for the information of the Committee.
Following consideration of the report, it was: -

19. RESOLVED that progress report be noted.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

28 April 2023

**ANNUAL GOVERNANCE REVIEW / ANNUAL GOVERNANCE STATEMENT
2022/23**

Report of the Director of Finance

1. Purpose of Report

- 1.1 This report provides details of the 2022/23 Annual Governance Review, Risk and 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 are included.

2. Description of Decision

- 2.1 The Audit and Governance Committee is asked to
- note the report and Risk and Assurance Map at Appendix 1,
 - consider and agree the Improvement Plan included at Appendix 2, and
 - consider and agree the draft Annual Governance Statement at Appendix 3.

3. Background

- 3.1 In April 2022 the Committee approved the proposed Risk and Assurance Map for 2022/23 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the Council's Integrated Assurance Framework is to co-ordinate assurances that are provided by sources within the Council and external, for the Council and its wholly owned companies, Together for Children Ltd, Sunderland Care and Support Ltd and Siglion LLP. The results of this assurance work are used to review the Council and companies' corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective. This year's review has not highlighted and required amendments and therefore remains relevant. The Council is also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts, covering the Council and its companies which must be supported by a comprehensive assurance gathering process.

4. Annual Governance Review 2022/23

4.1 The review was undertaken by gathering assurance throughout the year from several sources via the Integrated Assurance Framework.

4.2 The review has considered assurance provided from:

- Assistant Directors
- Executive Directors/Directors
- Specialist functions with an oversight of governance arrangements
- Risk and Assurance
- Internal and External Audit
- Other external agencies

Risk and Assurance Map

4.3 The assurances gathered are shown in the Risk and Assurance Map which is updated and reviewed on a quarterly basis and presented to the Chief Officers and the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress updates and considered the performance of the Internal Audit team. The Risk and Assurance Map as at 31st March 2023 is shown at Appendix 1.

Strategic Risk Areas

4.4 The top section of the Map relates to the risks identified in the Strategic Risk Profile, which reflects the priorities in the City Plan. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

Assurance from Internal Audit

4.5 The Map shows the opinion of Internal Audit from work undertaken within 2022/23 and the preceding three years in relation to the Council and its wholly owned companies.

4.6 The assurance ratings from Internal Audit in relation to the strategic and corporate risk areas have been updated as appropriate throughout the year.

Assurance from Risk and Assurance

4.7 Much of the work of Risk and Assurance is ongoing over a period of time due to the nature of the role, however, where ongoing assurance can be provided, this is shown on the Map.

Assurance from others within the Council

4.8 Assurance provided from others within the Council is shown in the Risk and Assurance Map. This predominantly shows substantial assurance against the risk areas.

Assurance from Management

- 4.9 Arrangements are in place to obtain assurance from service management in a number of areas on an annual basis through the completion a governance questionnaire. The completed questionnaires have been obtained for 2022/23 and have been used to allow Executive Directors/Directors to complete an assurance statement for their areas of responsibility. The updated results have been included within the Risk and Assurance Map.

Assurance from External Sources

- 4.10 The Map includes feedback received external sources are appropriate.

Overall

- 4.11 The overall level of assurance for all risk areas is either Green or Amber.

Internal Audit Performance

- 4.12 As a result of unexpected long term sickness the Internal Audit Team has had a shortage of staff resources during the year, in addition there remains a vacant post. To assist Internal Audit with the delivery of the Audit Plan for the year an external internal audit firm has been engaged. Despite this a small number of audits have been carried forward into 2023/24 with the agreement of the Chief Officers.
- 4.13 All of the Key Performance Indicator targets set for Internal Audit for the year were achieved.
- 4.14 It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

Counter Fraud / Error Work

- 4.15 Planned counter fraud / error work was undertaken in the following areas during the year:
- BACS compliance testing
 - Income Collection
 - Land Charges
 - Benefits overpayments and recovery
- 4.16 The work carried out did not highlight any significant issues however some opportunities for improvements to the control environment were identified, which have been reported upon.

Corporate Governance Improvement Plan

- 4.17 The corporate governance improvement plan for 2022/23 included five actions. A review of progress on these actions found that all are complete.
- 4.18 As a result of this review two improvements have been identified to strengthen the arrangements and these are detailed at Appendix 2. Actions are recommended in relation to finalising the management

arrangements for services that have been temporarily transferred into Together for Children Ltd and ensuring that services plans are in place for all service areas.

Compliance with the Public Sector Internal Audit Standards

- 4.19 Internal Audit continues to comply with the Public Sector Internal Audit Standards (PSIAS) through the standards being built into audit working practices. This was confirmed during an independent review of the service by the council's external auditors Mazars in December 2018, which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

- 4.20 A further external review will be undertaken during 2023/24.

5. Draft Annual Governance Statement

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 3.

6. Conclusion / Opinion

- 6.1 This report sets out the assurance provided in the Risk and Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2023/24.
- 6.2 The opinion of the head of internal audit has been reported to the Audit and Governance Committee throughout the year. This opinion continues to be that the Council has an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to:
- Note the report and Risk and Assurance Map at Appendix 1,
 - consider and agree the Improvement Plan included at Appendix 2, and
 - consider and agree the draft Annual Governance Statement at Appendix 3.

Annual Governance Review – Improvement Plan for 2023/24

Ref	Action	COG lead	Timescale
1	Finalise the management arrangements for services which have been temporarily transferred into Together for Children Ltd.	Director of Children Services	September 2023
2	Ensure that Service Plans are in place for all services for 2023/24	All Executive Directors/Directors	June 2023

2022/23 Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

The Council is responsible for ensuring that its business, and that of its owned companies, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is in line with the 2016 Framework issued by CIPFA. This Statement explains how the Council has complied with its Code in 2022/23.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of strategic objectives and priorities and to consider whether they have led to the achievement of appropriate, cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2023 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 The City Plan sets out the vision for the City until 2030. The intentions of the vision are set out as part of a Dynamic Smart, Healthy Smart and Vibrant Smart City. The City Plan sets out explicitly the Council's planned key actions and performance targets for the future.

3.2 The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the Council's vision remains relevant and meets the needs of local communities. There are annual reviews of the Local Code of Corporate Governance to ensure that it is upto date and effective.

- 3.3 Arrangements are in place to measure the quality of services, to ensure they are delivered in line with our objectives and priorities and for ensuring that they provide value for money. There are performance management arrangements in place including regular reporting to the Chief Officer's Group and Scrutiny. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions.
- 3.4 The roles and responsibilities of Council members and employees are clearly documented. The Council's Constitution sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made. The Council's wholly owned companies have similar arrangements that set out how they will be governed.
- 3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.
- 3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:
- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants;
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees;
 - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference; and
 - consider regular reports on the Council's performance against the City Plan.
- 3.7 A range of financial and people management policies and procedures are in place. Appropriate project management standards and Business Continuity Plans are in place. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

- 3.8 The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The importance of compliance with this statement was also confirmed in Financial Management Code issued by CIPFA in 2019. The Director of Finance is designated Chief Finance Officer and fulfils this role through the following:
- Attendance at meetings of the Chief Officer Group, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
 - Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
 - Alignment of medium term business and financial planning processes;
 - Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
 - Ensuring that the finance function is resourced to be fit for purpose.
- 3.9 The Council has an Audit and Governance Committee which, as well as approving the Council's Statement of Accounts, undertakes an assurance and advisory role to:
- consider the effectiveness of the Council's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
 - receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
 - receive and consider the external audit plan;
 - review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
 - receive and consider the annual report of internal audit;
 - consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
 - ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
 - review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
 - review the adequacy of and compliance with, the Council's Treasury Management Policy; and
 - make recommendations to Cabinet or Council as appropriate.

- 3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Assistant Director of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.
- 3.11 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Assistant Director of Law and Governance show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.
- 3.12 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Council recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.13 Channels of communication have been established with the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people.
- 3.14 The Council has arrangements in place for the consistent management of partnerships through a guidance and supporting documents for all Council employees to use when involved with partnerships and supporting arrangements have been in place throughout the year.
- 3.15 Contractual arrangements with our subsidiary companies set out challenging targets around use of resources and improved outcomes.

4. REVIEW OF EFFECTIVENESS

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Risk and Assurance Map which summarises assurances gathered from all available sources in relation to the Council and its wholly owned companies, and in particular:
- Assurances from Assistant Directors who have carried out self-assessments relating to their areas of responsibility;
 - assurances from Chief Officers through completion of controls assurance statements;
 - assurances from senior officers responsible for relevant specialist areas;
 - internal audit planning processes which include consultation with all Chief Officers, and the results of audit activity as summarised in the Annual Governance Review report; and
 - the external auditor's (Mazars) work for 2021/22 has not highlighted any significant issues to date.
- 4.2 The Assistant Director of Assurance and Property Services, as the Council's head of internal audit, has directed, co-ordinated and overseen the review and its findings and proposed improvements have been reported to the Chief Officers for their consideration and approval of the Annual Governance Statement.
- 4.3 The findings of the review have been reported to the Chair of the Audit and Governance Committee in April 2023 to ensure that under their Terms of Reference the Committee has satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it before formal approval of the Statement of Accounts.
- 4.4 The outcome of the review of effectiveness provided the necessary assurance and that no significant issues across the Council or its wholly owned companies were identified.
- 4.5 We have been advised of the outcome of the review of the effectiveness of the governance framework, and that the overall arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A small number of improvement actions have been set out in an agreed improvement plan.

4.6 We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Councillor Graeme Miller
Leader of the Council

Patrick Melia
Chief Executive

Paul Wilson
Director of Finance

Dated

AUDIT AND GOVERNANCE COMMITTEE

28 April 2023

RISK AND ASSURANCE MAP 2023/2024

Report of the Assistant Director of Assurance and Property Services

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider:
- The proposed Risk and Assurance Map and the supporting plans of work for Internal Audit and Risk and Assurance for 2023/24;
 - Internal Audit's key performance measures and targets for 2023/24.
- 1.2 The report covers work undertaken for the Council and Council owned companies.

2. Current Position

- 2.1 In February 2023, the Audit and Governance Committee was asked for its comments in relation to a range of potential areas of work to support the Risk and Assurance Map for the coming year.
- 2.2 This report presents the Risk and Assurance Map for 2023/24 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and Risk and Assurance, and the performance measures for Internal Audit. Regular update reports will continue to be provided to Members throughout the rest of the year.

3. Recommendation

- 3.1 The Audit and Governance Committee is invited to note and consider the report.

Risk and Assurance Map 2023/24

1. Introduction

- 1.1 In order for the Council to ensure that it has robust arrangements for delivering its priorities, managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: good Governance, Risk Management and Assurance. The Council's Integrated Assurance Framework provides a comprehensive view on the arrangements in place within the Council.
- 1.2 This Framework enables assurances to be sourced from service management, corporate functions with an oversight role, internal audit and external sources (e.g. external audit / inspectorates) in relation to key risk areas

2. Risk and Assurance Map

- 2.1 The proposed Risk and Assurance Map for 2023/24 is shown at Appendix 1. This highlights those areas for which assurance will be provided, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into three parts, Strategic Risk Areas which align with the City Plan priorities, Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control, and companies owned by the Council.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in previous years the level of assurance provided will be updated based on the results of the work undertaken within the area and the assurance gathered from the various sources.
- 2.4 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive Directors/Directors and key senior officers across the Council. The current assurance position in relation to all key risk areas is either Amber or Green.
- 2.5 The work to be undertaken by Internal Audit and Risk and Assurance in support of the Map is shown at Appendix 2. The appendix shows all of the work that contributes to providing assurance against each risk area (some work provides assurance to more than one risk area).

3. Key Areas of Activity

- 3.1 As in previous years the level of change ongoing within the Council continues to be significant and the pressure to deliver the Council's Strategic Priorities and budget savings. The Strategic Risk Profile is driven by the City Plan.

- 3.2 The work of Risk and Assurance includes obtaining assurance on the progress in relation to the actions identified to manage risks in the Strategic Risk Profile and providing risk management support to senior managers as required.
- 3.3 The planned internal audit work for the year is shown in Appendix 2. The plan includes work on the following key areas:
- Continuing audit work in relation to the Council's Housing Service.
 - Contract Management arrangements in relation to the Council's PFI contracts and other significant contracts in place.
 - Port: Delivery of the Business Plan and Resilience to continue to service the Port's business commitments.
 - Adult Social Care assessment and support arrangements.
 - Corporate Asset Management Strategy and Compliance.
 - Protection of vulnerable adults' property.
 - Programme Management Arrangements in relation to regeneration activity.
 - Compliance with Caldicott Arrangements.
 - Audits of maintained schools are scheduled over a three-year cycle.
 - Completion of audit certificates where grant funders require verification that monies have been spent in line with grant conditions.
 - A range of audits of the Council's financial systems will be undertaken in line with an agreed 5 year rolling plan.
 - Each of the Council's companies has their own audit plan, the results of which feed into the Risk and Assurance Map.
- 3.4 Counter Fraud work will continue, including participation in the National Fraud Initiative.

4. Internal Audit

- 4.1 The Key Performance Indicators and targets that Internal Audit aim to achieve are attached at Appendix 3. The targets remain the same as the previous year.
- 4.2. It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

5. Reporting Protocols

- 5.1 Progress reports will be presented to the Committee during the year. The reports will indicate the level of assurance provided, and significant findings arising from the work undertaken.
- 5.2 An Annual Report (including the year end Risk and Assurance Map) will be prepared for the Chief Officers and Audit and Governance Committee in order to provide assurance or otherwise and enable the Annual Governance Statement to be completed.

Risk and Assurance Map – 2023/24

Strategic and Corporate Risk Areas			1st Line												
	Current Risk Score	Cumulative Assurance Position	2nd Line										3rd Line		
			Other Internal Assurance Activity										Internal Audit	External Assurance	
			Law & Governance	Financial Resources	Programmes & Projects	Performance	DPO	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance	Internal Audit	External Assurance	
Strategic Risk Areas															
Dynamic Smart City															
More and better jobs	Amber	Green										Green			
More and better housing	Amber	Green										Green	Amber		
More local people with better qualifications and skills	Red	Amber										Green			
A stronger City Centre with more businesses, housing and cultural opportunities	Red	Green										Green			
A lower carbon City with greater digital connectivity for all	Amber	Green										Green			
Healthy Smart City															
Equitable opportunities and the best life chances for children	Green	Green										Green	Amber	Green	
Reduced health inequalities enabling more people to live healthier longer lives	Red	Amber										Green			
High quality support and social care that enables those who need it to live the life they want to lead	Amber	Green										Green	Green		
Cleaner and more attractive City and neighbourhoods	Amber	Amber										Green	Amber		
Great transport links with low carbon and active travel opportunities for all	Amber	Amber										Green			
Vibrant Smart City															
Residents feeling proud of the city and please where they live with more people active and participating in their communities	Amber	Green										Green			
More people visiting Sunderland with businesses thriving and more residents shaping and participating in cultural events	Amber	Amber										Green	Amber		
More people feeling safe in their homes and neighbourhoods and businesses benefitting from the city's safe and secure environment	Amber	Amber										Green			
Residents who are more resilient to ongoing challenges including the cost-of-living crisis	Amber	Green										Green			
Enabling															
Finance	Red	Green										Green	Green	Green	
Partnership Working	Amber	Amber										Green	Amber		
Corporate Risk Areas															
Strategic Planning	Amber	Green				Green						Green			
Commissioning	Amber	Amber	Green									Green	Amber	Amber	
Service Delivery Arrangements	Amber	Amber	Green									Green	Green	Green	
Partnership/Integrated Working	Amber	Green	Green									Green	Green	Green	
Procurement	Green	Green										Green	Green	Green	
Relationship/Contract Management	Green	Green										Green	Green	Green	
Legality	Green	Green	Green	Green								Green	Green	Green	
Risk Management	Amber	Amber										Green	Amber	Amber	
Corporate Performance Management	Green	Green				Green						Green			
Financial Management	Green	Green	Green		Green							Green	Green	Green	
Income Collection	Green	Green										Green	Green	Green	
Capital Programme Management	Amber	Amber										Green	Amber	Amber	
People Management	Red	Amber	Green						Green			Green	Green	Amber	
Health and Safety	Amber	Amber	Green							Green		Green	Green	Green	
ICT Infrastructure	Amber	Amber								Green		Green	Green	Green	
Cyber Security	Amber	Amber								Green		Green	Green	Green	
Information Governance/Security	Amber	Amber	Green				Green					Green	Green	Green	
Business Continuity Management	Amber	Amber	Green								Green	Green	Green	Green	
Programme and Project Management	Amber	Amber	Green			Green						Green	Amber	Amber	
Asset Management	Red	Amber									Green	Green	Green	Green	
Anti-Fraud and Corruption	Green	Green	Green								Green	Green	Green	Green	
Council Owned Companies															
Sunderland Care and Support Ltd.	Amber	Green			Green							Green	Green	Green	
Together for Children Sunderland Ltd.	Amber	Green			Green						Green	Green	Green	Green	
Siglion LLP	Amber	Green			Green							Green	Green	Green	

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

Detailed Coverage 2023/24 – Internal Audit and Risk & Assurance

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
More and better jobs		Strategic Risk Profile Updates
More and better housing		Strategic Risk Profile Updates
More local people with better qualifications and skills		Strategic Risk Profile Updates
A stronger city centre with more businesses, housing and cultural opportunities		Strategic Risk Profile Updates
A lower carbon city with greater digital connectivity for all		Strategic Risk Profile Updates
Equitable opportunities and the best life chances for children		Strategic Risk Profile Updates
Reduced health inequalities enabling more people to live healthier longer lives		Strategic Risk Profile Updates
High quality support and social care that enables those who need it to live the life they want to lead	Adult Social Care – Assessment and Support Arrangements (18 days)	Strategic Risk Profile Updates
A cleaner and more attractive city and neighbourhoods		Strategic Risk Profile Updates
Great transport links with low carbon and active travel opportunities for all		Strategic Risk Profile Updates
Residents feeling proud of the city and please where they live with more people active and participating in their communities		Strategic Risk Profile Updates
More people visiting Sunderland with businesses thriving and more residents shaping and participating in cultural events		Strategic Risk Profile Updates

Strategic Risk Area	Internal Audit Work	Risk and Assurance Work
More people feeling safe in their homes and neighbourhoods and businesses benefitting from the city's safe and secure environment		Strategic Risk Profile Updates
Residents who are more resilient to ongoing challenges including the cost-of-living crisis		Strategic Risk Profile Updates
Finance		Strategic Risk Profile Updates
Partnership Working		Strategic Risk Profile Updates

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
Strategic Planning		
Commissioning		
Service Delivery Arrangements	Delivery of Port Business Plan (12 days) Adult Social Care – Assessment and Support Arrangements (18 days) Protection of Vulnerable Adults Property (15 days)	
Partnership/Integrated Working		
Procurement	Revenue Procurement (8 days)	Financial Assessments of bidders – as part of the procurement process
Relationship/Contract Management	Contract Management Street Lighting PFI (12 days) Contract Management Sandhill Centre PFI (12 days) Housing Repairs and Maintenance SLA (10 days) Contract Management - Key Contracts	
Legality	Protection of Vulnerable Adults Property (15 days) Regulatory Services Compliance (12 days)	
Risk Management		Update of the Strategic and Corporate Risk Profiles in line with the City Plan

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
		Risk management support to senior managers as required throughout the year on service delivery and project management issues
Corporate Performance Management		
Financial Management	<p>Public Health Agreements/Environmental Health (10 days) Compliance with Homes England Funding (8 days) Vulnerable Groups Funding Arrangements (15 days) BACS transaction testing (4 days) Payroll (15 days) Accounts Payable (10 days)</p> <p>Grants – see list below (64 days): Local Transport Capital Settlement – Highways Maintenance Local Transport Capital Settlement - Integrated Transport Local Transport Capital Settlement – Incentive Element Nexus (Combined Authority) Pothole Action Fund Holmeside Bus Rationalisation Installing Changing Places and Toilet Facilities Better Care Fund – DFG Sustainable Mobility Hub Riverside Sunderland Strategic Infrastructure Works Hillthorn Business Park Power Supply Strategic Cycle Network Sunderland Railway Station Smarter Cities Holmeside MSCP Family Hubs Start for Life 31/6341 Family Hubs Start for Life 31/6340 Family Hubs Start for Life 31/6317 Vaux LGF International Advanced Manufacturing Park</p> <p>13 Maintained School audits</p>	

Corporate Risk Area	Internal Audit Work	Risk and Assurance Work
Income Collection	Adult Social Care Income Arrangements (8 days) Accounts Receivable (10 days) Income Collection (5 days)	
Capital Programme Management		
People Management	Human Resource Case Management (15 days) Compliance with Pay and Grading Model (15 days)	
Health and Safety		
ICT Infrastructure		
Cyber Security	Cyber Security (10 days) Information Security (10 days)	
Information Governance/Security	Information Security (10 days) Compliance with Caldicott Arrangements (10 days)	
Business Continuity Management	Resilience of Port Service Business Commitments (15 days)	
Programme and Project Management	Regeneration Project Management Arrangements (15 days)	
Asset Management	Corporate Asset Management Strategy and Compliance (14 days)	
Anti-Fraud and Corruption	National Fraud Initiative BACS transaction testing Income Collection Accounts Receivable Accounts Payable Revenue Procurement Payroll Protection of Vulnerable Adults Property	

Note: Given a piece of work can contribute towards more than one risk area, audits may be shown more than once above.

Detailed Coverage 203/24 – Council Owned Companies work (for information only)

Council Owned Companies	Internal Audit Work	Risk and Assurance Work
Sunderland Care and Support	Compliance with financial procedures in establishments (10 days) Assistive Technologies Roll Out (12 days) Workforce planning (10 days) GDPR Compliance Checks (5 days) Employee Wellbeing (12 days) Relationship Management – Prescribers (15 days)	
Together for Children	Holiday and Activity Fund Grant (5 days) Interrupted Educational Pathways (15 days) Strategic Programme Management (13 days) Claremont House (5 days) Health and Safety Arrangements (15 days) Cyber Security (8 days)	
Siglion	Risk Management Arrangements (8 days) Project Management (12 days)	

Appendix 3

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2023/24		
Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas	1) All corporate risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%
	3) Percentage of audits completed by the target date	3) 85%
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported

AUDIT AND GOVERNANCE COMMITTEE

28 April 2023

PROPOSED FORWARD PLAN OF REPORTS FOR 2023/24

Report of the Director of Finance

1. Purpose of Report

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2023/24.
- 1.2 There will be four meetings of the Committee during the year (including this one) where various reports will be presented. Those expected are included within this report although there may be other ad hoc reports as required.

2. Recommendations

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.

Audit and Governance Committee

Forward Plan of Reports 2023/24

Month	Brief Description	Report of
28 th April 2023	Annual Governance Review/Annual Governance Statement 2022/23	Director of Finance
	Risk and Assurance Map 2023/24	Assistant Director of Assurance and Property Services
	Forward Plan of Reports 2023/24	Director of Finance
	Member Training and Development	Director of Finance
	Auditors Annual Report 2021/22	Director of Finance
	Audit Progress Report	External Auditor
	Audit Strategy Memorandum 2022/23	External Auditor
21 st July 2023	Annual Review on the Work of the Committee 2022/23	Director of Finance
	Treasury Management Annual Review 2022/23	Director of Finance
	Treasury Management First Quarter Review 2023/24	Director of Finance
	Council's Going Concern Status Report	Director of Finance
	Data Protection Annual Report	Data Protection Officer
	Audit Progress Report	External Auditor
22 nd September 2023	Risk and Assurance Map – Update 2023/24	Assistant Director of Assurance and Property Services
	Audited Statement of Accounts 2022/23 (including the Audit Completion Report from the External Auditor)	Director of Finance
	Treasury Management Second Quarter Review 2023/24	Director of Finance
2 nd February 2024	Risk and Assurance Map Update 2023/24	Assistant Director of Assurance and Property Services

Month	Brief Description	Report of
	Risk and Assurance Map 2024/25 Consultation	Assistant Director of Assurance and Property Services
	Public Sector Internal Audit Standards Compliance Review	Assistant Director of Assurance and Property Services
	Treasury Management Third Quarter Review 2023/24	Director of Finance
	Treasury Management Policy and Strategy 2024/25	Director of Finance
	Audit Progress Report	External Auditor
	Auditor's Annual Report 2022/23	External Auditor

AUDIT AND GOVERNANCE COMMITTEE

28 April 2023

MEMBER TRAINING AND DEVELOPMENT

Report of the Director of Finance

1. Purpose of Report

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

2. Training / Development Requirements

- 2.1 The proposed forward plan of reports that are to be presented to the Committee throughout 2023/24 is included as an agenda item for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions.
- 2.2 The draft Statement of Accounts 2022/23 will be forwarded to members upon publication and the audited Statement of Accounts will be presented at the committee meeting in September. It is therefore proposed that a briefing session be offered for members in June/July regarding the Statement of Accounts so that they can be made aware of the key areas.
- 2.3 It is also proposed for a training session for members be held in October regarding Treasury Management. The session will be delivered by the Council's Treasury Management Advisors via Microsoft Teams.

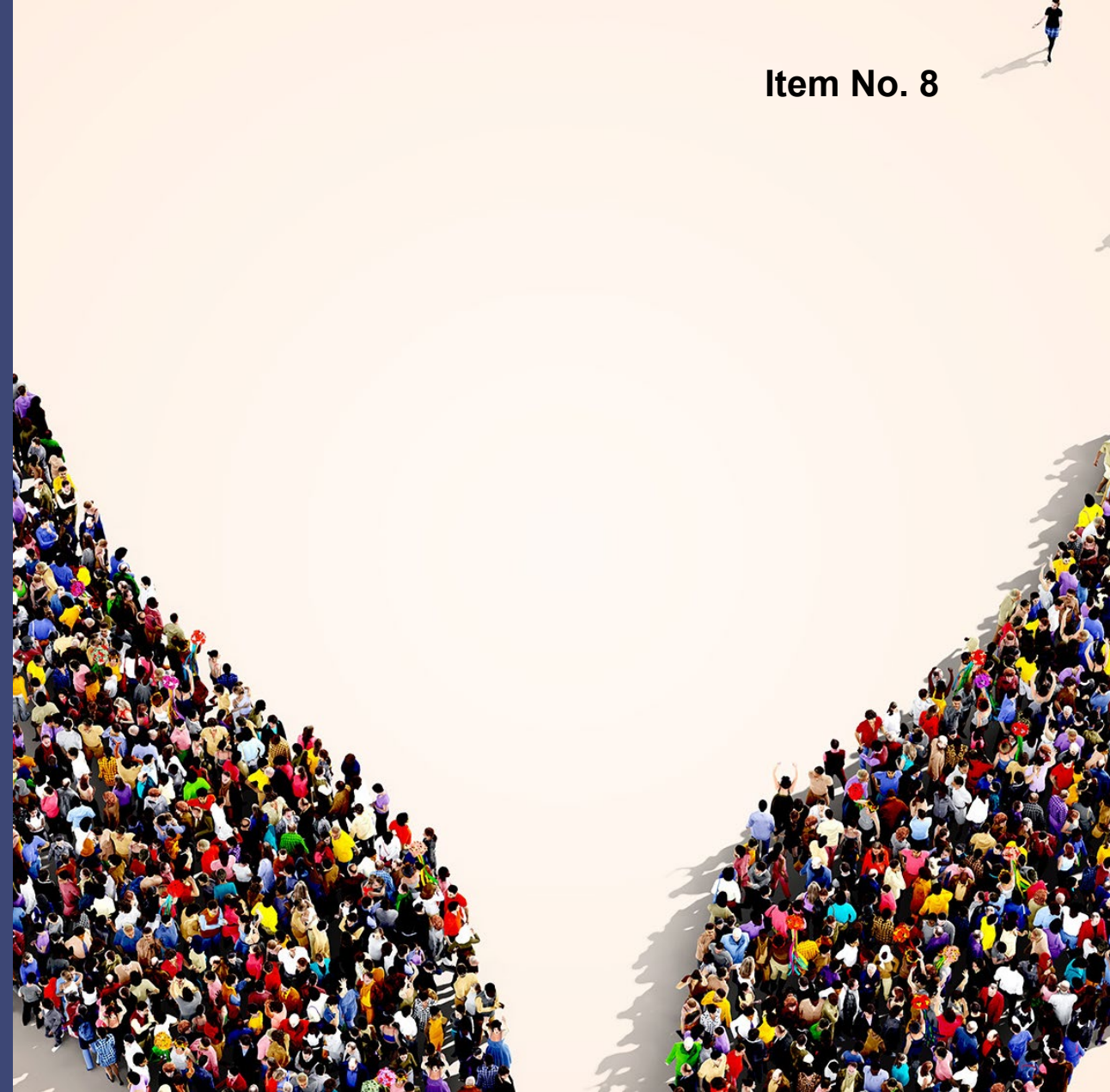
3. Recommendations

- 3.1 Members are asked to consider any areas for which they would like to receive training or awareness sessions, and:
- Agree to the offer of a briefing regarding the 2022/23 Statement of Accounts.
 - Agree to receive a training session regarding Treasury Management.
 - Suggest any further areas for training / awareness sessions required.

Audit Progress Report

Sunderland City Council

Audit and Governance Committee
April 2023



1. Audit Progress
2. National publications

01

Section 01: **Audit Progress**

1. Audit progress

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2021/22 Audit

This April progress report provides an update to the position set out in our February progress report.

Our audit of the 2021/22 financial statements is virtually complete. Since our last progress report, we have received the Pension Fund auditor assurance which did not highlight any significant issues. We will report our formal findings, as in previous years, in a follow-up letter to our Audit Completion Report.

2022/23 Audit

Significant risks and our planned testing approach for the 2022/23 audit are set out in the following pages.

There is a change of Engagement Lead for 2022/23; due to rotation rules Cameron Waddell will be replaced by Mark Kirkham.

In summary, there are no new significant risks to highlight to the Committee for 2022/23 and no new independence issues we are required to report to you, noting that our risk assessment is continuous, right up until when the auditor's opinion is given. We will update our risk assessment upon receipt of the draft 2022/23 financial statements and will report any changes to this Committee.

Audit scope, approach and timeline

Under the Accounts and Audit Regulations, the Council is required to publish its draft statement of accounts for 2022/23 by the end of May and publish audited statements by the end of September. The timetable is subject to a number of assumptions and we will update the Committee on any significant changes that we agree with the Council.

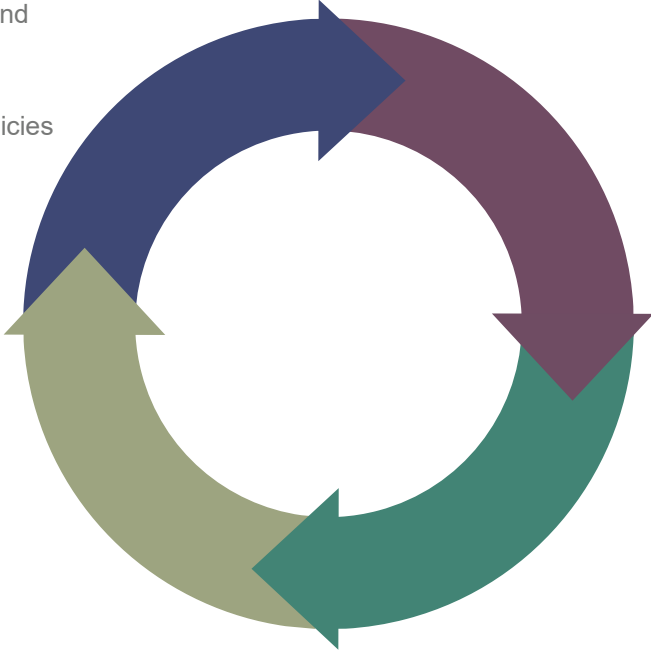
Planning January-March

- Planning visit and developing our understanding of the Council and Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion September*

- Final review and disclosure checklist of financial statements
- Final review of the financial statements by our technical team (required for larger audits)
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit and Governance Committee
- Reviewing subsequent events
- Signing the auditor's report

* depending on timing of receipt of the Pension Fund auditor assurance



Interim March-April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork July-September*

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

*subject to receipt of the financial statements at the beginning of July

Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures. Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no material service organisations to consider for this Council.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	We use the National Audit Office's (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	Internal Valuer	We will take into account relevant information which is available from third parties. If required, we can engage our own internal valuation expert; this would be dependent on any specific valuation issues arising during the audit.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.

