

AUDIT AND GOVERNANCE COMMITTEE
Friday 16 December 2016

Present:

Mr G N Cook

Councillors O'Neil, Scullion and Mr M Knowles.

In Attendance:

Paul Davies (Head of Assurance, Procurement and Project Management), Liz St Louis (Head of Customer Service and Development), Tracy Davis (Assistant Head of Assurance), James Magog (Chief Accountant), 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 Councillors Speding, N Wright and Wood.

Minutes

16. RESOLVED that the minutes of the meeting of the Committee held on 30 September 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.

The Committee were informed that since the major incident in relation to IT all of the estate had been moved to the secondary data centre at Jack Crawford House and a large amount of work had been done to better prepare the authority for moving the estate back to the primary data centre at Moorside. New temperature sensors had been installed to notify officers if the temperature in the centre was rising or if the air conditioning unit failed.

New infrastructure had been procured to replace that which had been damaged and Jack Crawford House was now a full replica of Moorside where previously it had only replicated 40% of the primary data centre. The infrastructure was currently being

installed and the whole estate would be migrated to Moorside in January. A full and complete Business Continuity Disaster Recovery test had been carried out and this would give a large amount of reassurance. Moving forward it was intended to carry out a full test every three months. The major systems such as SAP, telephony, Telecare and social care would also be tested on a quarterly basis.

The Chair thanked Liz for her update and asked that she come back to the Committee in March so that the work could be signed off.

Councillor Scullion enquired about the communication in relation to testing and Liz stated that system users were always made aware when testing was going to take place and communication had already begun for a full weekend of testing scheduled for January.

Councillor O'Neil requested further explanation of the primary and secondary data centres and Liz advised that everything worked from the production site at Moorside which was now backed up 100% at Jack Crawford House meaning that all systems could immediately be replicated from one centre to another if there was a major incident.

Mr Knowles supported the Chair's request for a further report in March and asked how third party assurance could be obtained in relation to the new arrangements. The Head of Assurance, Procurement and Project Management advised that one of the audit team was a computer specialist and would be involved in the installation of the new infrastructure. He added that external experts had been brought in on previous occasions. Liz highlighted that the service was working with an external contractor who would sign off the work and a complete check of the facilities and electrical supply had been requested from outside bodies.

Corporate Assurance Map 2016/2017 – Update

The Head of Assurance, Procurement and Performance Management 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 informed that it did not yet reflect the updated Strategic Risk Profile. There was no change to the position in relation to Corporate Risk Areas and there were no new red areas in the Internal Audit and External Assurance columns. ICT Strategy and Delivery had been judged to have limited or no assurance by Risk and Assurance and this was in relation to the position outlined by the Head of Customer Service and Development earlier in the meeting. This would remain red until the new infrastructure was fully operational and then the assurance level would be reviewed.

The Corporate Risk Area of Partnerships was judged to be red by Internal Audit as there had been a number of issues identified in relation to the Partnership Code of Practice. There was a lot of work going on in this area and this would be followed up by Internal Audit.

In relation to Information Governance, the position with regard to physical security checks was better than it was but there was still some non-compliance. There had been recent issues with emails not being secured to the appropriate level within Adults and Children's Services and work was being undertaken to ensure that all staff had a GCSX email account. The assurance position was now moving from red to amber but this would continue to be monitored to ensure that changes were maintained and embedded. Internal Audit had also found a range of issues with relation to income collection at Sunderland Live Limited and this would also be followed up.

The External Assurance column would remain red in relation to the Ofsted report on Children's Safeguarding until a full Ofsted inspection judged the service to have improved significantly.

The Head of Audit, Assurance and Performance Management drew attention to the wide range of areas which the Risk and Assurance Team was involved in, including major capital schemes, the International Advanced Manufacturing Park and the new Children's Company. The performance for Internal Audit was on target with the exception of the implementation of significant risk and medium risk recommendations. The implementation of significant risk recommendations stood at 97% against a target of 100% and this was due to an outstanding recommendation in relation to the setting up of GCSX accounts for relevant staff.

Mr Knowles referred to Information Governance which had been an issue for some time and asked if there was anything else that the Committee needed to be concerned about. The Assistant Head of Assurance reminded Members that they had previously been told about the Information Governance Toolkit and the Council had achieved a Level 2 in relation to this, meaning that the basics were in place but more evidence needed to be collected in order to reach a higher level of compliance. Once the framework was in operation this would inform the assurance map and it was suggested that the framework be brought to a future meeting of the Committee.

Having considered the report, it was: -

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

Updated Corporate Assurance Map

The Head of Assurance, Procurement and Performance Management submitted a report setting out the proposed new Corporate Assurance Map which had been developed on the basis of the recently agreed Strategic Risk Profile and a new Corporate Risk Profile which had been developed for the first time.

The Committee had received a report on the new Strategic Risk Profile in September 2016 which had set out the risks to the Council's Strategic Priorities. A Corporate Risk Profile reflecting the Authority's operational risks had been developed and was attached as Appendix 2 to the report. The risk areas would be brought forward to the Corporate Assurance Map and the profile set out the risk description, theoretical causes and impacts. The original risk score reflected the current position and the

target score indicated where the Council wanted to be in twelve months' time. The profile also included high level mitigating actions and the sources of assurance which were different to those within the Strategic Risk Profile.

Appendix 3 of the report showed the revised Corporate Assurance Map and it was highlighted that the number of Corporate Risk Areas had increased from 17 to 24 so the map was more comprehensive. The Council owned companies, Sunderland Care and Support and Sunderland Live Limited were included within the map but would also have their own maps sitting beneath it.

The Chair noted that the map was becoming more sophisticated and had proven to be very helpful to the Committee.

Mr Knowles queried if the target scores were draft or if they had been signed up to. The Head of Assurance, Procurement and Performance Management stated that the target areas had been agreed by the Executive Management Team and would be agreed by the Committee. Mark Kirkham expressed surprise that the Cabinet had not signed off the target scores and the Head of Assurance, Procurement and Performance Management agreed to take that issue back.

18. RESOLVED that: -

- (i) the contents of Corporate Risk Profile be noted; and
- (ii) the format of the proposed Corporate Assurance Map be noted.

Corporate Assurance Map Consultation for 2017/2018

The Head of Assurance, Procurement and Performance Management submitted a report consulting the Committee on the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year.

The Committee were advised that some elements of the plans of work would be driven by the risk profile and some were project based. The report set out a number of areas which were expected to be a priority for 2017/2018 including ongoing support and audit work in relation to Council owned companies, arrangements for managing the delivery of the Transformation Programme and budget reductions, arrangements for the provision of ICT infrastructure, economic development, adult social care and commissioning and contract management. The Head of Assurance, Procurement and Performance Management emphasised the need to be mindful that the level of resource in teams was reduced and the flexibility which used to exist was no longer there. The teams would focus on high risk areas.

The Chair expressed his concern about the reduction in resource for the work and that it was critical that there were enough people to complete the plans of work. In relation to commissioning, he was interested to see the stages through which companies were checked and the level of scrutiny and reassurance which the Council was seeking. He wished to see how the Council was reacting to situations, particularly with regard to contracts which used to be operated by the authority itself.

Mr Knowles enquired if the external auditors assessed the work of Internal Audit and the Committee were advised that the last assessment of the service had taken place three years ago and was due to be revisited.

Regarding the process for the approval of the plans of work, these would be taken to the Executive Management Team prior to the Audit and Governance Committee in March 2017. The Head of Assurance, Procurement and Performance Management advised that as head of Internal Audit, it was his role to determine the scope of audit work.

Having considered the report, the Committee: -

19. RESOLVED that the priority areas for the plans of work for the Internal Audit and Risk and Assurance teams be noted.

Treasury Management – Third Quarterly Review 2016/2017

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

The Chief Accountant highlighted that the Treasury Management performance continued to be positive and 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 in Quarter 2 but there had been no new borrowing taken out within Quarter 3. There had been no debt rescheduling in 2016/2017 as rates had not been considered sufficiently favourable.

The Council's interest rate on borrowing was very low, currently 3.34% and was amongst the lowest quartile when compared to other authorities. The rate of return on investments was 0.83% compared with a benchmark of 0.24% and the Chief Accountant advised that this rate would lower in the future.

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.

20. RESOLVED that: -

- (i) the Treasury Management performance for the third quarter of 2016/2017 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Annual Audit Letter 2015/2016

The Interim Director of Corporate Services submitted a report presenting the external auditors' Annual Audit Letter covering the year 2015/2016.

Mark Kirkham and Gavin Barker from Mazars were in attendance to present the report. Mark highlighted that the external auditors had set out their audit findings in September and the Annual Audit Letter reminded Members of those conclusions and referenced the main challenges being faced by the Council.

Gavin Barker drew Members' attention to the key messages in the Annual Audit Letter noting that Mazars had issued an unqualified opinion on the Council's financial statements and a qualified Value for Money conclusion. There were no issues in relation to the Whole of Government Accounts and there was no cause to exercise any formal audit powers or responsibilities. The work was designed to give reasonable assurance that the financial statements had no serious misstatements.

The external auditors had adopted a risk based approach and had found no issues to report with a complex technical matter in relation to the accounting treatment of the leisure assets transferred to the leisure joint venture having been resolved. The arrangements for the preparation of the accounts were very good and Gavin expressed appreciation on behalf of the auditors for constructive and responsive approach of officers.

Gavin advised that a risk based approach was also adopted for the Value for Money Conclusion and the external auditors were required to satisfy themselves that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Mazars had found that the Council had continued its strong performance whilst delivering savings and managing significant financial pressures. The external auditors had also noted the key corporate priorities set out in the Council's Corporate Plan and the changes which had taken place in the senior management team.

The Annual Audit Letter set out what Mazars saw as the future challenges for the Council and Gavin highlighted the importance of the new management structure of the Council, the key priorities set out in the Corporate Plan, the further development of the performance management framework, joint ventures and infrastructure projects and ICT issues.

In terms of technical challenges moving forward, the auditors would be working with officers as they made preparations for the requirement to reflect transport

infrastructure on a fair value accounting basis as required by the accounting Code. Preparations were also being made for the accounts production timetable to be brought forward for the 2017/2018 financial year and a dry run would be put in place for the 2016/2017 financial statements.

Finally, Gavin drew attention to the significant reduction in fees from 2014/2015 to 2015/2016 and advised that this reflected the efficient procurement arrangements which were in place.

Having considered the report, it was: -

21. RESOLVED that the content of the Annual Audit Letter be noted.

External Auditor Progress Report

Mazars, the Council's external auditors, presented their regular Audit Progress Report covering the period up to December 2016.

Gavin Barker advised that the report summarised the completion of the audit of the Council's financial statements and the completion of the Housing Benefits Subsidy Claim. The claim had been submitted with an amendment and qualification letter highlighting minor issues, however there had been no recommendations or any significant issues for improvement highlighted.

The additional work in relation to the Teachers' Pension Return had also been completed and reported and there were no issues to report.

The report highlighted the publication of the following documents: -

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

Accordingly the Committee: -

22. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair

