

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the
CIVIC CENTRE on Friday 29 June 2012**

Present:

Mr G N Cook

Councillors Forbes, Speding, T Wright and Mr J P Paterson

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Steve Nicklin (Audit Commission) and Gillian Warnes (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Farthing and N Wright.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 23 March 2012 be confirmed and signed as a correct record.

Review of Internal Audit 2011/2012

The Executive Director of Commercial and Corporate Services introduced a report which provided Members with an overview of the Audit Commission's Review of Internal Audit for 2011/2012.

Steve Nicklin reported that the review was carried out as part of the Council's arrangements for securing good governance and it was a mark of the

authority's success that there was only one recommendation in the report. He congratulated the staff on their work and stated that the review confirmed that the Internal Audit Service continued to meet its professional and statutory duties.

The Executive Director of Commercial and Corporate Services stated that it was pleasing to receive such a positive review and recognised that it was particularly notable in light of the changes which had taken place during the year.

2. RESOLVED that the report be noted.

Annual Report – Internal Audit and Risk Management

The Head of Corporate Assurance and Procurement presented a report setting out the performance of the Internal Audit and Risk Management teams for 2011/2012 and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

All of the Key Performance Indicators had been met with the exception of two which were slightly below target. One of these was the percentage of audits completed by target date which was 74% against a target of 80% and the percentage of medium risk recommendations implemented which was 87% against a target of 90%, however this was a good position for the year end and showed an improvement from last year. The Head of Corporate Assurance and Procurement drew the Committee's attention to the improved performance of Health, Housing and Adult Services in implementing medium risk recommendations. Although the implementation rate of the Directorate was only 74%, this was due to one specific piece of follow up work and this continued to be addressed.

The overall opinion on all key risk areas was either good or satisfactory and of the 100 planned audits, 93 had been completed, three had been cancelled and four moved forward. Five unplanned audits had taken place.

Internal Audit had carried out proactive work in many areas across the Council and also specific work aimed at detecting fraud, misappropriation or errors, with no areas of concern being identified.

The report also summarised the risk management work which had been carried out during the year including the development of the new Corporate Risk Profile and risk management support work which had been undertaken on matters such as service reviews and the Corporate Computing Model project.

Progress and performance had been strong and positive and throughout the year the audit opinion had been that the Council had maintained an adequate system of internal control.

Councillor Wright asked why some of the planned audits had been cancelled or deferred and the Head of Corporate Assurance and Procurement advised that some audits were classed as deferred if their completion was rolled forward to the next year, which was the case with the audit of asset management. In the case of deferment, this could be due to changes in the area due to be audited, for example, the procurement of ICT had been cancelled and so the audit would be deferred until the new corporate computing model was brought on line. The Head of Corporate Assurance and Procurement stated that he had to be satisfied of the reasons for not carrying out a planned audit and that he would carry out additional work if directed by the Executive Director of Commercial and Corporate Services.

Councillor Forbes referred to the risk management support work for emerging partnerships and the Health and Wellbeing Board and asked how that work was developing. The Head of Corporate Assurance and Procurement advised that he would provide a written response regarding the number of partnerships being supported.

In respect of the Health and Wellbeing Board, a report had been presented to the Cabinet this month on the transition from an Early Implementer to a Shadow Board and there was a transition plan in place for Public Health responsibilities. The Executive Director of Commercial and Corporate Services reported that the Council was to take responsibility for key aspects of Public Health from April 2013 which were valued at £18-20 million. Efforts were being made to identify exactly what was currently being commissioned but the lack of information from the PCT was frustrating for the local authority.

The Chair queried if this was something which the Audit Commission could help with and Steve Nicklin advised that he was aware of the issues and had commissioned some work to look at the progress which was being made by the PCT. The primary focus had been on establishing the Clinical Commissioning Groups but the Public Health work had been stepped up in recent weeks.

It was highlighted that this problem had not been raised with central Government, but it was a possibility. Members agreed that they would like the PCT to advance work in this area as a matter of urgency and the Chair asked that the Committee's views on this matter be communicated to the PCT.

Having considered the report, the Committee: -

3. RESOLVED that the Internal Audit and Risk Management Annual Report be noted.

Treasury Management Review of Performance 2011/2012

The Executive Director of Commercial and Corporate Services presented a report outlining the borrowing and investment performance of the Treasury Management function during 2011/2012.

The Assistant Head of Financial Resources highlighted that the performance of the Treasury Management function continued to contribute significant financial savings which were then used to provide funding to support the Council's revenue budget. The average rate of Council borrowing was in the top quartile when benchmarked against other authorities, as was the rate of return achieved on investments. This has led to a saving of almost £1.9million and preferential rates on 50 year loans had resulted in a saving on debt charges of over £4.0million for the year.

Members were also informed that the Council was within the limits set for all of its Treasury Management Prudential Indicators.

Having considered the report, the Committee: -

4. RESOLVED that the positive Treasury Management performance for 2011/2012 be noted.

Annual Report – Review of Corporate Governance Arrangements

The Executive Director of Commercial and Corporate Services submitted a report providing details of the 2011/2012 Annual Governance Review and the draft Annual Governance Statement.

The Council's local code of corporate governance sets out a framework which aims to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The Code states that the Council will conduct a review, at least annually, of the effectiveness of the corporate governance framework and is required to publish an Annual Governance Statement (AGS) which is then embedded within the Annual Accounts.

Following the review of the corporate governance arrangements, an Improvement Plan had been developed with a number of actions being related to Alternative Service Delivery Models to ensure that governance was working appropriately in all its delivery models.

The review concluded that the Council continued to have robust and effective corporate governance arrangements and that the principles of good governance were embedded Council-wide. The review had not identified any weaknesses which would need to be highlighted in the Council's Annual Governance Statement and the report would be presented to the Cabinet in due course.

Accordingly the Committee: -

5. RESOLVED that: - (i) the Improvement Plan be agreed and recommended to the Cabinet; and

- (ii) the Draft Annual Governance Statement be agreed.

Annual Report on the Work of the Committee

The Executive Director of Commercial and Corporate Services presented a report summarising the work undertaken by the Audit and Governance Committee during 2011/2012 and the outcome of this work.

The report demonstrated how the Committee had fulfilled its role throughout the year and had received reports on the Audit and Counter Fraud Plan, the review of the effectiveness of Internal Audit, the Annual Opinion Audit Plan, the Annual Audit Letter, the Corporate Risk Profile, Treasury Management and the Statement of Accounts.

The Committee had also been proactively monitoring a number of important areas including the implementation of agreed audit recommendations, the abolition of the Audit Commission, Treasury Management, the Corporate Risk Profile and the new Integrated Assurance Framework.

The Committee were pleased to receive such a positive report and hoped it would demonstrate to the Council how the Committee adds value to the authority.

The Committee: -

6. RESOLVED that the Annual Report on the Work of the Committee be approved and recommended to Council.

Corporate Assurance Map – Update

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map to the Committee. The Map showed the work undertaken so far during the year, the Internal Audit opinion and the performance of Internal Audit.

The Head of Corporate Assurance and Procurement outlined the features of the Corporate Assurance Map, highlighting the strategic and corporate risks and explaining that the Strategic Risk Areas had been broken down into more detail in Appendix 1 of the report. Each strategic risk had identified action areas and these would be monitored by the Corporate Assurance Group who would feed the risk scores on to the Risk Profile and the Corporate Assurance Map in turn. The column dealing with Management Assurance had yet to be populated but the Risk and Assurance and Internal Audit columns were beginning to be completed and the full detail of the work was set out in appendices 2 and 3 of the report. Where areas of External Assurance had been completed, relevant commentary would be added into the report.

There were currently a lot of risk areas which were coloured amber, representing moderate assurance, but it was expected that more of these would become green as more assurance was gathered.

In conclusion, the Head of Corporate Assurance and Procurement stated that the assurance position was positive, the new arrangements were working well and there were no significant issues or concerns.

The Chair made reference to the 'Social Breakdown' risk area which was currently rated at amber and asked if this was to change to green, how would it be known that a difference had been made on the ground. The Head of Corporate Assurance and Procurement advised that even if actions were progressed well, then the Corporate Assurance Group would not automatically assume that the amber would become green. They would consider if the actions had impacted on the risk scores or had made any tangible difference. If not, it may be that the actions were not the right ones or that they merely prevented a risk from increasing. The Annual Audit Letter would provide information to the Committee on the effectiveness of governance work.