Significant risks and other key judgement areas

Following our risk assessment, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

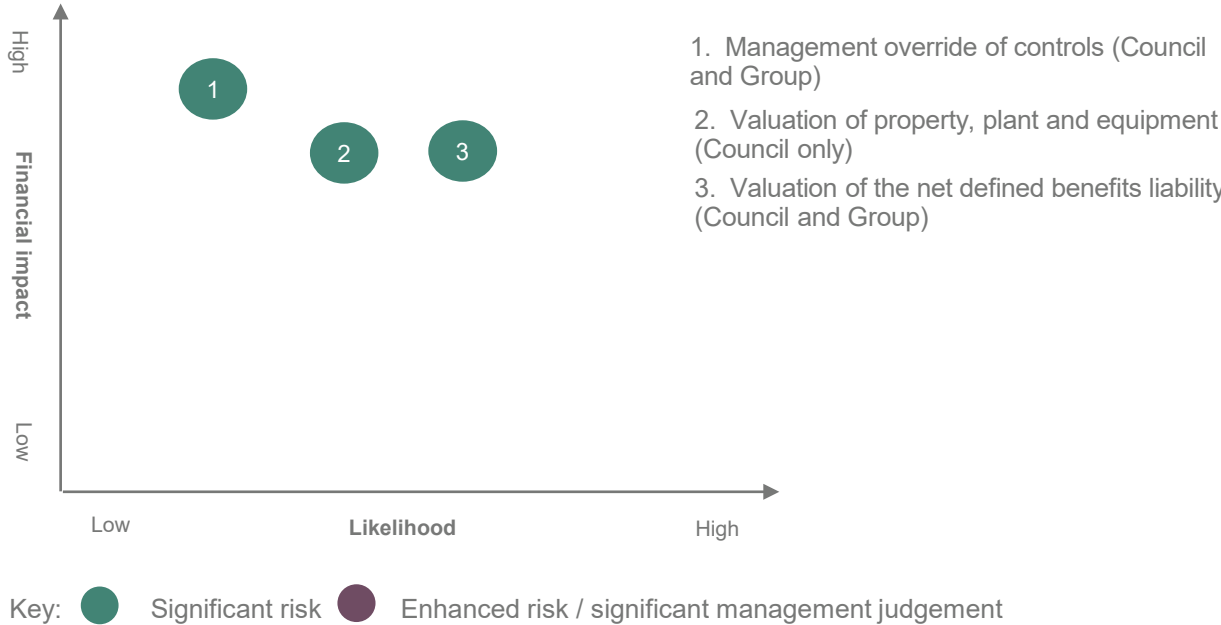
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council and Group. We have summarised our audit response to these risks on the following pages.



Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls (Council and Group)</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	<p>We will undertake substantive procedures including:</p> <ul style="list-style-type: none"> making enquiries of senior officers involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; recording the Council’s financial reporting processes and controls over journal entries and other adjustments and performing a walkthrough of such controls; determining risk based fraud characteristics for journals and testing such journals; testing journals made by the Council in the preparation of the financial statements and post closing journals; critically reviewing accounting estimates and the judgements and decisions made by management in arriving at estimates to ensure there has been no manipulation of results; considering any significant transactions outside the normal course of business; and critically reviewing the selection and application of accounting policies.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Valuation of property, plant and equipment (Council)</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility).</p> <p>The Council employs valuation expert(s) to provide information on valuations but there remains a high degree of estimation uncertainty because of the significant judgements and number of variables involved.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers; substantively test a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; liaise with the Council's Internal Valuer, to understand their approach; where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Net defined benefit liability valuation (Council and Group)</p> <p>The financial statements contain material pension entries in respect of retirement benefits.</p> <p>The calculation of the net pensions liability, made up of the gross pension assets and gross pension liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; critically assess the competency, objectivity and independence of the Actuary; liaise with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively; review a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets. review the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information. compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements; and critically review the component auditor's work in respect of the Together for Children's pensions liability which is consolidated in the group financial statements.

Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

Our assessment of group materiality is set out in section 8.

Assessment of components

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised overleaf.

Nature of work

Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

Components being treated as 'significant' and subject to a full scope audit or specific audit procedures are:

- the Council;
- Together for Children (TfC); and
- Sunderland Lifestyle Partnership (SLP - leisure assets).

Group analytical procedures will be carried out for the remaining components; the objective of the analytical procedures is to critically corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

Audit scope, approach and timeline

Group audit approach (continued)

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
Sunderland City Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full scope audit – ultimate parent.
Together for Children Limited (TfC)	Subsidiary 100% owned by the Council for the provision of children’s services.	Robson Laidler LLP	Yes	No	Significant component; full scope audit. Material transactions and balances; income and expenditure is borderline with our 15% benchmark, therefore, classed as a significant component. Pensions liability balance upon consolidation is greater than the group headline materiality and is relevant to the significant pensions risk already identified. Group audit instructions issued to the component auditor.
Sunderland Lifestyle Partnership (SLP)	Joint venture providing leisure services.	RSM LLP	Yes*	No	*Material but not significant component: due to consolidation adjustments resulting in a financial statement area which is greater than 15% of the relevant financial statement area. No assurance required from the component auditor.
Sunderland Care and Support Limited (SCAS)	Subsidiary 100% owned by the Council for the provision of social care, health and support services.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
Siglion LLP – Developments and Investments companies	Subsidiary 100% owned by the Council - development and management of a portfolio of commercial and residential land locally.	Robson Laidler LLP	No	No	Material transactions and balances; none greater than the benchmarks upon consolidation on a line by line basis.
IAMP LLP	Joint venture with South Tyneside Metropolitan Borough Council for the development of an international advanced manufacturing park (IAMP).	Robson Laidler LLP	No	No	Expectation is that no transactions or balances will be greater than the benchmarks upon consolidation.

Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group initial threshold £'000s	Single entity initial threshold £'000s
Overall materiality	16,172	15,324
Performance materiality	12,937	12,259
Trivial threshold for errors to be reported to the Audit and Governance Committee	485	460

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors. Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

Materiality and misstatements

Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the net cost of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee. We consider that the gross expenditure at the net cost of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the benchmark. Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £15 million for the Council (£13.5 million in the prior year at the planning stage) and £16 million for the Group (£14.5 million in the prior year at the planning stage).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a

level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.485 million for the Group and £0.436 million for the Council based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

Group materiality for components

In the context of a group audit, materiality is established for both the group financial statements as a whole and for the financial information of components. Component materiality is determined for those components whose financial information will be audited as part of the group audit.

- **Together for Children (TfC) component materiality:** estimated as £2.5 million, being 2% of total expenditure. However, where a component is subject to audit itself, use can be made of the component auditor's materiality, as long as it is lower than our calculated component materiality. This is the case for TfC, therefore, we will make use of their auditor's calculation of materiality.
- **Sunderland Lifestyle Partnership component materiality:** as set out in the audit scope section, this component is being treated as a material but not significant component as a result of a material financial statement area for which we will obtain assurance via specific procedures on the accounting consolidation adjustment. Therefore, we do not need to issue group audit instructions to this component or specify component materiality.

Reporting to the Audit Governance Committee

The following three types of audit differences above the trivial threshold will be presented:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

Value for money arrangements

The framework for our work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

We undertake our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility is to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services.
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks.
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none">• NAO guidance and supporting information;• information from internal and external sources including regulators;• knowledge from previous audits and other audit work undertaken in the year; and• interviews and discussions with staff and Members.
Additional risk based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

5. Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Governance Committee, if any arise, as part of our continuous risk assessment procedures.

02

Section 02:

National publications

National publications

	Publication/update	Key points
National Audit Office (NAO)		
1	Tackling fraud and corruption against local government (March 2023)	Outside of tax and welfare, government still lacks robust assessments of where and what its fraud risks are, and most public bodies cannot demonstrate that they have counter-fraud resources commensurate with the risk.
Local Government Association		
2	Local Leadership Framework for Councillors (March 23)	The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

NATIONAL PUBLICATIONS

NATIONAL AUDIT OFFICE (NAO)

1. Tackling fraud and corruption against local government (March 2023)

This report focuses on fraud and corruption against government and, therefore, the taxpayer.

The report sets out that government has made some progress since the NAO last reported in 2016. It has established the Government Counter Fraud Function (GCFF) and the Government Counter Fraud Profession (GCFP). More recently it established the Public Sector Fraud Authority (PSFA) to improve its understanding of fraud attacks against government and to improve the standards of the counter-fraud function and profession.

However, outside of tax and welfare, government still lacks robust assessments of where and what its fraud risks are, and most public bodies cannot demonstrate that they have counter-fraud resources commensurate with the risk.

The creation of the PSFA presents the opportunity for a renewed focus on fraud and corruption.

The report includes:

- types of fraud and corruption risks across government and where they have been measured; and
- good practice guidance relevant to tackling fraud and corruption against government.

<https://www.nao.org.uk/reports/tackling-fraud-and-corruption-against-government/>

NATIONAL PUBLICATIONS

LOCAL GOVERNMENT ASSOCIATION (LGA)

2. Local Leadership Framework for Councillors (March 23)

The purpose of this framework is to support councillors in their local leadership role as they work with local communities to make a difference. It includes suggestions, prompts and further resources.

The framework builds on the roles and skills set out in 'The 21st-century Councillor' research report – which sets out seven key future roles for councillors. These show how councillors are adapting to a series of new challenges such as perma-austerity, evolving citizen expectations, new technologies, different scales of working and the changing organisation of public services at local level. The leadership skills in this framework will enable councillors to fulfil the 'seven roles of the 21st-century councillor', identified in the research report namely:

- steward of place – working across the local area in partnership with others
- advocate – acting to represent the interests of all citizens
- buffer – seeking to mitigate the impact of austerity on citizens
- sensemaker – translating a shift in the role of public services and the relationship between institutions and citizen
- catalyst – enabling citizens to do things for themselves, having new conversations about what is now possible
- entrepreneur – working with citizens and partners to encourage local vitality and identify creative new solutions
- orchestrator – helping broker relationships, work with partners and develop new connections.

<https://www.local.gov.uk/publications/local-leadership-framework-councillors#about-this-framework>

Contact

Mazars

Partner: Mark Kirkham

Email: mark.kirkham@mazars.co.uk

Manager: Diane Harold

Email: diane.harold@mazars.co.uk

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