

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on Friday 16 December 2016 at 1.30pm

ITEM	PAGE
1. Receipt of Declarations of Interest (if any)	
2. Apologies	
3. Minutes of the Meeting of the Committee held on 30 September 2016 (Copy attached.)	1
4. Corporate Assurance Map 2016/2017 – Update Report of the Head of Assurance, Procurement and Project Management (copy attached).	11
5. Updated Corporate Assurance Map Report of the Head of Assurance, Procurement and Project Management (copy attached).	33
6. Corporate Assurance Map Consultation for 2017/2018 Report of the Head of Assurance, Procurement and Project Management (copy attached).	47
7. Treasury Management 2016/2017 – Third Quarterly Review Report of the Interim Director of Corporate Services (copy attached).	49

For further information and assistance, please contact:

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8.	Annual Audit Letter 2015/2016	65
	Report of the Interim Director of Corporate Services (copy attached).	
9.	External Auditor Progress Report	83
	Report of Mazars LLP (copy attached).	

ELAINE WAUGH
Head of Law and Governance

Civic Centre
Sunderland

7 December 2016

AUDIT AND GOVERNANCE COMMITTEE
Friday 30 September 2016

Present:

Mr G N Cook

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

In Attendance:

Barry Scarr (Interim Director of Corporate Services), Alex Hopkins (Director of Children's Services), Sarah Reed (Assistant Chief Executive), Paul Davies (Head of Assurance, Procurement and Projects), Liz St Louis (Head of Customer Service and Development), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), James Magog (Strategic Finance Manager), Mark Kirkham (Mazars), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Speding.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 24 June 2016 be confirmed as a correct record.

Liz St Louis, Head of Customer Service and Development, was in attendance to provide a further update on business continuity and disaster recovery activities.

Liz reported that there had been a major incident in recent weeks and IT systems in the Council had been badly affected but access had been restored to users in accordance with the Business Continuity and Disaster Recovery register.

The Technical Planning Board had agreed the scope of the testing regime and which systems would be included. Four major applications would be tested: telephony/VOIP; Telecare 247; SWIFT; and finance systems. There would be a three

month testing cycle with the exception of Telecare which was to be tested monthly and had been tested successfully the previous night.

The Interim Director of Corporate Services commented that it was positive that the Council was able to recover so quickly from the major incident. There was now an opportunity to review what had been learned from the incident and a lessons learned report would be brought to the Audit and Governance Committee in the New Year.

The Chair thanked Liz for her update and looked forward to receiving the report on the major incident response.

Alex Hopkins, the new Director of Children's Services was welcomed to the Committee and he advised that he intended to outline where the directorate was in terms of improvement, the development of the new company and the key challenges and risks for the future.

Alex stated that there had been a huge amount of work undertaken in the last year and highlighted that when children's services required this level of improvement then it was the whole system which had to be addressed.

Ofsted were carrying out a series of monitoring visits or 'mini- inspections' and these were mainly case-based and were assessing the quality of case work on the ground. Over the summer period Ofsted had looked at the services for care leavers in Sunderland which was a total caseload of 150 young people. The lead for the monitoring visit was also the lead inspector for the original inspection and the outcome of the visit had been very positive and there was real evidence of progress in local authority services for care leavers.

It was found that staff felt more confident and supported and all young people felt safe and supported where they were living and there was a good range of housing options in place. The number of care leavers with a pathway plan had been 69% in November 2015 and this had risen to 89% in June 2016. The care leavers' service had been in touch with 30% of care leavers at the time of the inspection and this had now risen to 82%.

Alex highlighted some of the key areas for further improvement noting that case recording needed to be better, as did the quality of plans. Management oversight and challenge were also to be further developed along with health passports which needed to be managed better by the NHS. Staff had been nervous about the visit before it took place but all had reported it as being a positive experience. The next monitoring visit would take place in November.

The Secretary of State had agreed to the signing of a Memorandum of Understanding between the Council and the Department for Education with regard to the new children's company and there was a possible date for a ministerial visit. The scope and scale of the company and the support services required in order to make the organisation sustainable and independent from the local authority were currently being worked through. The company would exist in shadow form from October 2016 and work would take place in relation to contract development and budget negotiations. The company would go live on 1 April 2017.

Turning to the challenges and risks moving forward, Alex highlighted that recruitment and retention of staff was still an issue with a continued over reliance on agency workers, especially at the front end of child protection work. New members of staff were joining Sunderland from within the region but the process would take time, however it was hoped that recruitment would be influenced by existing social workers spreading the word about the improvements which were being made. A large amount of work had been done around compliance and it was now necessary to look at quality. It was noted that recent IT issues may impact on performance.

Councillor Wright commented that the Scrutiny Coordinating Committee had visited staff from the Next Steps care leavers' service and it had been a very worthwhile visit. She agreed that the staff did seem to be in a better place and elected Members had felt that an open and honest discussion had taken place and the new management approach was more open and accessible.

The Scrutiny Coordinating Committee had noted that there was a potential opportunity regarding Together for Children moving forward. There had been substantial investment in the service and a fall in caseloads but administrative work did serve to divert staff from their caseload. It was strongly felt that the IT system was not fit for purpose and it was hoped that this would change during the next year. There was also a benefit in moving the service from Sandhill to the city centre as this was more accessible for young people.

With regard to accommodation choices for care leavers, Councillor Wright commented that this had definitely improved but there was a concern about emergency situations. It was noted that the bed and breakfast accommodation had been used in the past and this was no longer the case. Whilst Members were aware that bed and breakfast accommodation was not ideal, they felt it would be better to have this available than having nothing.

Alex Hopkins stated that the Liquid Logic IT system which was coming on stream would lead to big changes in case management and the new location for the leaving care service meant that the door was always open for young people. He added that standards and expectations were being re-set in relation to emergency placements and emergency provision was currently being developed. It was not acceptable to place young people in a bed and breakfast except in extreme circumstances.

The Chair thanked Alex for his comprehensive report.

Update on Key Issues

Sarah Reed, Assistant Chief Executive, delivered a presentation to the Committee on the key issues facing the Council.

The Council was managing a difficult budget situation and managing demand for services. As the Council contracted in size, it would have a greater focus on commissioning services. Joint arrangements would still exist and the Council would have a role as an influencer and shaper. The Council itself was changing shape and

there would be a restructure of senior management and a review of governance arrangements around decision making and partnerships.

External considerations included growing the business base of the city, focusing on education and skills, house building and employment levels. The Council also had to champion local concerns in the environment of the Combined Authority, devolution, Brexit and other public sector reform. Developments in the public sector included NHS Sustainability and Transformation plans, the 16-24 education review and blue light services.

The Council was currently pulling together its Corporate Plan and three key priorities had been identified through which the Council was most able to positively influence outcomes for Sunderland, its residents, communities and businesses. These were: Regenerating the city; Safeguarding our residents; and Future Council. Using an evidence based approach and strong performance management it would be assessed how the key issues fitted into the key priorities. The Corporate Plan would be underpinned with operating plans which set out clearly the responsibilities of officers and members.

Having thanked Sarah for her presentation, it was: -

10. RESOLVED that the update be noted.

Corporate Assurance Map 2016/2017 – Update

The Head of Assurance, Procurement and Projects presented the updated Corporate Assurance Map which had been reviewed based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year and the performance of Internal Audit.

Members were directed to the map itself and it highlighted that the assurance position for the Strategic Risk Areas had not changed but on this occasion there was no detailed appendix for this as the new Strategic Risk Profile would be considered elsewhere on the agenda.

The Head of Assurance, Procurement and Projects drew attention to the Internal Audit opinion in relation to legality, highlighting that this had changed from green to amber. This was due to limited assurance being provided on arrangements for ensuring staff had clearances from the Disclosure and Barring Service and that social workers' practising certificates were kept up to date. This matter had been discussed at the Executive Management Team and would be followed up in the next quarter and if progress was not made then the relevant senior officers would be invited to attend the Committee.

Internal Audit had also recorded limited assurance in relation to Information Governance and the Committee were advised that recommendations regarding a small number of emails being sent to outside organisations containing confidential information without being adequately protected had been followed up by the team and it had been found that the majority had not been effectively implemented. This

had also been discussed at the Executive Management Team and would continue to be monitored.

All other areas which were marked in red had been so on previous iterations of the map and were related to the findings of the Ofsted review of Children's Services, the ICT plan and business continuity.

The work of the Risk and Assurance Team was set out within the report and it was highlighted that the team was involved in all areas of major change within the Council. With regard to Key Performance Indicators, these were on target with the exception of the percentage of significant risk recommendations implemented by the due date which stood at 91% against a target of 100% and medium risk recommendations which were 87% for Council services and 79% for schools against a target of 90%.

Having considered the report, it was: -

11. RESOLVED that the updated Corporate Assurance Map 2016/2017 be noted.

Strategic Risk Profile

The Interim Director of Corporate Services submitted a report setting out the process for developing a new Strategic Risk Profile for the Council and seeking Members' agreement for the new profile.

The current Strategic Risk Profile had been developed in 2012 and based on the Corporate Plan which was in place at the time. The Council had developed a new Corporate Plan over recent months which set out its priorities and key actions for their improvement and the new Strategic Risk Profile had therefore been developed in line with the new Corporate Plan.

The Head of Assurance, Procurement and Projects advised that meetings had been held with each Chief Officer to identify risks, causes and impacts, evaluate the risks and develop mitigating actions. These were then subject to a quality assurance review by the Interim Director of Corporate Services and the Assistant Chief Executive.

The Strategic Risk Profile referred only to risks in the Corporate Plan, day to day operational risks would be reflected in the Corporate Risk Profile which was also being developed and would be brought to the next Committee meeting. Following the completion of the profiles, the Corporate Assurance Map would be updated to reflect the new risk areas.

The Head of Assurance, Procurement and Projects guided Members through the revised profile highlighting that the priority actions from the Corporate Plan were listed on the left hand side of the profile and the description of the strategic risk was how the relevant Executive Director viewed the risk and the cause and impact if the risk materialised. The target risk score showed where the Council wanted to get to and the mitigating actions were the means by which this would be achieved.

Progress against the targets would be included within the appendix to the Corporate Assurance Map and changes would be reflected over time.

The Chair commented that he found the Strategic Risk Profile to be very straightforward and an improvement on the previous version. He also noted that the Committee needed to monitor the final column which set out the timescales and welcomed that the profile would be a living document and updated every time it was brought to the Committee.

Mr Knowles stated that he was particularly pleased to see that improving health and wellbeing was one of the Corporate Plan priorities and noted that the Vanguard was vitally important and needed to be monitored.

Following consideration of the new profile, it was: -

12. RESOLVED that the Strategic Risk Profile be approved.

Public Sector Auditor Appointments

The Interim Director of Corporate Services submitted a report setting out the options for appointing external auditors and seeking approval for the Interim Executive Director, in consultation with the Chair of the Committee, to make a recommendation to the Council in this regard.

The Committee had considered a report at its meeting in December 2015 which set out the options for the Council to appoint its external auditors from 1 April 2018. The three options were as follows: -

- Make a stand alone appointment
- Establish a joint Auditor Panel/local joint procurement arrangements
- Opt into a sector led body arrangement

There were positives and negatives with each option but at this stage the preferred approach was to opt into the national sector led body, Public Sector Audit Appointment Limited, who would procure and manage the relationship with auditors on behalf of local authorities. Since the report had been written a number of other local authorities in the region had expressed a preference for this option.

The decision on the preferred option had to be made by the full Council before the end of 2016 and due to the timescales involved the Committee was asked to agree that the Interim Director of Corporate Services make a recommendation to Council having taken account of the regional position.

It was therefore: -

13. RESOLVED that the Director of Corporate Services, in consultation with the Chair of the Committee, make a recommendation to the Council on the appointment of external auditors with effect from 1 April 2018.

Audited Statement of Accounts 2015/2016

The Interim Director of Corporate Services submitted a report presenting the Letter of Representation for 2015/2016, the Audit Completion Report from Mazars LLP and providing an audited Statement of Accounts for 2015/2016. An appendix was tabled at the meeting setting out minor amendments to the Statement of Accounts and these would be included within the final version of the document.

The Section 151 Officer was required to prepare a formal Letter of Representation setting out the principles used in preparing the accounts and providing the external auditor with the necessary assurances required by regulation.

Mazars LLP had audited the financial statements of the Authority in accordance with the relevant regulations and standards and had produced their Audit Completion Report. Mark Kirkham and Gavin Barker were in attendance to present the Audit Completion Report.

Mark Kirkham advised that they had found that the Council had good arrangements in place and there was a low error rate within the accounts document. In relation to the Value for Money conclusion, the auditors would issue a qualified opinion due to the inadequate judgement from Ofsted on the Council's Children's Services. This was the same position as the previous financial year and Mazars would be unable to issue an unqualified audit opinion until Ofsted provided the Council with a positive inspection report.

Gavin Barker directed Members to the findings of the audit and highlighted that these included the conclusions regarding the significant risks which had been outlined in the Audit Strategy Memorandum. The first significant risk was 'management override of controls' and detailed testing had been carried out to address the risk and had provided the assurance which the auditor had sought.

The other significant risk had been in relation to pension entries and significant procedures had been undertaken with regard to this highly technical and complex area. Assurance had now been received from the auditors of the Tyne and Wear Pension Fund and there were no issues highlighted to bring to Members' attention.

The Council had made an adjustment to the group accounts in relation to the leisure joint venture to recognise the Council's share of the net asset value of the leisure joint venture company and Mazars were satisfied with this outcome.

There had been no internal control recommendations and there were a number of misstatements identified for adjustment, however this was a minimal number given the complexity of the accounts and reflected the Council's comprehensive approach. Gavin highlighted that the external auditors had an excellent working relationship with Council officers and were able to ask questions at all stages of the process.

The Committee were advised that there had been new criteria and a new approach this year for the value for money assessment and two significant risks had been identified in relation to this; responding to financial pressures and children's safeguarding services.

Gavin commented that the Council had a good record of delivering in difficult circumstances but it was acknowledged that this would be getting more and more difficult and would become more noticeable in service delivery, however the Council continued to manage the risks well. The Council's Corporate Plan was a good document, setting out key priorities and demonstrating that the authority was trying to look at things differently under austerity. The restructure proposals provide much needed clarity, together with the Corporate Plan and the refresh of the performance management framework. There were a large number of key challenges for the future and it was easy to see how these fitted in with the priorities outlined in the Corporate Plan.

Gavin concluded by saying that the auditors intended to issue an unqualified audit opinion and would issue an audit certificate once the Whole of Government Accounts return was completed and this was expected to happen sometime during the next week.

Councillor Wright endorsed the report and complimented the Council staff for their work in this period of unprecedented funding cuts. She made reference to the Procurement Strategy which was currently being refreshed and asked how long this process would take and queried how many equal pay claims remained outstanding and likely timescale for them to be resolved.

The Head of Assurance, Procurement and Projects stated that the initial draft Procurement Strategy had been reviewed and would be considered by the Interim Executive Director in the next few weeks with a view to it being finalised by the end of the year.

The Interim Executive Director advised that where equal pay claims had already been launched then these would be settled, however there was an open liability for those who could claim but had not done so as yet.

The Chair having thanked the external auditors for their report, it was: -

14. RESOLVED that: -

- (i) the contents of the Letter of Representation be noted;
- (ii) the contents of the Audit Completion Report provided by Mazars LLP be noted; and
- (iii) the Amended Audited Statement of Accounts for the financial year ended 31 March 2016 be approved.

Treasury Management – Second Quarterly Review 2016/2017

The Director of Corporate Services presented a report outlining the Treasury Management performance for the second quarter of 2016/2017 and setting out the Lending List Criteria and Approved Lending List.

The Assistant Head of Financial Resources highlighted that the Treasury Management performance continued to be positive despite the current uncertainty in financial markets. The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. The Committee were advised that PWLB rates had fluctuated throughout 2015/2016 and continued to be volatile. It was forecast that the impact of the Brexit vote and low levels of economic growth would mean that PWLB rates would remain low into the medium term. It had been decided to take advantage of these low rates to borrow £20m to support the Council's Capital Programme requirements with £10m being taken out at a rate of 2.55% prior to Brexit and another £10m at 2.15% afterwards.

The Council's interest rate on borrowing was very low, currently 3.34% and was the lowest rate in the country. The rate of return on investments was 0.83% compared with a benchmark of 0.32% and the Assistant Head of Financial Resources advised that this rate had dropped and was likely to continue on a downward trend following the Bank of England's decision to cut the base rate and as a consequence of Brexit. The Interim Director of Corporate Services advised that the authority was likely to maximise internal borrowing during the next year.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as an appendix to the report for information. The Committee were informed that credit rating agencies Fitch and Standard and Poor's had reduced the UK's credit rating and this had led to a change in the Lending List Criteria for Government backed institutions.

15. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2016/2017 be noted; and
- (ii) the changes to the Lending List Criteria set out at Appendix B be approved;
- (iii) the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Retirement of Dennis Napier, Assistant Head of Financial Resources

The Chair took the opportunity to thank Dennis Napier on behalf of the Committee for his contribution and valued support over the years and wished him well for the future and in his retirement.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

16 December 2016

CORPORATE ASSURANCE MAP – UPDATE

Report of the Head of Assurance, Procurement and Performance Management

1. Purpose of Report

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year; and the performance of Internal Audit.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

3. Background

- 3.1 In March 2016 the Committee approved the proposed Corporate Assurance Map for 2016/17 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

4. Updated Corporate Assurance Map

- 4.1 The updated Corporate Assurance Map, as at 5th December 2016, is shown overleaf.
- 4.2 The Map also shows assurance received in relation to the Council's wholly owned companies, Sunderland Care and Support Ltd and Sunderland Live Ltd.

Corporate Assurance Map

Assurance Position (Cumulative)		2016/17									
		1st Line	2nd Line							3rd Line	
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR & OD	Business Continuity	Risk and Assurance	
Strategic Risk Areas											
Current Risk	Residual Risk										
People										X	
Place										X	
Economy										X	
Organisational				X						X	X
Corporate Risk Areas											
Customer Focus / Service		X				X				X	X
Legality		X	X							X	X
Service / Business Planning		X				X				X	X
Programme and Project Management		X			X					X	X
Partnerships		X								X	X
Business Continuity Planning		X							X	X	X
Procurement		X								X	X
Relationship and Contract Management		X								X	X
Financial Management		X		X						X	X
Human Resource Management		X						X		X	X
Information Governance		X	X							X	X
Performance Management		X				X				X	X
Asset Management		X								X	X
ICT Strategy and Delivery		X					X			X	X
Fraud and Corruption		X									X
Risk Management (Service Delivery)		X								X	X
Schools		X		X						X	X
Wholly Owned Companies											
Sunderland Care and Support Ltd		X		X		X				X	X
Sunderland Live Ltd		X		X		X				X	X

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

Strategic Risk Areas

- 4.3 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. A refresh of the Strategic Risk Profile has been completed and a new Corporate Risk Profile has also been developed and is presented later on this Agenda along with proposals to update the Map to reflect this for future meetings. Therefore the previous Risk Profile has not been included as an Appendix to this report.

Assurance from Internal Audit

- 4.4 The audits to be carried out this year and the detailed results of Internal Audit work are shown at Appendix 1, with the summary outcomes shown on the Map. Appendix 1 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level. Those audits shown in grey are those in previous year's where it became not appropriate to complete the audit at that time or in that way.

At the last meeting it was reported that limited assurance had been provided on the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date. Recent follow up work has confirmed that these arrangements have significantly improved and action has been taken to address the situation where staff did not have the appropriate clearances. The assurance level for this audit has been moved to Amber and the overall level for Legality remains Amber and will be reviewed once further follow-up work has been undertaken to confirm the improved arrangements are embedded.

The last report in September highlighted issues regarding the use of email to send sensitive / confidential information. Recent checks have shown that there has been a significant improvement in the situation with a small number of issues remaining. One outstanding issue relates to a significant recommendation to ensure that relevant staff have GCSX email accounts set up. The assurance rating for this audit has therefore changed from Red to Amber

Assurance from Risk and Assurance Team

- 4.5 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 2. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:
- Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3 and the International Advanced Manufacturing Park.
 - Delivery of the Children's Services Improvement Plan and preparation for the set-up of the new company, Together for Children.

- Risks in relation ICT business objectives, including disaster recovery/business continuity.
- Replacement of the SWIFT ICT system.
- Information Governance.
- Adults Safeguarding Board, and Personal Budgets/Direct Payments

4.6 At the last meeting of the Committee an update was provided in relation to the Council's arrangements for updating and testing the ICT disaster recovery and business continuity plans. The Assurance rating/level provided regarding the overall Council's ICT arrangements remains Amber, given the increased risks relating to the on-going position regarding Disaster Recovery/Business Continuity arrangements for the Council's ICT systems. A plan of testing is now in place and systems are being tested. New infrastructure has been acquired following the recent ICT outage and is currently being implemented. The Council is still operating in disaster recovery mode and the risks this presents are being discussed with ICT. Once the new infrastructure is fully operational then the assurance level will be reviewed.

Assurance from others within the Council

- 4.7 Assurance provided from others within the Council is shown in the Corporate Assurance Map.
- 4.8 Provision for all on-going financial pressures, including Children's Safeguarding, has been made within the budget planning for 2016/2017 and delivery of the savings plans is being closely monitored through the Implementation Board.

Assurance from Management

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

Assurance from External Sources

- 4.10 The Map includes assurance from relevant external sources. The results of the external reports in relation to the ICT Unit is shown as Limited Assurance being provided against both the Business Continuity and ICT key risk areas in the Corporate Assurance Map. An officer is attending the committee meeting to provide an update in relation to these arrangements

Overall

- 4.11 All overall assurance levels remain the same.

5. Internal Audit Performance

5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 3.

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

- The percentage of significant risk recommendations implemented by the due date stands at 97% against a target of 100%. This results from work in relation to the use of email as set out in paragraph 4.4. Although compliance with the policies has improved there is still one significant recommendation outstanding which related to the setting up of GCSX accounts for relevant staff. Action is being taken to address this issue by the Directorates concerned.
- The percentage of medium risk recommendations implemented for the Council and Schools is shown below.

Area	Implementation Rate
Council services	88%
Schools	79%

6. Conclusions

6.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.

6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control. In relation to Children's Safeguarding, the Council received positive feedback from its first Ofsted monitoring visit which reviewed the progress made in respect of the experiences and progress of care leavers. The Ofsted report concluded that the local authority is making significant progress to improve services for care leavers.

7. Recommendations

7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

Detailed Internal Audit Coverage

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Customer Focus	Community and Family Wellbeing - Governance Arrangements	L	Customer Services Network	M	Community and Family Wellbeing		Better Care Fund			Moderate
	Out of Area Placements	L			Adoption Service		Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	Web Content Development	M			Multi Agency Safeguarding Hub		Leaving Care Grants	L	A review of the controls in place to manage monies due to young people leaving care.	
	Crisis Loans / Social Fund	S			Safeguarding and Quality Assurance Unit		Bereavement Services		Review of proposed changes to service systems and procedures	
					Commissioning	L				
					Accounting / General Ledger	S				
					Personal Budgets	L				
Legality					Constitution	M	Employment Clearances	M	A review of the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date	Moderate

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Service / Business Planning	Corporate Service/ Business Planning	M	Corporate Service Planning Arrangements		Community and Family Wellbeing		Corporate Service Planning Arrangements		Audit of the level of compliance with the new planning framework	Moderate
	Community and Family Wellbeing - Governance Arrangements	L	Community and Family Wellbeing - Governance Arrangements		Adoption Service		Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	Derwent Hill	M	Multi Agency Safeguarding Hub		Multi Agency Safeguarding Hub		Ethos		A review of the proposed arrangements for spinning out HR & OD services.	
	Out of Area Placements	L	Port Governance Arrangements	M	Commissioning	L				
	Operational Asset Management	M	LEP Accountable Body Arrangements	S	Corporate Service Planning Arrangements	S				
Programme and Project Management	Implementation of the Economic Master Plan	M	Programme and Project Management	S	Corporate Service Planning Arrangements	S	Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	Moderate
			Realisation of Benefits & Savings	M	Capital Programme Funding and Monitoring Benefits Realisation	M L				
Partnerships			Corporate Partnership Arrangements	L	Follow Up of 2014/15 audit		Partnerships		A review of the level of compliance with the new Partnerships Code of Practice	Limited
			Multi Agency Safeguarding Hub							

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
			Sunderland Partnership							
Business Continuity and Emergency Planning	HHAS Business Continuity Planning	M	Corporate Business Continuity Planning	M	Emergency Planning	S	Business Continuity Planning		An audit of the BCP arrangements in People Services	Moderate
Procurement	Derwent Hill	M	Commissioning	L	Commissioning	L	Agency Workers - Off contract spend	L	A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	Moderate
	Out of Area Placements	L	Contract Management	M	Revenue Procurement	M				
	Revenue Procurement	S	Capital Procurement	S						
Relationship and Contract Management	Streetlighting PFI Contract Management	M	Commissioning	L	Commissioning	L	Highways Contract Monitoring		A review of the arrangements for monitoring highways construction projects	Moderate
	Events Company Contract Management	M			Contract Management - Sunderland Care and Support	M	Leisure Services Management	M	Review of the management and monitoring arrangements for the delivery of the leisure contract.	
					LABV	L				
					Capital Programme Funding and Monitoring Benefits Realisation	S L				
Financial Management	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	S	EFA / SFA Funding	S	Grant certification	Substantial

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Local Transport Capital and Integrated Transport Grants	S	Grant certification	
	Troubled Families Performance Reward Grant	L	Troubled Families Performance Reward Grant	M	Troubled Families Performance Reward Grant	L	Troubled Families Performance reward Funding	S	Grant certification	
	DECC Fuel Poverty Grant	M	Contaminated Land Grant	S	Personal Budgets	L	Sport for Life Grant		Grant certification	
	Growing Places Funds 2, 3 and 7	S	Benefit Cap Advisors Grant	S	Financial Verification of Leavers from the Direct Payments Scheme	S	Disabled Facilities and Social Care Capital Grants (replaces Sunderland a City by the Sea grant for which there is no audit requirement)	S	Grant certification	
	Clusters of Empty Homes Grant	S	Adoption Reform Grant	S	Port Income	M	Big Coastal Communities Grant		Grant certification	
	Out of Area Placements	L	Commissioning	L	Commissioning	L	SSTC2	S	Grant certification	
	Foster Care Allowances	M	Port Governance Arrangements	M	Corporate Service Planning Arrangements	S	Leaving Care Grants	L	A review of the controls in place to manage monies due to young people leaving care.	
	Charging for Non Residential Adults Care Services	S	LEP Accountable Body Arrangements	S	Personnel Administration Arrangements		Adult Social Care Contributions		Audit of the Benefits Assessment Team's calculation of clients' contributions	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
			Personal Budgets / Direct Payments	M	LABV	L	Port Fuel System		A review of the systems for issuing and controlling fuel stocks.	
	Direct Payments	L	Accounting / General Ledger	S	Accounting / General Ledger	S	Transformational Change Programme		A review of the programme delivery arrangements including the arrangements for consultation with service users	
	34 Schools	S	32 Schools	S	18 schools	S	Agency Workers - Off contract spend	L	A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	
	SAP Organisation Structures	S	SAP Organisation Structures		Capital Programme Funding and Monitoring Benefits Realisation	L	Payroll		Audit of the controls in the payroll processing and payments systems.	
	SAP HCM Monitoring of Multiple Employee Positions	L	Mobile Phones Contract	L	BACS Processing	S	Asset Register / Capital Accounting	S	Audit of the arrangements for accounting for the Council's capital assets	
	BACS Processing	S	BACS Processing	S	Cash Receipting	S	Income		Audit of the Accounts Payable and Periodic Income systems	
	Cash Receipting	S	Cash Receipting	S	Accounts Payable	M	Accounts Payable		An audit of the system for making payments to creditors	
	Payroll	M	Payroll	M	Accounts Receivable	S				
	Council Tax	S	Council Tax - Valuation	S	Periodic Income	S				
	Business Rates	S	Business Rates - Valuation	S	Benefits Administration	S				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Accounts Payable	S	Accounts Payable	M	Business Rates - Liability	S				
	Accounts Receivable	S	Accounts Receivable	S	Business Rates - Revised Billing	S				
	Aquatic Centre	S	Periodic Income	S	Enforcement Section	S				
	Benefits	S	Benefits Administration	S	Payroll	M				
	Council Tax Support Scheme	S	Recovery of Benefit Overpayments	M	Revenue Procurement	M				
	Operational Asset Management	M	Elections Hardware Grant	S	Autism Innovation Grant	S				
	Asset Register / Capital Accounting	S	Cash in Transit / Parking Services Income	M	Agency Workers (Unplanned)	N				
	Building Maintenance	N			Go Smarter to Work Grant	S				
	Capital Programme Funding and Monitoring	S								
	Treasury Management	S								
	External Funding	S								
	External Funding - Support to Partners / VCS	M								
	Insurance Claims Handling	S								

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	Council Tax Support Scheme	S								
	Local Business Rates Scheme	S								
	Crisis Loans / Social Fund	S								
	Derwent Hill	M								
	Events Company Contract Management	M								
Human Resource Management	SAP Organisation Structures	S	SAP Organisation Structures		SAP Organisation Structures	M	SAP Organisation Structures	S	A review of the controls surrounding the Organisation Structure as recorded on SAP	Moderate
	Monitoring of Multiple Employee Positions	L	Corporate Training and Development Arrangements	L	Induction Procedures	M	Ethos		A review of the proposed arrangements for spinning out HR & OD services.	
	Corporate HR Management	M			Code of Conduct / Whistleblowing	M	Agency Workers - Off contract spend	L	A review of the reasons and arrangements for recruiting agency workers without using the contracted supplier.	
					Personnel Administration Arrangements		Payroll		Audit of the controls in the payroll processing and payments systems.	
					Agency Workers (Unplanned)	N	Employment Clearances	M	A review of the arrangements for ensuring that relevant staff have clearances from the Disclosure and Barring Service, and that social workers' practising certificates are kept up to date	

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
							Personnel Administration Arrangements	M	A review of the administrative processes relating to, for example, recruitment, starters, leavers, honoraria etc	
Information Governance	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Reviews of data security.	Limited
			Multi Agency Safeguarding Hub		Multi Agency Safeguarding Hub		Use of Email	M	Review of the use of email to send sensitive and personal information	
					Use of Email	L				
Performance Management	Operational Asset Management	M	Corporate Performance Management Arrangements	M	Multi Agency Safeguarding Hub		Corporate Performance Management Arrangements		A review of compliance with the new performance management framework, and verification of performance data	Moderate
	Community and Family Wellbeing - Governance Arrangements	L	Community and Family Wellbeing - Governance Arrangements		Community and Family Wellbeing		Adults Services Performance Management		Review of data quality	
					Capital Programme Funding and Monitoring Benefits Realisation	S L				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
					Safeguarding and Quality Assurance Unit					
Asset Management	Derwent Hill	M			LABV	L	LABV Client Arrangements		A review of the implementation of the Siglion client arrangements	Moderate
	Technology Forge	L			Corporate Asset Management	M	Asset Register / Capital Accounting	S	Audit of the arrangements for accounting for the Council's capital assets	
	Operational Asset Management	M					ICT Technology Allocation Process	M	Implementation of new policy on allocation of ICT equipment, mobile phones etc	
	ICT Asset Management	M								
	Asset Register / Capital Accounting	S								
ICT Strategy and Delivery	ICT Asset Management	M	Physical and Environmental Controls	S	Cyber Security	L	ICT Technology Allocation Process	M	Implementation of new policy on allocation of ICT equipment, mobile phones etc	Moderate
			Mobile Phone Contract	L						
Fraud and Corruption	Counter Fraud Testing		Counter Fraud Testing	M	Financial Verification of Leavers from the Direct Payments Scheme	S	140 days for targeted counter fraud work			Substantial
	National Fraud Initiative Case Investigations		National Fraud Initiative Case Investigations	S	BACS Processing	S				
	Direct Payments	L	Schools Counter Fraud Checks	S	Cash Receipting	S				
			Personal Budgets	M	Accounts Payable	M				

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
	BACS Processing	S	BACS Processing	S	Accounts Receivable	S				
	Cash Receipting	S	Cash Receipting	S	Periodic Income	S				
	Payroll	M	Payroll	M	Benefits Administration	S				
	Council Tax	S	Council Tax - Valuation	S	Business Rates - Liability	S				
	Business Rates	S	Capital Procurement	S	Enforcement Section	M				
	Benefits	S	Benefits Administration	S	Payroll	M				
	Accounts Payable	S	Accounts Payable	M	Revenue Procurement	M				
	Accounts Receivable	S	Accounts Receivable	S	Agency Workers (Unplanned)	N				
			Periodic Income	S						
			SAP Organisation Structures							
			Cash in Transit / Parking Services Income	M						
Risk Management			Port Governance Arrangements	M						Substantial
Schools	34 schools, 5 full, 25 substantial, 3 moderate, 1 limited	S	30 schools completed to date - 24 substantial, 5 moderate, 1 limited	S	18 schools 15 completed to date, 13 substantial, 2 moderate	S	31 schools in plan - 26 schools completed to date - 21 substantial and 5 moderate	S		Substantial

Other Clients

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions		2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Sunderland Care and Support	Direct Payments	L	Governance Arrangements	L	Community Equipment Store	M	Transactions Testing		To assess the level of compliance with recently introduced new procedures	
			Farmborough Court	S	Grace House Partnership	M				
			Financial Procedures in Residential and Daycare Units (Establishment Visits)	L	Reablement	M				
					Governance Arrangements	M				
					Unit Costing					
	Procurement Arrangements	S	Management and Security of Service Users Monies – Compliance with Procedures	S						
	Risk Management Arrangements	L								
	Information Management Arrangements	S								
	Transaction Testing	S								

Key Risk Area	2013/14 Audits / Opinions		2014/15 Audits / Opinions		2015/16 Audits / Opinions			2016/17 Audits / Opinions		Scope of 2016/17 Audit	Overall Opinion
Sunderland Live	Governance Arrangements	M	Airshow Income – Transaction Testing	M	Airshow Income – Transaction Testing	L		Governance Arrangements		Review of the effectiveness of the revised Governance arrangements within the company	
	Verification of Expenditure and Income Transactions	M	Income	L	Procurement						
			Event Management	L	HR Management						
					Information Governance						

Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT and a new Strategic Risk Profile has been agreed. Progress against this will be reported at the next meeting.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the management of risks through services, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	An assurance framework for schools is in place and updated with key officers within the People's Directorate. A number of Academies have also bought in the risk service.
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> • Sunderland Care and Support Ltd. • ICT – various activity, including disaster recovery/business continuity • Adult Social Care • Safeguarding – Childrens and Adults • Replacement of the SWIFT ICT system • Enterprise Zones and international Advanced Manufacturing Park • New Wear Crossing construction and SSTC Phase 3 • Information Governance • Set up of the new Children's Services company

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2016/17

Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 80% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) On target -- 90% 3) Ahead of target – 88% 4) On target - £460 v £699 average
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – behind target – 97% Medium – behind target 88% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.0 to date 2) None undertaken 3) 3 compliments 0 complaints

AUDIT AND GOVERNANCE COMMITTEE

16 December 2016

UPDATED CORPORATE ASSURANCE MAP

Report of the Head of Assurance, Procurement and Performance Management

1. Purpose of Report

- 1.1. This report sets out the proposed new Corporate Assurance Map that has been developed on the basis of the recently agreed Strategic Risk Profile and a new Corporate risk Profile that has been developed for the first time.

2. Background

- 2.1. Members will recall that a new Strategic Risk Profile was presented to the Committee in September 2016, which set out the risks to the Council's Strategic Priorities (as set out in the Corporate Plan). At that time it was reported that a Corporate Risk Profile would also be developed to highlight the risks to the Council due to the nature of its business. Both of these would then form the basis of a refreshed Corporate Assurance Map.
- 2.2. The Corporate Risk Profile has been developed in the same format as the Strategic Risk Profile but for one exception. As many of the risks refer to all service areas actions need to be taken by all service heads to ensure they are managed across the organisation, therefore instead of there being one action lead the profile includes the source of assurance that will be relied upon to determine if the risks are being managed appropriately. The target risk is based upon the risk rating that the Council is aiming for within the next 12 months when the Corporate Risk Profile will be reviewed.

3. Update of the Corporate Assurance Map

- 3.1. As assurance will need to be gathered in relation to the risks on both the Strategic and Corporate Risk Profiles it was felt appropriate that the sources of assurance be added to these profiles to clearly show how the assurances in the Corporate Assurance Map are established. Appendices 1 and 2 show the Strategic Risk Profile and the proposed Corporate Risk Profile with the sources of assurance included. It is intended that these will become Appendices one and two of the Corporate Assurance Map Update report presented to future meetings.
- 3.2. Appendix 3 shows the proposed updated Corporate Assurance Map with the areas from both of the risk profiles. Future updates shall be in this format.

4. Recommendations

4.1 Members are requested to:

- Consider and comment on the contents of the attached Corporate Risk Profile (Appendix 2).
- Consider and comment on the format of the proposed Corporate Assurance Map (Appendix 3).

STRATEGIC RISK PROFILE 2016-20

APPENDIX 1

Risk Likelihood	Risk Impact
1 = Unlikely	1 = Minor
2 = Possible	2 = Moderate
3 = Likely	3 = Significant
4 = Almost Certain	4 = Critical
Negative Impact	

Likelihood	4				
	3				
	2				
	1				
	1	2	3	4	

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Original score			Target score			Mitigating Actions	Action Lead	Timescale	1st Line	2nd Line						3rd Line			
						Impact	Likelihood	Rating	Impact	Likelihood	Rating				Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
Growing the Economy																									
1) Maximising the opportunities from the Economic Leadership Board	R001	Councils contribution to the 3,6,9 Vision fails to deliver the required outcomes	Uncertainty following BREXIT leading to greater caution by Investors. Reduction In Public Sector Budgets/Funding leading to a reduction in resources Proposed projects and actions do not deliver sustainable benefits	Delay in regenerating the city and its key themes of Economy, Housing, Connectivity, Culture and Education	Economic Masterplan 3,6,9 Vision Council officers attend ELB	4	3	12		4	2	8	Develop and implement a process to monitor and review progress of the 3,6,9 Vision delivery plan. Key milestones are reflected in the Corporate Plan and monitored through project governance and performance management arrangements.	Executive Director of Place and Economy	Year one actions from the 3 6 9 Plan delivered: March 17										
2) Planning City Growth (Local Plan)	R002	The Local Plan produced by the Council is not accepted by the Planning Inspectorate	The Planning Inspectorate do not accept that our growth aspirations are supported by appropriate evidence and consultation.	Land is not allocated for the appropriate type of development eg housing development. We are unable to take land out of the greenbelt Loss of New Homes Bonus if plan not agreed by March 17	National Planning Policy Framework DCLG Project Plan, Project Board and governance arrangements Regular Liaison with PINS	3	3	9		3	1	3	Undertake the appropriate research, analysis and consultation to provide the evidence base to the Planning Inspectorate to show that our Plan is sound. Key milestones are reflected in the Corporate Plan and monitored through Project Board and performance management arrangements.	Executve Director of Place and Economy/Head of Planning & Regeneration	Local Plan passes inspection. (date TBD by Gov.)										
3) Sector Growth IAMP Enterprise Zones	R003	Unable to attract commercial / manufacturing interest to our development sites	Target sectors including automotive, low carbon, and offshore engineering, do not prosper under Brexit (we are no longer seen as a route into Europe) Supporting infrastructure is not in place to attract business	Fail to grow the local economy, create jobs	Economic Masterplan 3,6,9 Vision	4	3	12		4	2	8	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the city to achieve targets and outcomes. IAMP project and Vaux project (Siglion) have robust project governance arrangements.	Executive Director of Place and Economy	IAMP Publication draft of the Area Action Plan June 17 DCO submission March 17 Enterprise Zone Phases 1B and 2 infrastructure works Construction complete November 2017										
4) Sunderland as a Place to Invest	R004	Failure to provide appropriate conditions to support viable / sustainable investment opportunities in the City, including effective marketing.	Investors requirements are not satisfied in relation to; land, skilled workforce, housing, physical and digital connectivity	Fail to grow the local economy, create jobs and increase business rates.	3,6,9 Vision	4	3	12		4	2	8	Developing the appropriate infrastructure Obtaining external funding to develop infrastructure Effective marketing to encouraging a diverse range of investors	Executive Director of Place and Economy	31 March 2017										
5) Regenerating the City Centre (Key sites)	R005	Failure to attract investment to support regeneration of the City Centre	Developer uncertainty as to the return they will receive on their investments due to macro economic issues Delays in obtaining planning permission to develop the sites.	Decline of the City Centre and loss of business rates	Siglion business plan City Centre Masterplans Sunderland BID (Business Improvement District)	4	3	12		4	2	8	Masterplanning underway in further areas (Holmeside, Minster Quarter, Sheepfolds, Sunnyside). Continue to engage and consult with developers and other stakeholders at the pre planning application stage to help streamline the process. Siglion projects have robust project governance arrangements. Bid submitted for balance of Station funding. Other capital projects monitored and reported. Funding team horizon scanning and preparing funding bids.	Executive Director of Place and Economy/Head of Planning & Regeneration	Vaux Building 1 handed over to Council September 2017 Holmeside Masterplan March 2017 Minster Quarter Masterplan December 2016 Station funding bid Autumn 2016.										
6) More and Better Infrastructure SSTC	R006	Failure to realise the economic regeneration / benefits, arising from the investment in the SSTC programme.	The land adjoining the transport corridor is in private ownership and the Council has no direct control over investment activity	Local economy is not expanded by new and developing businesses.	SSTC programme MAKE it Sunderland	3	3	9		3	2	6	Engage with landowners and key stakeholders to support development of targeted sites. Robust governance for SSTC2 project. SSTC3 scoping work underway to achieve project within budget. SSTC 4&5 - funding bid submitted July 2016.	Chief Operating Officer Place/Head of Infrastructure & Transport	Bridge Contraction completion date February 2018 SSTC3 Planning application Dec 16 New Road completed Nov 19										
7) More and Better Housing Development	R007	Housing developers are not attracted to Sunderland	Uncertainty following BREXIT leading to greater caution by developers in opening new sites Diverse housing market requirement including student accommodation better care housing and executive homes Reduction in home owners and an increasing rental sector Delays in agreeing a Local Plan which sets out the areas available for development	Fail to improve the housing offer to retain and attract residents to Sunderland	Housing Strategy Siglion business plan	3	3	9		3	2	6	See above re Local Plan. Incentivise developers and put in place enabling infrastructure. Programme activity so that developers are ready to submit planning applications as soon as the Local Plan is adopted. SCC property disposal programme. Siglion housing sites in progress. SCC Housing Delivery Plan in preparation.	Executive Director of Place and Economy/Chief Operating Officer Place	Delivery Plan to be produced September 2016 Seaburn planning application to be submitted Sept 16										

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
8) Regenerating the Coast Seaburn Phase 1 Roker Park restoration	R008	Opportunities are not taken to regenerate the coast in a timely manner or development is restricted by lack of resources	Failure to obtain Coastal Communities CC4 funding	Unable to increase the housing offer, develop businesses, increase visitors or add to the cultural offer of the City	Seaburn Masterplan	3	2	6		3	1	3	Develop a more robust bid, based upon feedback from our initial bid Consider actions to improve the attractiveness of the city. CCF round 4 bid has been submitted	Executive Director of Place and Economy/Planning Implementation Technical Manager	Due to hear about stage 1 CCF4 bid Sept 2016											
9) Developing the Cultural Offer	R009	City's cultural offer does not contribute to the city being an attractive and vibrant place to invest, work, learn, live and visit	The Partnership is not successful in delivering cultural ambitions	Reduced opportunity to attract additional tourism, lack of contribution to the wellbeing of citizens	Cultural strategy Establish Culture company Bid for City of Culture	3	2	6		3	1	3	Establish the Culture company and develop a revised Culture Strategy Bid for National Portfolio Organisation Funding	Executive Director of People Services	April 2017 January 2017											
10) Regional and Sub regional working	R010	Sunderland is not fully aligned with the approach and aspirations of regional working and is therefore unable to take advantage of the opportunities presented by the North East Combined Authority (NECA) to benefit the people of Sunderland.	Sunderland continues to carry out activities in isolation in areas where there is a regional approach supported by regional funding	Sunderland's ambitions could be at risk due to activity co-ordinated through regional strategies. Missed opportunities for investment and development of skills	NECA Corporate Plan	4	4	16		4	2	8	Officer and Members to be fully aligned with the NECA arrangements and work proactively with the NECA to develop the region whilst protecting the interests of Sunderland Our priorities and actions to be aligned with regional and sub regional activities	Chief Executive / Director of Strategy, Partnerships and Transformation	Realignment of Sunderland position and understanding of the impacts of recent developments December 2017											
Improving Education and Skills																										
11) Maximising the opportunities from the Education and Skills Partnership	R011	Education and Skills Strategy Delivery Plan does not drive effective development of knowledge and skills	There is insufficient educational/vocational provision in the city to fulfil the needs of employers	City and individuals will not have the skills to take advantage of economic development	Education and Skills Partnership	4	4	16		4	3	12	Facilitate relationships between employers, education/skills providers and students Inform and influence education/skills providers regarding the priorities for employers Identifying the knowledge and skills required by employers	Chief Executive - Together for Children	01 September 2017											
12) Ready for School, Ready for Work, Ready for Life aspirations and achievement	R012	The Council is not able to fulfil its statutory responsibility and/or achieve desired outcomes for Children and young people	Local authorities no longer control, direct or dictate education provision but they still have a statutory duty to "promote fulfilment of potential" There are further challenges and opportunities arising from the creation of Together for Children	Children and young people do not have the skills, attributes, qualifications and experiences to release their full potential	Commissioning and contract management arrangements	4	4	16		4	3	12	The Council's commissioning intentions are clearly set out in the contract with Together for Children Develop strong relationship and performance management arrangements to deliver the agreed outcomes Arrangements are put in place to facilitate positive relationships with and between the Council, Together for Children, maintained schools and academies	Chief Executive - Together for Children Executive Director People Services	April 2017											
Attract and retain young people	R013	More highly skilled people leave to find employment out of the region	Young people leave the city to further their ambitions and aspirations	Increased outward migration	Economic masterplan 3.6,9 Vision Culture strategy	3	3	9		3	2	6	Understand the factors that would influence young people to remain in the City and develop action plan to address issues	Chief Executive - Together for Children	April 2017											
Improving Health & Wellbeing																										
13) Maximising the opportunities from the Health and Wellbeing Board Support the development of delivery plans for the 8 Health and Wellbeing Board (HWBB) priorities for action	R014	Partner's resources and priorities are not aligned to achieving common outcomes of the Health and Wellbeing Board	Financial pressures on public services results in a move away from prevention to short term fixes Effective early interventions are not taking place to reduce long term health problems	Health and wellbeing standards are not raised	Health & Wellbeing Board Priority Delivery Plans Joint Strategic Needs assessment	4	3	12		4	2	8	Influence Partners to adopt the Health & Wellbeing Board's Delivery Plans for its 8 Priorities	Director of Public Health	May-17											
14) Health and Social Care Integration and whole-system innovation	R015	Current and planned activity to integrate and commission services is not transformational enough to continually deliver required outcomes and budget savings	Insufficient engagement and missed opportunities to utilise alternative providers in order to reduce demand. Financial pressures on NHS and Council budgets and increasing demand for services and a reduction in early interventions	Failure to achieve the benefits for citizens Continuing financial and demand pressures negative impact on key performance indicators of the Council and Health Continued inefficiencies within the system	Health & Social Care Integration Board Health and Wellbeing Board Providers Board	3	3	9		3	2	6	Successful delivery of the Vanguard action plan Delivery of efficiency savings	Executive Director of People Services	April 2017											
Supporting Vulnerable Children and Families																										
16) Transform Key Children's Services Establish the Company	R016	Safeguarding practice does not substantially improve to make children safer.	There is not a clear understanding of what "Good" looks like. Lack of swift and appropriate decision making	Children are not adequately safeguarded	Ofsted Inspections Scrutiny Improvement Plan Together for Children, Culture and Policies.	4	4	16		4	2	8	Deliver the improvement plan that has been agreed with Ofsted Embed a culture of good performance and quality	Chief Executive - Together for Children	April 2017											

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Action Lead	Timescale	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
17) Looked After Children Improve the life chances for the most vulnerable children in the city	R017	Timely and sustainable solutions are not implemented to improve the life chances for the most vulnerable children in the city	Assessments and Care Plan reviews do not provide the right help at the right time	Children remain in care for longer periods than necessary and are at a higher risk of becoming NEET	Ofsted Inspections Adoption Process Scrutiny Performance management Improvement Plan	4	4	16	4	2	8	Looked-after children have access to high quality care planning, review and support. They are supported in stable care placements and have access to and attend good schools	Chief Executive - Together for Children	April 2017											
19) Early Help and Social Care Reduce risk to vulnerable children	R018	Timely interventions are not undertaken to deliver early support to vulnerable children	Children's needs are not clearly understood and effectively addressed Issues are often complex requiring a multi agency response	Children become increasingly at risk Increased number of Children in care	Ofsted Inspections Performance management Improvement Plan	4	4	16	4	3	12	Children and families in need of help are identified and multi- agency services act together to improve outcomes	Chief Executive - Together for Children	April 2017											
Supporting Vulnerable Adults and Carers																									
20) Adult Social Care Further develop Sunderland Care and Support Ltd	R019	Unable to develop a sustainable business and there is an immature market to provide alternative delivery	Pension, tax and other costs are not accurately quantified. Business not in line with required expectations	Unable to support vulnerable adults Savings not achieved Significant additional cost to the Council	Contract Company Board Contract management arrangements	4	4	16	4	2	8	Business plan is subject to scrutiny and challenge by appropriate specialists Consideration of opportunity to develop the market	Head of Integrated Commissioning	April 2017											
Building Resilient Citizens and Communities																									
21) Welfare Reform mitigate the impacts of welfare reform	R020	Individuals do not maximise their access to welfare benefits	Individuals do not understand the support available following benefit reforms	Increased poverty and homelessness	Health & Wellbeing Board Priority Delivery Plans	4	3	12	4	2	8	Challenge practice and systems at a national level Work with partners to support people to help themselves to minimise impact of welfare reform	Head of Integrated Commissioning	March 2018											

CORPORATE RISK PROFILE

APPENDIX 2

Risk Likelihood	Risk Impact
1 = Unlikely	1 = Minor
2 = Possible	2 = Moderate
3 = Likely	3 = Significant
4 = Almost Certain	4 = Critical

Likelihood	4				
	3				
	2				
	1				
		1	2	3	4
Negative Impact					

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Original score			Target score			Mitigating Actions	Source of Assurance	1st Line										2nd Line		3rd Line	
						Impact	Likelihood	Rating	Impact	Likelihood	Rating			Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance			
R01	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	JSNA Community engagement arrangements	4	2	8	4	1	4	Identify intelligence required and potential sources to inform decisions. Develop engagement plans to gather the required information Analyse the information and use the results to inform the commissioning decisions, using the intelligence team	Governance questionnaire Internal Audit Work														
R02		Most appropriate and cost effective commissioning option to meet identified needs and achieve commissioning priorities and outcomes is not chosen	Failure to identify and evaluate all the possible commissioning options of delivering services taking into account the resources available. Failure to build or shape capacity in 'market' and cooperative working eg partnerships to enable effective service options to be place to help achieve commissioning priorities and outcomes Inadequate options appraisal process Lack of resource or expertise	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	Procurement and Commissioning Guidance	4	2	8	4	1	4	Options appraisal undertaken on service design following assessment of customer needs Appropriate procedure followed to commission the preferred option, eg, procurment, service re-design	Cabinet reports Governance questionnaire Internal Audits														
R03		Commissioning assessment process is not undertaken on a timely or regular basis.	Inadequate resources Insufficient forward planning for contracted services	Changes in need of community are not identified promptly Inappropriate use of limited resources Community's real needs are not met Existing contracts extended where it may not be the optimal solution		6	1	6	3	1	3	Review of performance to ensure service delivery model is delivering outcomes Commissioning Cycle to include planned review date either linked to outcome or contract timescales	Governance questionnaire Internal Audit Work														
R04	Strategic Planning	The priorities set out in the Corporate Plan do not align with the defined needs of the community	Corporate planning process does not adequately reflect the views of the community. Various sections of the community are not engaged	Fail to contribute to the welfare and future prosperity of our communities	EMT JLT Corporate Planning Process	4	2	8	4	2	8	Corporate Plan driven by required outcomes and commissioning activity. Refresh of the JSNA to be undertaken	Risk and Assurance Team Internal Audit														
R05		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners reponsible for delivering plans	Lack of timetable re corporate / service planning Lack of communication plan	Lack of delivery of plans by those partners/servcies responsible	EMT JLT Corporate Planning Process	4	3	12	4	2	8	Once approved the Corporate Plan is communicated appropriately within the Council and with Stakeholders	Risk and Assurance Team Internal Audit														
R06	Service/Business Planning	The service planning process does not deliver all the actions to achieve the Corporate priorities	Service Planning process does not identify all the actions required to achieve corporate priorities Individuals/service responsibility for delivery of strategic planning actions not identified or communicated Strategic planning process not completed prior to service planning.	Fail to contribute to the welfare and future prosperity of our communities	Business Continuity Corporate Group BS25999 Corporate Business Continuity Plan	3	3	9	3	2	6	Service Planning process is driven by the Corporate Plan	Internal Audit														
R07		Service/business plans are not communicated to relevant officer responsible for delivering plan task.	Lack of communication plan	Delay in or lack of delivery of business plan tasks.		4	2	8	4	1	4	Business plans are communicated to the relevant officers involved in delivering the plan	Governance questionnaire Internal Audit														
R08	Service Delivery Arrangements	The level of services delivered by the council do not meet customer expectations	Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues	Required outcomes for customers not achieved Reputational damage Wasted resources	Business Planning Process Performance management arrangements Transformation Programme	4	3	12	4	2	8	Performance in relation to the delivery of outcomes is regularly monitored	Corporate Performance management arrangements Internal Audit														
R09		Service delivery arrangements are not resilient	Lack of tested business continuity and disaster recovery plans	Required outcomes for customers not achieved Reputational damage Wasted resources	Corporate business continuity arrangements	4	3	12	4	2	8	Business continuity plans are in place and are tested for critical services	Business Continuity Officer Internal Audit														

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R10	Performance Management	Performance management arrangements do not identify if all priorities are being achieved	Meaningful performance indicators are not identified in relation to all priorities / outcomes	Unable to establish if outcomes are being achieved	Performance management framework Performance reviews	4	2	8	4	1	4	Clear performance measures are in place to identify if outcomes are being delivered	Governance questionnaire Corporate Performance management Internal Audit											
R11		No or inappropriate performance targets are set to define acceptable performance	Lack of knowledge as to realistic targets	Unable to understand if performance levels are acceptable		3	3	9	3	2	6	Targets should be set for all performance measures to clarify acceptable levels of performance	Governance questionnaire Corporate Performance management Internal Audit											
R12		Management fail to take prompt effective action in response to performance results reported or fails to follow up to ensure remedial action is effective	Lack of time to consider performance Performance information not accurate, timely or understood Management not held to account for performance Lack of resource or control to make necessary changes	No or delay in action taken to improve service which may have major impact on customers Poor reputation for Council	Corporate Performance management Performance Clinics	3	3	9	3	2	6	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance	Corporate Performance management arrangements Internal Audit											
R13	Partnership / Integrated Working	Partner(s) do not perform their planned tasks as intended to deliver partnership objectives Objectives and priorities of Council and other partner(s) conflict/not aligned	Reducing resources forces partners to concentrate on their own priorities at the expense of partnership priorities Lack of communication of plans between partners Lack of partnership performance monitoring	Unable to achieve City/council priorities and support communities	Partnership Boards Economic Educational, Health & Wellbeing	4	3	12	4	2	8	Performance management arrangements include a review of the achievement of outcomes where partners have some responsibility for delivery	Corporate Performance management arrangements Internal Audit											
R14		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing)	Lack of formal comprehensive written partnership agreement	Resources wasted on dispute resolution or clarify arrangements. Delay in delivery of plans and outcomes for community		4	3	12	4	2	8	Partnership agreement in place with each partners setting out the expectations of each party and the required reporting arrangements	Partnership Team Governance questionnaire											
R15	Procurement	The product or service procured does not deliver the intended outcomes	Poor specification Lack of understanding what is needed by commissioner Poor communication between commissioner and procurement Inadequate evaluation process	Fail to obtain value for money Objectives/outcomes are not achieved Most appropriate commissioning options are not obtained	Commissioning process Procurement Procedure Rules	3	1	3	3	1	3	The Council's procurement procedures are followed and good procurement practice is undertaken	Corporate Procurement Internal Audit											
R16		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training Lack of knowledge of legal/Council requirements Failure to adhere to requirements (deliberate, e.g. corruption or accidental)	Legal/financial penalties Challenge, delays in award Loss of reputation	PPRs in place Procurement have skilled staff CP support council officers	2	1	2	2	1	2	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process	Corporate Procurement Internal Audit											
R17		Value for money not obtained	Lack of competition Corruption Inappropriate specification Poor procurement planning Goods/services used not subject to competitive process	Poor quality of goods/services and customer service Pay higher prices - waste of scarce resources		3	2	6	3	1	3	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process	Corporate Procurement Internal Audit											
R18	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes	Lack of clear contract/specification provisions in place to allow effective management of the contract Lack of appreciation of importance of contract management during the procurement process Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award	Fail to obtain value for money, i.e. pay too much or poor service obtained Objectives are not achieved Excessive resources used on dispute resolution	Contract management framework Corporate Procurement support to officers	4	3	12	4	2	8	The new Head of Contractual Relationships will improve the skills in this area and will ensure that appropriate contract management arrangements are in place for all key procurements undertaken by the Council	Governance questionnaire Corporate Procurement Internal Audit											
R19	Legality	Council fails to act within its statutory powers	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers Decision makers have lack of access to legal expertise Lack of awareness of officers as to their legal responsibilities Changes in law are not recognised and implemented	Councils actions are found to be ultra vires Financial penalties Legal challenge Loss of reputation Delay in delivery of outcomes	Constitution and Procedure Rules	3	1	3	3	1	3	Review of key decisions by Law and Governance	Law and Governance Governance questionnaire Internal Audit											
R20	Risk Management	Fail to identify and manage the major risks and opportunities to delivering priorities and plans	Risk Management process is not aligned with delivering priorities Management do not have resources for, or do not appreciate the importance of risk and opportunity management Risk appetite of the Council is not identified and communicated	Priorities are not achieved Loss of reputation Potential financial penalties	Risk management policy and strategy	3	2	6	3	1	3	The Council's strategic and corporate risks are identified, assessed and managed through EMT and the Audit and Governance Committee Service Planning process to identify key risks	Risk and Assurance Team Audit and Governance Committee											
R21	Performance Reporting	Performance reporting fails to give a full and accurate picture of the progress in achieving corporate priorities and outcomes	Performance reporting does not address all priority issues Performance measures are inappropriate Performance targets not set to aid evaluation of performance Performance data reported is inaccurate, out of date, difficult to understand or incomplete Performance reporting not timely	Reporting does not identify if achievement of all priorities are on track or if interventions are required Appropriate remedial actions are delayed.	Corporate Performance Reporting Framework	3	1	3	3	1	3	Further developments to the reporting of performance in relation to the achievement of outcomes and priorities, including the use of an appropriate ICT solution.	Corporate performance management Internal Audit											

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R22	Strategic Financial Planning / MTFS	Strategic financial plans do not align to Council priorities, objectives and direction as set out as part of the corporate plan	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched.		4	2	8	4	1	4	The Corporate Plan Delivery Plan will need to be refreshed / updated in line with the agreed budget	Head of Transformation Financial Resources											
R23		Strategic financial plans fail to take into account all critical factors likely to affect the Council's finances moving forward, e.g. changes in government funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities, demand for services, current financial performance, level of financial reserves needed, planned projects etc.	Poor intelligence gathering or horizon scanning Lack of resources Lack of consultation/communication with senior officers	Decisions made with inaccurate information Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched		3	1	3	3	1	3	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position	Financial Resources External Audit											
R24	Financial Reporting	Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council	Financial savings in one area may have a more than proportionate increase in other service areas	Efficiencies are not achieved	Financial Reporting Procedures	3	1	3	3	1	3	The Council's financial position is regularly reported to the Executive Management Team and Members	Financial Resources											
R25		Financial reporting fails to give a full and accurate picture of the progress to achieving corporate financial priorities and targets	Financial reporting does not address all priority issues Financial performance measures are inappropriate Financial targets not set to aid evaluation of performance Financial performance data reported is inaccurate, out of date, difficult to understand or incomplete Financial performance reporting not timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required Appropriate remedial actions are delayed.	Corporate Performance Reporting	3	1	3	3	1	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies on inconsistencies	Financial Resources Corporate Performance Management											
R26	Financial Management	Management fail to manage financial performance or take appropriate prompt effective action in response to poor financial performance results reported.	Lack of time to consider performance Performance information not accurate or understood Management not held to account for performance Lack of resource or control to make necessary changes	No or delay in action taken to improve finances Poor reputation for Council	Financial management framework	3	1	3	3	1	3	The financial management framework ensures that managers are regularly review their financial performance and are taking appropriate remedial action where necessary.	Financial Resources											
R27		The Council fails to pay its employees (and those of other clients) on time	Lack of resources to process the changes to the payroll Lack of a clear timetable for the submission of information Lack or payroll staff with the required training	Delay in making salary payments Claims from employees for costs incurred for late payment of bills Loss of reputation as a payroll provider	Policies and procedures in place for operating the payroll system	3	1	3	3	1	3	Controls in place to ensure that the payroll runs are complete and accurate operate efficiently	Internal Audit											
R28		The Council fails to make payments to its suppliers and clients on time	Lack of resources to process the required payments Lack of controls in place to ensure payments are processed per the required timescales	Loss of reputation with suppliers Claims for interest for late payments	Procedures in place within the Purchase to Pay system	3	1	3	3	1	3	Procedures required for making payments on time are up to date and fully understood by staff within the payments service	Corporate Procurement Internal Audit											
R29		The Council fails to process payments for housing benefit accurately or on time	Poor assessment procedures Lack of timetable for assessing claims Delay in the processing of claims	Customers do not receive the correct amount of benefit resulting in financial hardship Customers receive their payments late causing unnecessary debt	Assessment procedures and performance indicators in place	4	1	4	4	1	4	Established procedures are in place and followed by adequately trained staff for the assessment and processing of benefit claims	Internal Audit											
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to it	Lack of resources Inadequate procedures for raising accurate bills Inappropriate methods to allow customers to pay bills Over generous credit terms Economic conditions increase the number of bad debtors Procedures fail to identify non payments Ineffective enforcement of credit control arrangements	Financial loss. Unable to balance the budget	Financial procedure rules	3	1	3	3	1	3	Regular monitoring that the income received is in line with that expected as per the Council's budget	Financial Resources Internal Audit											
R31		Prosperity within the City fails to grow resulting in the expected level of income being uncollectable	Number of businesses in the City reduces or does not grow Increased number of families suffering financial hardship Debts increase and become harder to recover	Financial loss Negative impact on cashflow Inability to achieve financial targets	Economic regeneration activity	4	3	12	4	2	8	Clear performance measures and regular monitoring of the debtor position	Financial Resources Internal Audit											
R32	Capital Programme Management	Capital projects do not support the delivery of strategic priorities and desired outcomes	Capital projects are based on available funding and not linked to priorities. Inadequate business cases for projects	Priorities are not delivered City does not have the required infrastructure Poor integration of city developments	Capital Programme Board	3	1	3	3	1	3	The Capital Programme is directly aligned to the Council's Corporate Plan and strategic priorities	Financial Resources Internal Audit											
R33		The intended benefits of external funding for capital projects are not maximised	Lack of awareness of funding conditions Poor planning Poor monitoring of projects Unforeseen delays in projects	Loss of funding Council resources used to fill funding gaps Other planned projects postponed	Capital Programme Board	3	3	9	3	2	6	Corporate approach to planning and monitoring of the delivery of the wider benefits of the Capital Programme	Financial Resources Internal Audit											

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R34	HR Management	The council does not have the required skills and capacity to deliver the City's priorities	Shrinking workforce leading to a reduction in capacity and skills Rapid loss of key/senior officers and associated expertise Lack of effective workforce planning to ensure Council has workforce to meet needs of Council going forward Insufficient resources to maintain effective HR management resource and arrangements Insufficient training and development	Delay or increased costs in delivering priorities	Monthly performance management arrangements for KPIs	3	3	9	3	2	6	Workforce planning strategy in place that is appropriately monitored to ensure it is effectively implemented	Head of HR and OD Internal Audit											
R35		Reduction in productivity and morale of workforce	Increasing workloads Instability due to ongoing changes Job insecurity Impact of Workforce Transformation, i.e. pay protection ending	High absence/sickness rates Stress related absence Lower standards of service delivery Increased costs	Monthly performance management arrangements for KPIs	4	3	12	4	2	8	Recognition of reduced capacity Employees feeling valued and supported	Governance questionnaire Head of HR and OD Internal Audit											
R36		The Council fails to protect the health and safety of its employees, customers and visitors to its buildings	Lack of an assessment of the health and safety risks Failure to take action to minimise the risks Lack of awareness of employees on the actions to take to keep people safe	Death or injury to an employee, customer or visitor Resultant financial claims Loss of reputation	Health and safety policies and procedures and regular reporting of H&S Risks.	4	2	8	4	1	4	Manager understand the requirements of undertaking health and safety risk assessments in line with corporate guidelines and are capable of appropriately assessing the risks and taking corrective action	Head of HR and OD Internal Audit											
R37	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. not meet needs of Council, not reliable, too expensive)	Reducing resources impacts upon the ability to maintain a stable infrastructure Lack of funds to maintain/upgrade infrastructure Lack of understanding of importance of role of ICT in delivering more efficient and effective services Lack of understanding of extent of reliance on ICT Lack of expertise and time to understand Council IT needs and to design and implement appropriate solution Lack of planning Fragmented and numerous IT systems used by Council historically Lack of communication between management and ICT of Council needs and how ICT support	Disruption to service provision impacting on delivery of priorities Waste of financial resources due to excessive cost Less efficient and effective service delivery Loss of productivity	ICT development plan	4	2	8	4	1	4	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services	ICT Internal Audit Business continuity officer											
R38		ICT infrastructure is not resilient to 'disasters'	Lack of planning for disasters (prevent or respond to) No adequate business continuity/disaster recovery ICT infrastructure in place Lack of business continuity/disaster recovery plan which has been tested Key employees not briefed as to their disaster recovery responsibilities	Disruption to service provision impacting on delivery of priorities Loss of productivity Waste of financial resources due to excessive cost Less efficient and effective service delivery Loss of productivity		4	3	12	4	2	8	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services	ICT Internal Audit Business continuity officer											
R39	Cyber Security	The Council unnecessarily exposes itself to vulnerabilities & threats, both internal & external, (e.g. hacking, phishing, denial of service attack) as a result of its connection to the internet resulting in an increased exposure to the confidentiality, integrity & availability of systems & information	Lack of appreciation by management of threat/risks of cybercrime to Council's operations Low priority given to cybersecurity Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness) Lack of monitoring of alerts/warnings, e.g. no Security & Incident & Event Management (SIEM) solution in place Lack of investment in existing infrastructure increases level of vulnerability PCIDSS vulnerability test results not actioned in suitable time scales Lack of resources Lack of understanding of what valuable data the Council holds	Loss of public trust, customer confidence, finance and reputational damage Fines / compensation Loss of systems or data loss Major business disruption.	Strategic Information Governance Group Operational Information Governance Group	4	3	12	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan	ICT Internal Audit											
R40	Information Governance / Security	Council's data is not accurately protected	Information and data can be lost, stolen, exposed or corrupted through inadvertent human error and inherent weaknesses in existing information and data security arrangements. The Council is not aware of the data it holds or ensures that it is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data.	Loss of public trust and reputational damage Fines / compensation	Strategic Information Governance Group Operational Information Governance Group	3	3	9	3	2	6	Council has appropriate information governance and security arrangements in place which are complied with throughout the organisation	Law and Governance Governance questionnaire Internal Audit											

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R41	Business Continuity Management	The Council's business critical services cannot function in the event of an incident	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes Business continuity plans are not tested appropriately	Services are unable to respond in adverse conditions	Corporate Business Continuity Group Business Continuity plans	4	3	12	4	2	8	Business continuity plans are reviewed and tested on a regular basis	Business Continuity Officer Internal Audit											
R42		Lack of awareness of content of business continuity plans	Lack of effective communicatoin strategy Lack of testing	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals Loss of reputation		4	3	12	4	2	8	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them	Business Continuity Officer Internal Audit Governance questionnaire											
R43	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes	Lack of agreed Project Management Standards Lack of Project Plans and Governance Lack of monitoring of achievement	Fail to obtain value for money. Programme and Project objectives are not achieved	Corporate Project /Programme management arrangements	3	2	6	3	1	3	The expected benefits of programmes and projects are clearly set out at the start and their achievement monitored throughout	Prohct Office Risk and Assurance Internal Audit											
R44	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised	Council does not "sweat" its assets to obtain the maximum returns Fail to maintain property Changes in size and direction of Council and services it provides Lack of asset management planning Changes in how services delivered Changes in technology Assets become uneconomic to run Lack of investment in asset management planning Council unaware of assets it owns	Fail to increase council income. Fail to decrease costs	Asset Management plan	3	3	9	3	2	6	The use of Council assets are monitored on an ongoing basis, particularly in response to chaniging staffing levels and changing service delivery models	Head pf Land and Property Internal Audit											
R45		Lack of appropriate maintenance of physical assets	Lack of resources Lack of planning Lack of monitoring or conditions of assets	Assets unable to be used so poor service to customers Waste of financial resources Lack of safety to the public or employees		4	3	12	4	2	8	Condition of assets to be monitored on an appropriate basis and maintenance scheduled as required	Head of Land and Property Internal Audit											
R46	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption	Relaxation of controls due to a reduction of resources Lack of antifraud culture created Lack of anti fraud and corruption procedures embedded into processes	Financial loss and loss of resources that could have spent on achieving priorities	Anti fraud and corruption policy	2	2	4	2	2	4	Managers are aware of the fraud risks within their area and maintaine appropriate controls baring in mind changes to service delivery and staffing levels	Governance questionnaire Internal Audit											

Corporate Assurance Map

Appendix 3

Assurance Position (Cumulative)	2016/17									
	1st Line Management Assurance	2 nd Line							3 rd Line	
		Other Internal Assurance Activity							Internal Audit	External Assurance
		Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR &OD	Business Continuity	Risk and Assurance	
Strategic Risk Areas										
Growing the Economy										
Improving Education and Skills										
Improving health and Wellbeing										
Supporting Vulnerable Children and Families										
Supporting Vulnerable Adults and Carers										
Building Resilient Citizens and Communities										
Corporate Risk Areas										
Commissioning										
Strategic Planning										
Service/Business Planning										
Service Delivery Arrangements										
Performance Management										
Partnership/Integrated Working										
Procurement										
Relationship/Contract Management										
Legality										
Risk Management										
Performance Reporting										
Strategic Financial Management										
Financial Reporting										
Financial Management										
Income Collection										
Capital Programme Management										
HR Management										
ICT Infrastructure										
Cyber Security										
Information Governance/Security										
Business Continuity Management										
Programme and Project Management										
Asset Management										
Anti-Fraud and Corruption										
Council Owned Companies										
Sunderland Care and Support										
Sunderland Live										

AUDIT AND GOVERNANCE COMMITTEE

16 December 2016

CORPORATE ASSURANCE MAP - CONSULTATION FOR 2017/18

Report of the Head of Assurance, Procurement and Performance Management

1. Purpose of Report

- 1.1 Each year the Audit and Governance Committee is consulted at an early stage on the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year to give members the opportunity to raise any issues which they feel should be considered.
- 1.2 The allocation of resources will continue to be flexible given the level of changes that are occurring across the Council. Based on knowledge of the work of the Council currently, there are a number of areas that are expected to be a priority for 2017/18. These are as follows:
 - On-going support and audit work in relation to Council owned companies, particularly the new Children's company.
 - Arrangements for managing the delivery of the Transformation Programme and budget reductions.
 - Arrangements for the provision of ICT infrastructure, including disaster recovery and business continuity and cyber security.
 - Implementation of the social care system which is replacing SWIFT.
 - Economic Development, including the construction phase of the New Wear Crossing, SSTC Phase 3 and work on the International Advanced Manufacturing Park.
 - Adult social care, including the Better Care Fund, integration with health and budget reductions.
 - Information governance.
 - Tall Ships event.
 - Commissioning and contract management.
 - Key corporate functions/systems, particularly where significant changes / budget reductions are planned or have occurred.
- 1.3 A discussion will be held at the Committee to seek its input for the Corporate Assurance Map, and the plans of work for Internal Audit and Risk and Assurance for 2017/18.

2. Recommendation

- 2.1 The Committee is asked to consider and comment on the areas mentioned above and any additional areas which should be considered.

AUDIT AND GOVERNANCE COMMITTEE

16 December 2016

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2016/2017

Report of the Interim Director of Corporate Services

1. Purpose of Report

- 1.1 To report on the Treasury Management (TM) performance to date for the third quarter of 2016/2017.

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:

- Note the positive Treasury Management performance during Quarter 3 of 2016/2017.
- Note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2016/2017, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2016/2017 – Quarter 3

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates fluctuated throughout 2015/2016 and continue to be volatile. Forecasts suggest the impact of the Brexit vote and low levels of world economic growth will mean that PWLB rates will remain low into the medium term. As PWLB rates were at historically low levels, it was decided to take advantage of these low rates to support the Council's Capital Programme requirements and borrow £20m in Quarter 2. This will help maintain the Council's long-term borrowing interest rate at its comparatively low levels and will benefit the Council's revenue budget over the longer term.
- 4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2016/2017 as rates have not been considered sufficiently favourable. It should be noted the Council's interest

rate on borrowing is very low, currently 3.34%, and as such the Council benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Performance continues to see the Council's rate of borrowing in the lowest quartile as compared to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £541.902m for 2016/2017. The Council's maximum external debt during the financial year to 30th November 2016 was £351.771m and is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.
- 4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 30th November 2016, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.83% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.24%. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market. The rate of return achieved is also in the top quartile according to our external Treasury Management advisors who have benchmarked our performance with other authorities.
- 4.6 The rate of return on investments, as previously reported, has remained at the very low levels seen in previous years and is likely to decrease further following the Bank of England cutting the base rate from 0.5% to 0.25% on 4th August 2016. There is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate which may not happen until 2019. Special tranche investment rates (which offer better than market average returns) have also followed the downward trend since base rates were reduced.

Interest rates are continuously monitored so that the Council can take advantage of any increase in rates when they do occur.

- 4.7 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management (TM) performance for the third quarter of 2016/2017.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

Detailed Treasury Management Performance – Quarter 3 2016/2017

A1 Borrowing Strategy and Performance – 2016/17

- A1.1 The Borrowing Strategy for 2016/2017 was reported to Cabinet on 10th February 2016 and approved by full Council on 2nd March 2016.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2016, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until the fourth quarter of 2016 before gradually rising to 1.75% by December 2018. PWLB borrowing rates were also expected to increase during 2016/2017 across all periods.

Following the EU Referendum on 23rd June 2016 and the vote to leave the EU, the Bank of England (BoE) cut the Bank Base Rate for the first time since March 2009 to an all-time low of 0.25%. It also expanded its Quantitative Easing programme by £60bn to £435bn and unveiled two new schemes; one to buy £10bn of high grade corporate bonds and the “Term Funding Scheme” potentially worth up to £100bn offering access to cheap long term funding for those banks that increase their lending activity despite the cut in the base rate. Financial analysts speculate that the Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019. However, a cut in the Bank Rate has not been dismissed in the unlikely event of a significant fall in economic growth.

The Autumn Statement announced on 23rd November 2016 predicted GDP growth of 2.1% in 2016 compared to 2.0% forecast in the March 2016 Budget due to the momentum created in the run up to the EU Referendum and post-Referendum performance. Growth prospects for future years have been lowered due to the potential of lower output over the next five years, largely as a result of the uncertainties and timing of Brexit. Forecasts for 2017 and 2018 have been revised to 1.4% and 1.7% (down from the March Budget estimates of 2.2% and 2.1% respectively).

Although the UK deficit has fallen over the last six years, debt and borrowing remain high. Given the result of the EU Referendum, the Office for Budgetary Responsibility (OBR) no longer predicts a budget surplus by 2019/20 with the new Chancellor scaling back the timing and pace of deficit elimination to as early as possible in the next Parliament. Public sector net borrowing of £21.9bn is predicted for 2019/20 against a forecast £10.4bn surplus in the March 2016 Budget, highlighting the predicted impact of lower economic growth on tax revenues. Compared to the March 2016 Budget the UK is forecast to need to borrow a further £122bn over the next five years.

The Chancellor also announced the abolition of the Autumn Statement. Instead annual budgets will be held in the Autumn from 2017 and fiscal statements made in the Spring. The new arrangements should support better tax and financial planning with changes announced well ahead of the start of each tax and financial year.

The BoE November Inflation Report revised its inflation forecasts up sharply, largely due to the effect of the sharp fall in the value of sterling since the referendum. The BoE increased the peak forecast for inflation from 2.3% to 2.7% during 2017 with other economic forecasters predicting CPI to peak at 3.2% in 2018. This exceeds the 2.0% target level for inflation and the Monetary Policy Committee has given a clear warning

that if wage inflation were to rise significantly they would take action to raise the Bank Rate.

Forecasts for PWLB interest rate levels have risen across all durations since Quarter 2 with benchmark rates of 1.60%, 2.30%, 2.90% and 2.70% for 5, 10, 25 and 50 year durations. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2016 and 2017. The volatility is highly correlated to geo-political events and sovereign debt crisis developments and the likelihood that increases in the US interest rate will occur more quickly and more strongly than the UK Bank Rate.

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

2016/2017	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %	Qtr 3* (Oct – Nov) %
7 days notice	0.36	0.20	0.12
1 year	1.11*	0.88*	0.90*
5 year	1.59*	1.09*	1.37*
10 year	2.25*	1.60*	2.02*
25 year	3.05*	2.34*	2.69*
50 year	2.83*	2.11*	2.46*

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

A1.2 The strategy for 2016/2017 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.00% for long-term borrowing was set for 2016/2017 in light of the views prevalent at the time the Treasury Management policy was set in March 2016. Volatility in the financial markets in Quarters 1 and 2 saw considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates which the Council has taken advantage of. This position has reversed recently with a large shift away from bonds and into equities and the overall longer term expectation is for gilt yields and PWLB rates to rise, albeit gently.

In line with discussions with the Council's economic advisors, the Council has sought to take advantage of the low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. As reported in the Second Quarter Review, the Council has taken out £20 million of new borrowing during the financial year as these rates were considered opportune. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
47½ years	15/06/2016	17/06/2016	17/06/2063	2.55	10.0
46½ years	01/07/2016	05/07/2016	05/01/2063	2.15	10.0

Since taking out this new borrowing rates have fluctuated before recovering to higher rates than the post-Brexit borrowing taken out. The position remains volatile and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future Capital Programme requirements.

- A1.3 The Borrowing Strategy for 2016/2017 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2016/2017 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2017.

- A1.4 The Council's treasury portfolio position at 30th November 2016 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	197.8		
	Market	39.6		
	Other	0.1	237.5	3.68
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			265.1	3.34

A2 Treasury Management Prudential Indicators – 2016/2017

- A2.1 All external borrowing and investments undertaken in 2016/2017 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

- A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2016/2017 as follows:

	£m
Borrowing	453.349
Other Long-Term Liabilities	88.553
Total	<u>541.902</u>

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

	£m
Borrowing	370.400
Other Long Term Liabilities	88.553
Total	<u>458.953</u>

The Council's maximum external debt in respect of 2016/2017 (to 30th November 2016) was £351.771m and is well within the limits set by both of these key indicators.

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

Prudential Indicators		2016/2017 (to 30/11/16)	
		Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	255,000	92,565
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	48,000	-9,830
P12	Maturity Pattern Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods	Upper Limit 50% 60% 80% 100%	11.32% 1.65% 5.77% 82.68%
P13	Upper limit for total principal sums invested for over 364 days	75,000	0

A3 Investment Strategy – 2016/2017

A3.1 The Investment Strategy for 2016/2017 was approved by Council on 2nd March 2016. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 30th November 2016, the funds managed by the Council's in-house team amounted to £205.560 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2016/2017 Actual to 30/11/16 %	2016/2017 Benchmark to 30/11/16 %
Return on investments	0.83	0.24

- A3.3 Investments placed in 2016/2017 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.
- A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.
- A3.5 Investment rates available in the market have continued at very low levels with further reductions following the decrease in the Bank of England Base Rate from 0.50% to 0.25%.
- A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions to shorter term periods.
- A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.
- A3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List is shown in Appendix C.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	<u>Maximum Deposit</u> £m	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These new limits are as follows:

Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non-UK	100

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

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

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA	-	Aa1	-	AA	-	350	2 years
Lloyds Banking Group (see Note 1)							Group Limit 80	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
Ulster Bank Ltd	BBB+	F2	A3	P-2	BBB	A-2	80	2 years
Santander Group							Group Limit 65	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank *	BBB+	F2	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	Aa3	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A2	P-1	-	-	50	364 days
Newcastle BS **	-	-	-	-	-	-	0	
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	
Skipton BS **	A-	F1	Baa2	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days

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

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

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA rating applied to them thus giving them a credit limit of £80m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

AUDIT AND GOVERNANCE COMMITTEE

16 December 2016

ANNUAL AUDIT LETTER 2015/2016

Report of the Interim Director of Corporate Services

1.0 Purpose of Report

- 1.1 This report details the external auditors (Mazars) Annual Audit Letter (AAL) covering the year 2015/2016. A copy is attached.

2.0 Description of Decision

- 2.1 Members are recommended to:
- Note and comment on the contents of this report.

3.0 Introduction

- 3.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing an AAL is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.
- 3.2 The AAL summarises the findings of the 2015/2016 audit, which comprises of two key elements:
- An audit of the Council's financial statements
 - An assessment of the Council's arrangements to achieve value for money in the use of its resources

4.0 Summary Position

- 4.1 The AAL is positive overall, providing a strong endorsement of the financial management and governance arrangements in place across the Council.
- 4.2 The Auditor issued an unqualified audit opinion on the Council's financial statements and in this respect the report confirms that the Council:
- Produced "good quality" accounts for 2015/2016, within the statutory timescales and gave a true and fair view of the council's financial position;
 - Produced an accurate Annual Governance Statement which was found to be consistent with the views of the auditor;

- Received no questions or objections to the accounts;
- Accurately reported its financial performance to government via the Whole of Government Accounts process.

4.3 The Auditor also issued an except for qualification on the Council's Value For money Conclusion (in relation to Ofsted's assessment of children's safeguarding services). The Auditor's position in this regard is unchanged for the financial year 2015/2016, despite the Council making significant strides to improve children's services, as they must issue a qualified value for money conclusion until Ofsted provide the Council with a positive Ofsted inspection report. Although Ofsted has acknowledged that the Council has made improvements and significant progress during the year to address the position it has not yet issued the required assurance the Council requires for the auditors to provide an unqualified VfM audit opinion. However they noted that, in all significant respects, the council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

5. Alternative Options

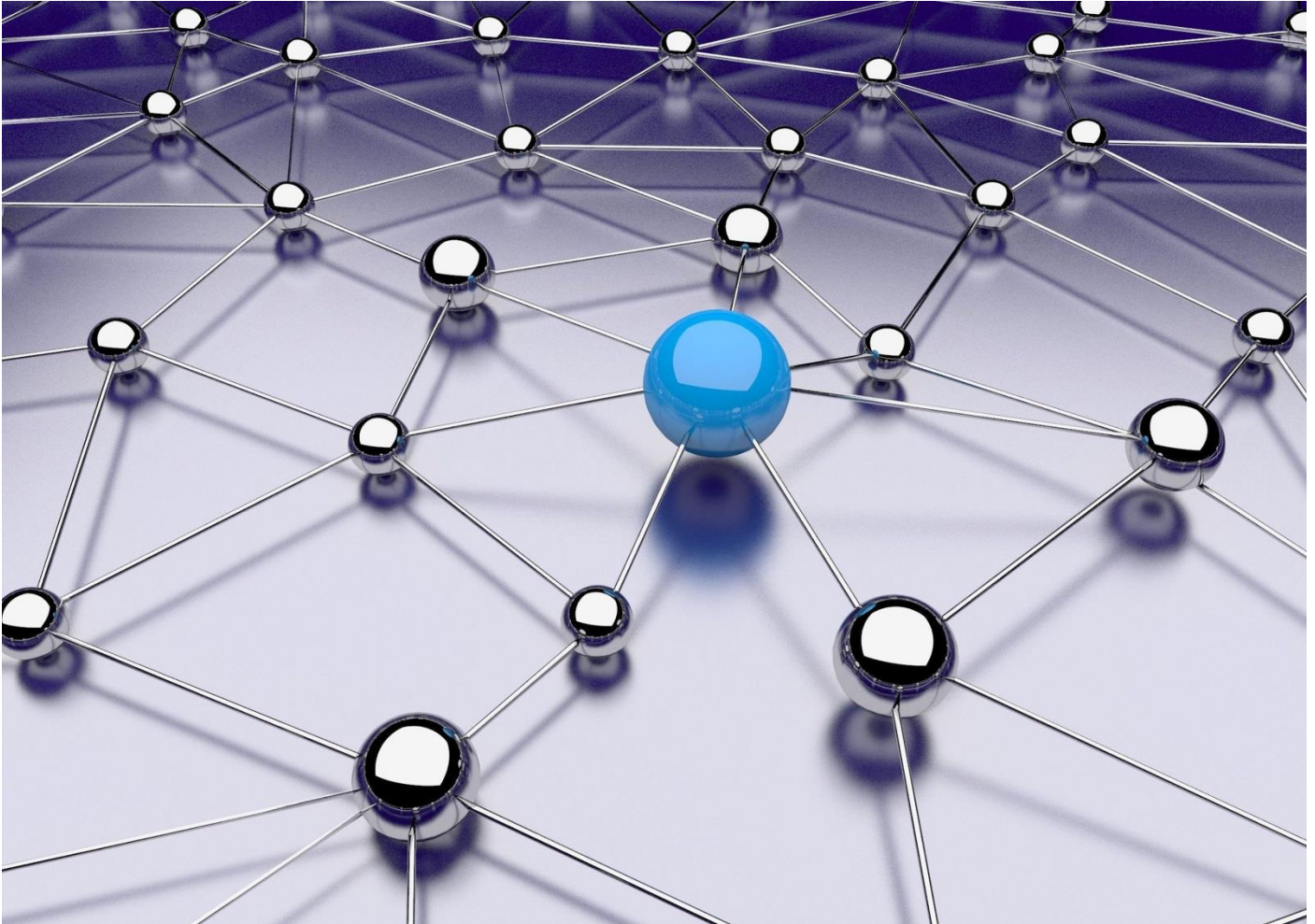
5.1 Not applicable as the report is for information only.

6. List of Appendices

6.1 Appendix A - Sunderland City Council Annual Audit Letter 2015/2016.

Annual Audit Letter 2015/16

Sunderland City Council



Sunderland
City Council

October 2016

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

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

18 October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you Sunderland City Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of our audit of the Council's 2015/16 annual accounts and our work on the value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/16 has been another challenging year for the Council and like most other authorities across the country Sunderland City Council made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

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

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

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

Yours faithfully

Mark Kirkham
Partner
Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party.

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

01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work in our Audit Completion Report for Sunderland City Council which was presented to the Audit and Governance Committee on 30 September 2016. The key conclusions for each element of our work are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2016.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Whole of Government Accounts

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 11 October 2016.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 30 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2016.

Risk and materiality

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer remuneration and members' allowances.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement 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. We updated our materiality calculation when we received the draft accounts and set the overall level at £7.57m. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

In applying our view of materiality we identified the following two significant risks:

- management override of controls; and
- accounting entries for pensions.

We carried out a programme of work to address these risks which included the testing of journals, transactions and disclosures.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports.

Accounting for the leisure joint venture

During the course of the audit we did encounter one complex technical matter that required discussion with management, relating to the accounting treatment of leisure assets transferred to the leisure joint venture.

The Council correctly derecognised the leisure assets (£52m valued at depreciated replacement cost) from its single-entity accounts as these assets were transferred to the joint venture company on a long term finance lease (125 years). The joint venture company prepared its accounts under Financial Reporting Standard 102 (FRS102) and included the leisure assets in its accounts at historic cost (nil), plus capital expenditure and less depreciation and impairment. This is a permissible accounting treatment under FRS102.

The issue arises on consolidation by the Council in the group accounts. The Council's single entity accounts reflect the disposal of £52m of assets, but the joint venture company in question values these same assets effectively at nil (the historic cost basis).

Following discussions with our financial reporting specialists and discussions with officers, management decided to make an adjustment in the group accounts to bring the valuation of the joint venture assets in line with a permissible valuation method under International Financial Reporting Standards (IFRS) as reflected in the Code of Practice for Local Authority Accounting. Depreciated replacement cost was the obvious method to use and information on this value was readily available.

Consequently, the Council made an adjustment to the group accounts to recognise that, on an IFRS basis rather than FRS102, the net asset value of the leisure joint venture company would increase by £52m and the Council's share of this (£26m) would be reflected in the group balance sheet. A disclosure note was added to the group accounts to set out the rationale and reasoning for this adjustment.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. The production of the statement of accounts is a significant technical challenge involving a great deal of work by the Council's officers. We appreciate the cooperation of management and the patience, courtesy and assistance shown to us in the completion of our work. Working papers and other supporting evidence were produced on a timely basis throughout the audit. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

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

Annual Governance Statement (AGS)

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

03 VFM conclusion

For 2015/16, we were required to satisfy ourselves that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the National Audit Office. This required us to consider one overall criterion as set out below.

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
Informed decision-making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we also:

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

Ofsted inspection of children's safeguarding services

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

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

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our 2014/15 VFM Conclusion. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015 'except for' the areas that were highlighted as inadequate in the Ofsted report.

We have noted that since the Ofsted report in July 2015, the Council has continued to tackle the issues raised in the Ofsted inspection by:

- working with a Government-appointed Commissioner for Children's Services who has advised on improvements and kept ministers informed about progress;
- developing an action plan and monitoring progress; improvements have been made, although it has also been recognised that there is still significant work to do and challenges to address; and
- exploring an alternative service delivery model for children's services and a separate children's company (Together for Children - Sunderland) will operate in shadow form from the autumn and be fully in place from 1 April 2017.

The conclusion in this area requires an expert judgment and we will only be able to revise our assessment that an 'except for' qualification is not needed when Ofsted fully update their assessment and services are no longer assessed as inadequate. Although Ofsted have carried out some follow up work, they have not yet carried out a full reassessment of children's safeguarding services.

Consequently, for the 2015/16 audit we included an 'except for' qualification to our VFM conclusion for the second year running.

Risk based work

We identified a significant audit risk around financial pressures from reduced funding and the continued need to identify plans to deliver future savings and improvements.

We were able to gain sufficient assurance from our work to mitigate the audit risk although we note that the scale of the financial challenge is significant.

The Council has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. The level of savings is, however, challenging and effects on service delivery are now noticeable. In 2015/16, significant additional savings were delivered by the Council and there was a small underspend against budget.

Further significant savings are planned for 2016/17 and beyond. The first quarter monitoring report in 2016/17 highlights good progress to date in achieving planned savings and careful monitoring of the financial position, including additional emerging financial pressures. This will be increasingly important in future as expenditure reductions could be more difficult to achieve.

Financial standing

Overall, the Council has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending, and has a strong track record of delivering savings and keeping within budget.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services. The 2015/16 revenue budget included £35.7m of savings proposals to address reduced funding and cost pressures.

The Council achieved a better than expected revenue outturn in 2015/16, and sustained a significant capital programme.

Area	Original Budget	Outturn Position	General Fund Balance at year end
Net revenue expenditure	£236.1m	£220k Underspend	£7.57m (previous year £7.57m)
Capital expenditure	£111.8m	£86.8m	n/a

While funding reductions have reduced the resources available to the Council, increased service demand in some key areas has created additional financial pressures during the year. The most significant in-year budget pressure in 2015/16 was in children's safeguarding services (£9.1m), where the Council sought to implement its improvement plans following the children's safeguarding services assessment by Ofsted.

The Council has a significant capital programme, and the outturn for 2015/16 was £86.8m, compared to an original budget of £111.8m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council also has a range of earmarked reserves for specific plans and projects that will help the Council to deliver its priorities. These reserves provide some flexibility if the Council needs to invest to save, for example, but there is a recognition that reserves cannot continuously be used to sustain services and the underlying budget reductions identified will need to be delivered.

Achievement of objectives

The Council is currently going through the approval process for a new Corporate Plan 2016 – 2020.

This sets out the Council's vision that "Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future" and the part that the Council will play in the vision that "Sunderland City Council will be the most effective community leadership council possible, in order to serve our communities and to ensure the city and its people fulfil their potential".

The table below summarises the Council's key corporate priorities.

Key Priorities	
Regenerating the city	<ul style="list-style-type: none">• Growing the economy;• Improving education and skills; and• Improving health and wellbeing.
Safeguarding our residents	<ul style="list-style-type: none">• Supporting vulnerable children and families;• Supporting vulnerable adults and carers; and• Building resilient communities.
Future council	<ul style="list-style-type: none">• New ways of working and collaboration; and• New ways of delivering services.

The Corporate Plan builds on the Council's previous work and sets out a clear vision of its aspirations for the city and the high level actions that underpin its priorities. It places this in the context of the difficulties the Council has faced and continues to face in relation to public sector austerity and recognises the need for change, not just in the Council but in the communities it serves:

"We must focus on those services we need to provide and make sure we are as efficient as possible in doing so. Given the level of savings needed we must radically rethink the way we work and this will inevitably impact on the services. The frequency and standards of some services may reduce in some areas of activity, and we may need to stop offering some non-essential services altogether.

We will also need to make sure we operate as commercially as possible in generating external income. Our aim is to do all this in a way that minimises the impact on residents, communities and businesses, and on the city itself.

We need to think of more innovative and collaborative ways to make sure the people in the greatest need are supported. More must be done to reduce demand and build individual and community resilience through encouraging self-help and greater personal responsibility."

Extract from Corporate Plan 2016 - 2020

Whilst the Council has continued to progress its priorities over the last year, the Council has experienced significant changes in senior management, and interim arrangements have been in place in some areas, including at Chief Executive and Executive Director of Corporate Services level. In these circumstances it is clear that some direction and momentum has been lost during 2015 and early 2016.

The current Interim Chief Executive took up post in April 2016 and has proposed changes to the senior management structure that aim to realign resources with priorities. This should provide clarity for senior management on their roles and responsibilities and end a period of considerable uncertainty. The size and shape of the Council has changed in recent years and future plans, including the creation of a children's services company, suggest the potential need for further structural change to reflect the new realities.

With the focus in recent years on downsizing the organisation significantly, during 2016, the Council has also recognised the need to reinvigorate its performance management framework.

Work to date has focused on establishing monthly performance clinics at which the Chief Executive holds senior management to account for delivery of the Corporate Plan and ongoing core service delivery, as well as implementation and management of key changes and improvements.

In addition, service plans are being developed to underpin the Corporate Plan and key priorities and establish the key measures of performance that will demonstrate whether the Council is achieving its objectives. The first formal reporting to Members on performance management has taken place recently, and quarterly reporting to Members is planned throughout 2016/17 and beyond.

These measures are very encouraging and we can see the Council is establishing the 'golden thread' so that key priorities are evident at a corporate and strategic level through the Corporate Plan and other strategies, but are also the focus of work in directorate, service and individual performance plans, with robust monitoring at officer level and appropriate reporting and opportunity for challenge by Members.

Overall conclusion

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The exception to this are the areas of children's safeguarding services that were identified as inadequate in Ofsted's report to the Council in July 2015, and the consideration of which was set out earlier in this report.

04 Future challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to ensure spending is kept within available resources.

The Council has set its revenue budget for 2016/17, including a 4% council tax increase. The Council needs to deliver a further £46.6m of reductions in 2016/17 and potentially a further £74m in the following three years (after already reducing expenditure by £207m in the period 2010/11 to 2015/16).

The first quarter monitoring report for 2016/17, reported to the Executive on 22 June 2016, identified that of the £46.6m savings required:

- £38.0m of savings had been realised
- £3.8m of savings not yet fully implemented, but good progress is being made on plans; and
- £5.1m of savings where delays and issues have been identified and corrective action or alternative options are being considered.

In addition, it was reported that a further £3.1m of additional financial pressures were being experienced in areas including safeguarding and adult social care. This demonstrates the continued close monitoring of the financial position, which coupled with a strong record, provides us with assurance that proper arrangements are in place for financial management.

Our observations on the key challenges for the future include:

- fully implementing and embedding the new management structure;
- making a reality of the key priorities in the Council Plan 2016 – 2020;
- continuing to develop and implement the performance management framework along the lines envisaged to underpin the Council's key priorities and make sure that they are delivered effectively;
- delivering the improvements in children's safeguarding services and make a success of the new children's services company;
- continuing to develop the foundations that have been put in place through Council-owned companies, such as Sunderland Care and Support Ltd, and through two joint ventures, Siglion LLP, and Sunderland Lifestyle Partnership Ltd;
- progressing delivery of the infrastructure projects that have been put in place, including the City Deal and the creation of a new International Advanced Manufacturing Park; the Sunderland Strategic Transport Corridor, including the building of a new Wear Crossing; and development of the Vaux site and St Mary's Boulevard aimed at reinvigorating the city centre;
- positioning the city to best advantage in terms of devolution, although we recognise there have been some recent setbacks in this respect; and
- managing the risks to the city of Brexit (some of the immediate risks are already well documented and have been subject to media reports), and positioning the city as well as possible to deal with any challenges and opportunities that arise.

In September 2016, the Council experienced a major failure in its IT systems arising from issues in the computer room at its main data centre. The Council had to restore all of its computer systems from its back-up site. These issues presented an immediate short-term challenge, and may also have medium to long term implications.

We will focus our 2016/17 audit on the risks that the challenges facing the Council present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

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

Another key focus in the coming year will be on working with officers to prepare for the bringing forward of the accounts and audit timetable which will take effect from the 2017/18 financial year.

05 Fees

As outlined in our Audit Strategy Memorandum for Sunderland City Council presented to the Audit and Governance Committee on 18 March 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee	2015/16 As previously reported	2015/16 Final Fee
Code audit work	£181,032	£135,774	£135,774
Certification work	£10,300	£9,309	£9,309
Non-audit work	£16,870	£3,550	£11,190
Total	£208,202	£148,633	£156,273

All fees are shown excluding VAT

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

Analysis of non-audit work for 2015/16:

Non-audit services	2015/16 Actual Fee
2015/16 Skills Funding Agency Grant Claim Work	£3,550
2015/16 Teachers' Pensions Return	£2,750
Market Analysis for Sunderland Care and Support (SCAS) Mutualisation & Research into commissioning intentions for care and support services in the North East region	£4,890
Total fee	£11,190

All fees are shown excluding VAT

Mazars LLP is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and taxation services to the company. The total fees relating to audit, accounts preparation and tax work were £23,307 plus VAT for the 2015/16 financial year (£24,580 plus VAT for 2014/15).

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

Mark Kirkham

Partner

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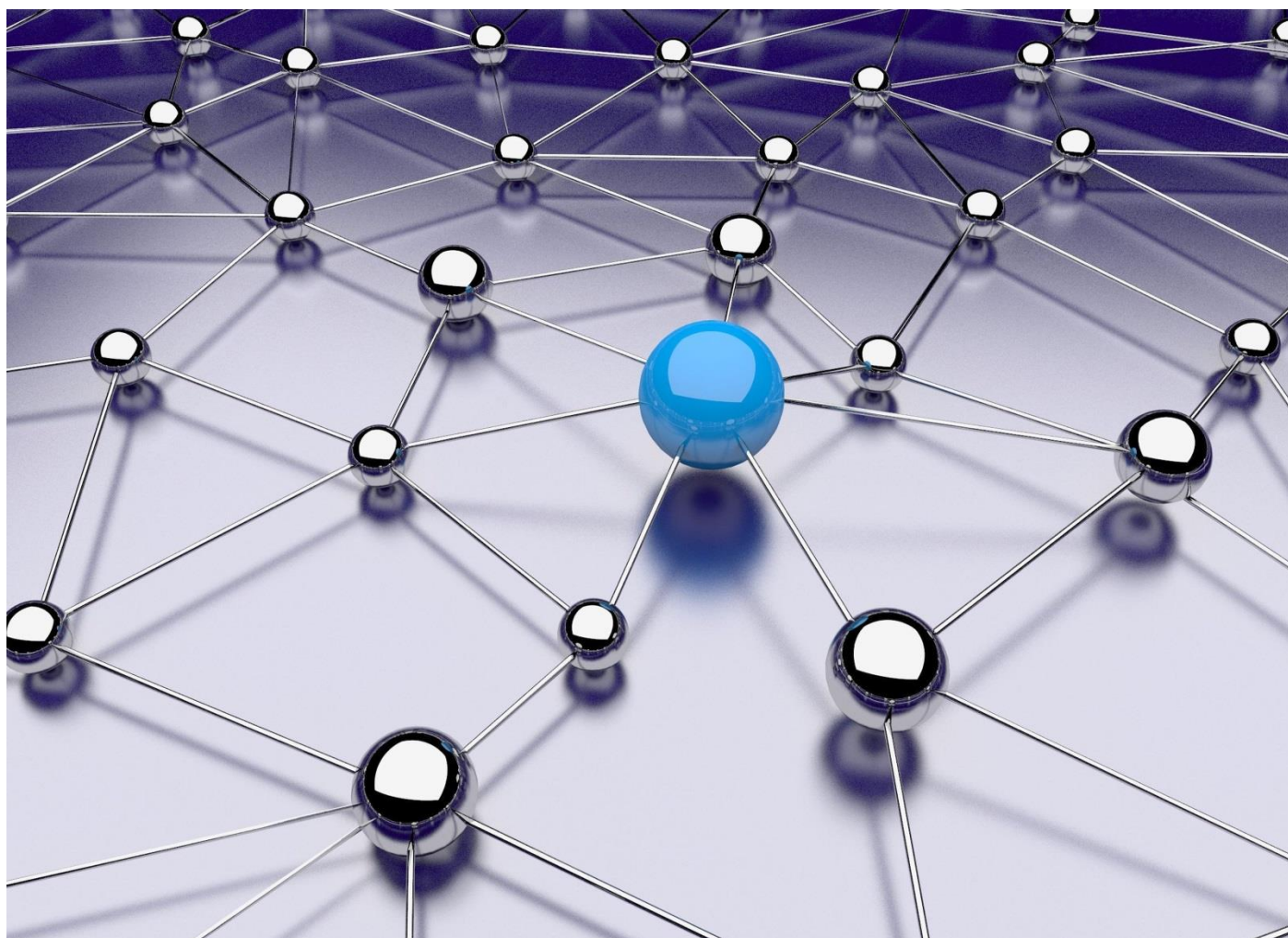
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Sunderland City Council

Audit Progress Report

December 2016



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

01 Introduction

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

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

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

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

02 Audit progress

Completion of the 2015/16 audit

At the meeting of the Audit and Governance Committee on 30 September 2016 we reported that we would issue an audit opinion and VFM conclusion later that day.

On 30 September 2016, we were able to issue:

- an unqualified opinion on the Authority's financial statements; and
- our conclusion that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016 'except for' the areas that were highlighted as inadequate in the Ofsted report of July 2015 on children's safeguarding services.

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your Whole of Government Accounts (WGA) consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts on 11 October 2016.

Following this, we issued an audit certificate formally concluding the 2015/16 audit, also on 11 October 2016.

We finalised our Annual Audit Letter in October 2016 and we will be presenting it as a separate agenda item to this meeting. This summarises our work and findings as well as outlining future challenges.

Certification of claims and returns

Work on the 2015/16 Housing Benefits Subsidy Claim is complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2016.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return.

Results of certification work 2015/16

In 2015/16 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. For the Housing benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

Sunderland City Council's 2015/16 Housing benefit subsidy return was submitted with amendment and a qualification letter as set out below.

Claim or return	Value of claim	Amended	Qualified
Housing benefit subsidy	£124,188,041	Increase of £76,982 mainly related to clarification of ownership of certain properties and hence their classification for subsidy purposes (these had initially been omitted from the claim pending this clarification)	Yes, one qualification relating to misclassification of rent allowance overpayments from sample testing (one error was identified from a sample of 40 cases); if this was extrapolated over the whole population, there would have been a gain in subsidy of £11,536. The Government Department will not normally pay additional subsidy where potential gains are extrapolated.

As was also the case in 2014/15, we did not make any recommendations or highlight any significant issues for improvement.

Fees

PSAA set an indicative fee for our work on the Council's Housing benefit subsidy return. We confirm that the final fee payable for this work as outlined in the table below is in line with the indicative fee. The following fee was charged for the 2015/16 work.

Claim or return	2015/16 indicative fee	2015/16 final fee	2014/15 final fee
Housing benefit subsidy	£9,309	£9,309	£10,300

Additional schemes outside the national arrangements

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

As reported in the annual audit letter, we made arrangements for the certification of the Teachers' Pension Return for 2015/16, for an agreed fee of £2,750 plus VAT.

The work on the Teachers' Pensions return was completed and reported ahead of the deadline of 30 November 2016.

2016/17 audit planning

Planning for the 2016/17 audit will be the focus of our work in the first quarter of 2017.

03 National publications and other updates

This section contains updates on the following:

1. **Regularity, Compliance and Quality Report 2015-16, PSAA August 2016**
2. **Local Public Service Reform, NAO, September 2016**
3. **Understanding Local Authorities Financial Statements, CIPFA, September 2016**
4. **Alternative Delivery Models, CIPFA, October 2016**

1. **Regularity, Compliance and Quality Report 2015-16, PSAA, August 2016**

Public Sector Audit Appointments Ltd (PSAA) is responsible for appointing the Authority's auditor, and assessing the performance of all appointed auditors. This consists of monitoring both the quality of the work undertaken and the regulatory compliance of all firms appointed under the Local Audit and Accountability Act.

The audit quality and regulatory compliance monitoring for 2015/16 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of the inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of PSAA's commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2014/15 work.

PSAA has recently completed this process for 2015/16. A 'RAG' rating system is used, and we are delighted to inform you that Mazars is one of only two firms that have been consistently graded '*green*' in all areas, scoring joint-highest for quality of work undertaken, and highest for client satisfaction.

2016 Comparative performance for audit quality and regulatory compliance

BDO Green	Deloitte Green	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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2015 Comparative performance for audit quality and regulatory compliance

BDO Amber	Deloitte Amber	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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Areas for improvement were identified in the report, and we are committed to acting on the recommendations and further strengthening our audit approach for 2016/17.

The report can be found at: <http://www.psaa.co.uk/audit-quality/>

2. Local Public Service Reform, NAO, September 2016

The NAO undertook research early in 2016 to ascertain:

- How local public service reform is being pursued in eight places in England;
- What the enablers and barriers are; and
- How the Government is supporting reform at a local level.

In September 2016 they published a report summarising their findings and identifying sources of help for public services needing to redesign services to be financially sustainable. The report concludes that by working together, and with service users and citizens, local public services can both improve outcomes and save money but a strategy is needed that:

- prevents or reduces demand for costly services;
- makes it easier for people to get access to the support they need; and
- re-designs services to meet people's needs in a more integrated and effective way.

The report is available on their website.

<https://www.nao.org.uk/report/local-public-service-reform/>

3. Understanding Local Authority Financial Statements, CIPFA, September 2016

This publication updates previous CIPFA guidance designed to make the complex financial statements required for local authorities more understandable. The 2016/17 Code includes a revised format that is closer to that used for management reporting during the year. The document describes the changes and identifies opportunities to simplify presentation and make the messages clearer regarding:

- Comparison with budgets;
- Reserves positions; and
- Cash Flow.

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

4. Alternative Delivery Models, CIPFA, October 2016

Alternative service delivery models of various shapes and sizes are increasingly being used to deliver a growing number and range of public services in many locations in the UK.

An alternative delivery model can be a different way of managing, collaborating and contracting, or it can involve the establishment of a completely new organisation that could be wholly, or partly owned by the parent body or a completely independent enterprise.

They range from small community-based initiatives, employee led spin outs (large and small), local authority companies, to substantial multi-stakeholder partnerships involving private and public sector organisations.

At their best, these new models can provide greater flexibility and dynamism, while maintaining continued commitment to public service and wellbeing. This combination of innovation in public enterprise and public/social purpose can make them effective vehicles for improving service outcomes.

<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-alternative-delivery-models-online>

04 Contact details

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

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