The Executive Director added that feedback was gathered from residents and that objective information was available to the Council to judge whether actions had made a difference. The District Auditor also commented that external assurance would help with the input into these strategic risk areas.

Following discussion, it was: -

7. RESOLVED that the updated Corporate Assurance Map be noted.

Treasury Management – First Quarterly Review 2012 /2013

The Executive Director of Commercial and Corporate Services submitted a report detailing the Treasury Management performance for the first quarter of 2012/2013.

The Assistant Head of Financial Resources reported that the Council's Treasury Management function continued to look at ways of maximising financial savings and increase investment return to the revenue budget. The Council continued to benefit from the low cost of borrowing and from the ongoing savings from past debt rescheduling exercises, however the borrowing rate had recently gone up and a decision would have to be taken on a loan which was due to mature.

Treasury Management Prudential Indicators were reviewed on a daily basis and the Council was within its limits for all indicators. The funds managed by the Treasury Management team had achieved a return on its investments of 1.66% compared with the benchmark rate of 0.45% and the Council would continue to take opportunities when it was safe and prudent to do so.

The Council had also been assessing if there had been any losses sustained following the technical problems experienced by Natwest Bank and the Executive Director had written to the bank about a number of matters, including the local response to the situation, which was not considered to be of an acceptable standard.

Upon consideration of the report, the Committee

8. RESOLVED that the Treasury Management performance during Quarter 1 of 2012/2013 and the amendments to the Approved Lending List be noted.

Member Training and Development

The Executive Director of Commercial and Corporate Services presented a report providing members of the Committee with the opportunity to identify areas for which they may require any training or awareness sessions to be arranged.

Due to the changes which are currently ongoing within the Council, it is proposed that the Committee have an update session on the Council's improvement programme. Councillor Forbes suggested that it might be useful to have some training on the new format of the Statement of Accounts and the Executive Director stated that this would be arranged to take place prior to the final approval of the Accounts in September.

Following discussion the Committee: -

9. RESOLVED that training sessions be arranged for the Committee to cover the Council's improvement programme and the new format of the Statement of Accounts.

National Fraud Initiative

The Executive Director of Commercial and Corporate Services submitted a report which provided an overview on the Council's participation in the National Fraud Initiative (NFI).

The Audit Commission had run exercises to match electronic data between public and private sectors since 1996 with the aim of preventing and detecting fraud. The Council had submitted a variety of data for matching and the potential matches received resulted in the following: -

- 22 housing benefit overpayments totalling £149,163.26 which was now being recovered; and
- Nine duplicate creditor payments were found totalling £20,683.78 and these had all been recovered.

There were no areas of concern highlighted from the other data sets provided to the NFI, however work on the Council Tax Single Person Discounts had just begun. The Audit Commission had published a checklist to help Members identify if the benefits of participation were being maximised and the Head of Corporate Assurance and Procurement advised that it was considered that the arrangements and level of resource currently directed at NFI were appropriate.

Councillor Wright stated that he was pleased that the Council was continuing with the NFI, particularly as the new welfare reforms were likely to have an impact on fraud and overpayments.

10. RESOLVED that the report be noted and the Council's continued participation in NFI in line with existing arrangements be agreed.

Single Fraud Investigation Service – High Level Proposals

The Executive Director of Commercial and Corporate Services submitted a report advising the Committee of the proposals to create a Single Fraud Investigation Service (SFIS) to investigate benefit fraud across the country.

The SFIS would come into effect from 1 April 2013 and would bring together the Welfare Benefit Fraud investigation work currently undertaken by the Department for Work and Pensions (DWP), Fraud Investigation Service (FIS), Local Authority Benefit Fraud Investigators and HMRC in relation to Tax Credits. The SFIS aims to rationalise existing investigations and prosecution policies into a single way of working. After the initial pilot period for SFIS, it would be determined whether all staff would be permanently transferred to the new organisation in 2015 and legal work would potentially be carried out by the Crown Prosecution Service rather than local authorities in the future.

Councillor Forbes enquired if these changes were moving towards identifying a single level at which prosecutions would take place. The Head of Corporate Assurance and Procurement advised that the Council and DWP had policies for this and that the local authority would consider prosecution at £2,000 and cautions below this amount. It was not clear at this time what the single approach may be and the Chair commented that this may be something which the Local Government Association would take up.

Councillor Wright expressed surprised that the investigation services had not been brought together before now as there had been a great deal of wasted effort in duplicate checks from different departments. However, he felt that the service would have to operate in this way to tie in with the introduction of Universal Credit.

Following consideration of the report, the Committee: -

11. RESOLVED that the report be noted.

Audit Commission – Interim Opinion Report for 2011/2012

The Executive Director of Commercial and Corporate Services presented a report detailing the Audit Commission's Interim Opinion Report on the work carried out to date which would inform the audit opinion for 2011/2012.

Steve Nicklin, District Auditor, advised that the Commission reviewed governance systems such as Internal Audit, Interim Systems work and the IT Risk Assessment, as well as the Statement of Accounts and had come to the conclusion that there were no matters to be brought to the Council's attention.

Having received the very positive report, the Committee: -

12. RESOLVED that the contents of the report be noted.

Annual Audit Fee 2012/2013 – Update

The Executive Director of Commercial and Corporate Services submitted a report outlining the current position with regard to the Council's audit arrangements.

Mazars were to be appointed as the Council's external auditor for the next five years, beginning in September 2012 with the 2012/2013 audit. The District Auditor would remain the Council's external auditor for the conclusion of the 2011/2012 audit but it was unlikely that the key audit personnel for the next financial year would change.

The Audit Commission had also published details of the audit work which they expect to be undertaken for the 2012/2013 financial year and the scale fees for the work. The scale fee for 2012/2013 will be significantly reduced from the 2011/2012 fee of £299,270 to £179,562, which reflects the Audit Commission's commitment to reducing fees by 40%. The cost of certifying grants and returns would also reduce as the number of grants requiring certification reduces.

It was also highlighted that the planned audit fee for 2011/2012 of £299,270 had been amended to £275,328 which would represent an 8% rebate on the original fee.

The Chair commented that it was impressive to see such a large reduction in audit fees but he wondered how this was possible. Steve Nicklin advised that audit fees had been steadily reducing over the years but due to internal re-organisation, the Audit Commission had been able to improve its performance and carry out the necessary work at a lower cost.

The Committee, therefore: -

13. RESOLVED that: - (a) the contents of the report be noted; and

- (b) the confirmed reduced audit fees for 2012/2013 based on the Audit Commission's revised scale fees following their new procurement exercise be noted.

Statement of Accounts 2011/2012 (Subject to Audit)

The Executive Director of Commercial and Corporate Services presented the certified copy of the Council's Statement of Accounts 2011/2012 (Subject to Audit) to the Committee.

The Executive Director reported that the Council had implemented the new financial reporting requirements set out in the Accounts and Audit Regulations 2011 which state that the Accounts, subject to audit, need only to be certified by the Relevant Finance Officer by 30 June of each year. The Committee were informed that the Accounts would be signed off by the Executive Director and published online, however the Committee would still have to formally approve the Accounts at its meeting in September.

The Executive Director advised that the Accounts showed a good financial performance and a small underspend for the year. He was confident that the Statement of Accounts was strong and robust and would result in a positive Annual Audit Letter. He drew Members' attention to the Foreword and drew out a number of key points. The report showed a reduction in the general reserve balance of £4.849 million which was the result of additions of £11.584 million and the use of £16.433 million in balances.

The Foreword also emphasised the scale of the challenges which had been faced by the Council over the last year and that savings had been secured and achieved but this would have to continue for future years. It highlighted that Council Tax had been frozen for 2011/2012 and 2012/2013 and that Sunderland was in the strongest possible position to deal with the further difficulties which were ahead for local government.

The Assistant Head of Financial Resources advised that the appendices to the Accounts were a useful explanation of the changes which had arisen from the transition to the International Financial Reporting Standards and would assist with the future training session on the Statement of Accounts.

Having considered the report, the Committee: -

14. RESOLVED that the Statement of Accounts 2011/2012 (Subject to Audit) be noted.

(Signed) G N COOK
Chair