

AUDIT AND GOVERNANCE COMMITTEE
Friday 29 September 2017

Present:

Mr G N Cook

Councillor G Walker and Mr M Knowles.

In Attendance:

Barry Scarr (Executive Director of Corporate Services), Paul Davies (Head of Assurance, Procurement and Performance Management), Tracy Davis (Assistant Head of Assurance), James Magog (Chief Accountant), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Speding and Wood.

Minutes

8. RESOLVED that the minutes of the meeting of the Committee held on 21 July 2017 be confirmed as a correct record.

Councillor Geoff Walker was welcomed to his first meeting of the Committee.

Risk and Assurance Map 2017/2018 – Update

The Head of Assurance, Procurement and Performance Management presented the updated Risk and 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.

The Head of Assurance, Procurement and Performance Management directed Committee Members to the Risk and Assurance Map and advised that this had been updated to reflect the new Priority Themes which had been set out as part of the

updated Corporate Plan and Corporate Delivery Plan. The Strategic Risk Areas were the nine themes within the Corporate Plan and the full detail of these was shown at Appendix 2.

The Strategic Risk Profile had been revised and updated in line with the new Corporate Delivery Plan and new risks developed in consultation with Directorates as follows: -

- R012: Unable to commission/procure flexible arrangements for the delivery of Place services, that will continue to respond to changing stakeholder requirements and deliver the required efficiency savings;
- R018: Inability to change the structures (i.e. workforce, technology, processes, customer engagement), service capability and culture of the company [TfC] to deliver the improved outcomes to vulnerable children;
- R019: Activity to improve the care options for Adults does not meet the needs of individuals or result in reduced costs to the Council; and
- R020: Agitators use national issues/incidents to heighten tensions in local communities in Sunderland.

Three existing risks had also been reworded and, in some cases, moved into a new Priority Theme as follows: -

- R002: 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 growing north east economy to benefit the people of Sunderland.
- R003: Local workforce does not have the required skills to take advantage of the growing north east economy; and
- R010: Opportunities are not taken to regenerate the coast in a timely manner or development is restricted by a lack of resources.

The Head of Assurance, Procurement and Performance Management said that it was pleasing to note that the cumulative assurance position for all of the Strategic Risk Areas were rated as green and amber and this showed that mitigating actions were being progressed.

The full detail of the Corporate Risk Areas was set out in Appendix 3 and Members' attention was drawn to the cumulative assurance position in two areas: there was no assurance position in relation to Health and Safety because no audit had yet taken place to give a view; and the Cyber Security risk area was showing as having limited or no assurance as a result of the last audit although this was now out of date, however the position would not change until a new piece of work was carried out, which was planned for this year.

In relation to the council owned companies listed at the bottom of the Risk and Assurance Map, the Committee were advised that Together for Children had been added during the last quarter but showed no assurance position because sufficient work had not yet been undertaken. The first audit of the company was almost complete and a report would be taken to the Audit and Finance Committee of Together for Children Limited.

The new housing company, Sunderland Homes Limited, had been added to the Map and a programme of audit work was being developed for the company.

The overall assurance position for ICT infrastructure remained amber but the ICT internal assurance column had changed to green. An audit was being carried out in relation to Disaster Recovery/Business Continuity to confirm this position.

There remained a number of red areas on the Map in relation to external assurance and most of these were related to the Ofsted inspection of Children's Safeguarding. There was a judgement of little or no assurance in relation to Information Governance and Members were advised that there was a project which had been set up to implement the new General Data Protection Regulation (GDPR) and this would be likely to change the assurance position going forward.

The report highlighted the major areas of work which the Risk and Assurance Team were involved in and these included complex and high level schemes such as the New Wear Crossing, the development stage of the SSTC and the International Advanced Manufacturing Park.

All of the Key Performance Indicators were on track apart from the percentage of medium risk recommendations which had been implemented which stood at 89% against a target of 90%. This was not an issue of concern for the service area.

The Assistant Head of Assurance advised that the National Cyber Security Centre had issued a document a few years ago on 'Ten steps towards cyber security' and this had been used in past risk work and would be used again to look at the refreshed arrangements. The National Audit Office had also issued guidance for Audit Committees on Cyber Security and Information Risk which provided the areas that committee members should be receiving assurance about. The Assistant Head of Assurance advised that these areas would be covered within the planned audit and the results fed back to the Committee.

Mr Knowles commented that there were always risks when data was shared and the Assistant Head of Assurance said that this would be covered within the upgraded Office 365 system as this offered sharing of data for both systems and people.

Having considered the report, the Committee: -

9. RESOLVED that the update Risk and Assurance Map 2017/2018 be noted.

Treasury Management 2017/2018 – Second Quarterly Review

The Executive Director of Corporate Services presented a report outlining the Treasury Management performance for the second quarter of 2017/2018 and setting out the Lending List Criteria, Approved Lending List and the Risk Management Review of Treasury Management.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. The

Committee were advised that PWLB rates had fluctuated throughout 2016/2017 and continued to be volatile, therefore no new borrowing had been taken out to date in 2017/2018; however it was expected that borrowing would be taken out during the next financial year.

The Council's interest rate on borrowing was very low, currently 3.40%, and the authority benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.53% compared with a benchmark of 0.11%.

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 Appendix C to the report for information. It was noted that Moody's had recently downgraded the UK's credit rating and this would be reflected in the next quarterly review.

Mr Knowles asked how assurance could be given that the Authority would not run out of cash and the Chief Accountant advised that cashflow was reviewed daily and there was a monthly meeting to assess capital and revenue spending and if borrowing might be required. It was not envisaged that there would be any borrowing during this year and the Committee were informed that meetings were held between the Executive Director of Corporate Services and Capita on a six monthly basis and they provided external assurance.

With regard to forecasting on cashflow, the Executive Director of Corporate Services stated that this was very conservative and capital spending did not often go as expected and would usually end up with a surplus. Technically the Council could not run out of funds as it would borrow to cover this but discussions were currently taking place on adopting a more risk based approach to cash management.

10. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2017/2018 be noted; and
- (ii) the Lending List Criteria set out at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Annual Audit Letter 2016/2017

Gavin Barker, Mazars LLP, presented the Annual Audit Letter for the year ended 31 March 2017 which provided a summary of work which had been undertaken for

Sunderland City Council and was designed to be read by a wider audience including the public and external stakeholders.

The audit had been concluded in July, two months earlier than usual in preparation for changes to the accounting requirements for the 2017/2018 audit and the Value for Money conclusion had been qualified due to the Ofsted judgement of 'inadequate' for children's safeguarding services which was still in place. In all other respects, there were no issues in relation to the audit.

The Letter summarised the outcome, approach and methodology for the audit and highlighted levels of materiality and significant risks. It also set out the approach and commentary on the Value for Money conclusion and how significant risks to Value for Money were considered.

Mazars had a number of other reporting responsibilities which were highlighted within the report, including reporting to the National Audit Office in respect of the Whole of Government Accounts. There were no matters to report in relation to any of Mazars' other responsibilities.

The final fee for audit work was in line with expectations and it was noted that Mazars had been commissioned to carry out some additional work in relation to the Skills Funding Agency grant claim and the Teachers' Pension Return. The Letter concluded by looking ahead to future challenges for the Council and how the external auditors would work with the Authority going forward.

The Executive Director of Corporate Services stated that the £3.6m budget gap which had been referenced in the Letter had now been addressed and the Council's Medium Term Financial Strategy was now balanced until 2020. There were no red rated savings and there was an underspend of £1.7m projected at the end of the second quarterly review of the Capital Programme.

Having thanked the external auditors for their pleasing report, the Committee: -

11. RESOLVED that the Annual Audit Letter 2016/2017 be noted.

External Auditor Progress Report

Mazars, the Council's external auditors, presented their regular Audit Progress Report covering the period up to September 2017.

Gavin Barker advised that the 2016/2017 audit work had been completed apart from the completion of the certification of claims in relation to housing benefit. This work was due to be complete by 30 November 2017. Planning for the 2017/2018 audit would begin in the next quarter.

The report highlighted the publication of the following documents: -

- 2017-2018 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017

- Reality check: next steps in delivering sustainability and transformation plans, CIPFA, April 2017
- The levy, apprenticeships and the public sector, CIPFA, May 2017
- Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017
- Procurement of audit services delivers outstanding results, Public Sector Audit Appointments Ltd, June 2017
- Online Fraud, NAO, June 2017
- Annual Regulatory Compliance and Quality Report 2016-2017, Public Sector Audit Appointments Ltd, August 2017
- Cyber security and information risk guidance for Audit Committees, NAO, September 2017
- Homelessness, NAO, September 2017

The Committee were informed that following the process for procuring audit services for local authorities, Mazars LLP had increased their market share. Contracts would begin for the 2018/2019 financial year and run for five years with an option to extended for a further two years. The new contract would bring forward a possible reduction in scale fees of 18%. It was highlighted that the performance of Mazars had been consistently of a high standard and this was evidenced in the Compliance and Quality report produced by Public Sector Audit Appointments Ltd.

Accordingly the Committee: -

12. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair