

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 8 February 2019**

**Present:**

Mr G N Cook

Councillors Trueman and P Wood together with Mr M Knowles.

**In Attendance:**

Jon Ritchie (Executive Director of Corporate Services) Paul Davies (Head of Assurance, Procurement and Performance Management), Chris Nevin (Principal Accountant), Cameron Waddell (Mazars), Diane Harold (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 O'Neil, Scullion and Stewart.

**Minutes**

21. RESOLVED that the minutes of the meeting of the Committee held on 14 December 2018 be confirmed as a correct record.

Councillor Wood referred to his query regarding the risk associated with investment in the SSTC programme and the Head of Assurance, Procurement and Performance Management advised that this would be picked up within the next Risk and Assurance Map update at the meeting of the committee taking place in April 2019.

**Member Training and Development**

The Executive Director of Corporate Services submitted a report which provided members of the Committee with the opportunity to identify areas for which they require any further training, refresher or awareness sessions to be arranged.

It was suggested that Members receive an update on the new City Plan and structural changes and developments at the July committee meeting in the context of the Council's priorities for the future.

The unaudited statement of accounts would be forwarded to Members by 31 May 2019 and it was proposed that a briefing session be arranged so that the Committee could be made aware of any key issues in relation to the accounts, prior to their consideration at the July committee meeting.

Members were asked to consider any areas for which they would like to receive training or awareness sessions during the forthcoming year. The Chair said that he would welcome an update on Brexit and how this would impact on the city council.

22. RESOLVED that: -

- (i) an update be received on the City Plan and structural changes within the Council at the Committee meeting in July;
- (ii) a briefing be received regarding the 2018/2019 statement of accounts; and
- (iii) consideration be given to any further areas to be the subject of training and awareness sessions.

### **Treasury Management Strategy and Policy for 2019/2020 including Treasury Management Prudential Indicators for 2019/2020 to 2022/2023**

The Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2019/2020. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2019/2020 to 2022/2023 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable. The Prudential Indicators were set out in Appendix 1 of the report and these reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments, and giving priority to the security and liquidity of those investments. The Executive Director of Corporate Services advised that the MHCLG 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2017. The Council was required to have regard to this advice when

setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. Members of the Committee were directed to the Council's potential borrowing requirement set out within the Treasury Management Strategy and it was highlighted that borrowing would be phased depending on capital spend. The Treasury Management team continued to closely monitor rates to determine whether to take out borrowing when rates were sufficiently advantageous. Rates had recently dropped and £20m of borrowing had been taken out and this financing had been included within the Medium Term Financial Strategy.

Appendix 4 of the report set out interest rate forecasts based on a range of intelligence sources. The Lending List Criteria and Approved Lending List were shown at Appendix 5 and 6 of the report.

The Chair referred to the Council's performance in relation to the average rate of borrowing at 3.13% being low in comparison with other local authorities. The rate earned on investments was 0.92%, higher than the benchmark rate of 0.49% and the Chair commented that this demonstrated how competent the Treasury Management team was. The Executive Director of Corporate Services noted that if borrowing could be taken out at a lower rate, then this was better for the Council's investments.

Councillor Wood highlighted the Authorised Limit for External Debt and noted that there was a big increase in this between 2018/2019 and 2019/2020. The Executive Director of Corporate Services stated that it was in relation to the profiling of the Capital Programme and the Principal Accountant also noted that one year would include potential borrowing for the following two years to allow the Council to borrow early if interest rates were advantageous.

The Chair asked if there were any upcoming capital issues for the Committee to be aware of and the Executive Director of Corporate Services advised that the new Capital Programme had a value of between £140m to £150m. This programme included the Centre of Excellence in Sustained Advanced Manufacturing (CESAM) at the IAMP, the impact of the new building on the Vaux site and further road investments; some of these projects would be funded through external sources.

Councillor Trueman commented that the IAMP had been envisaged as a location to support advanced manufacturing for the motor industry and asked how confident the local authority could be about the park, especially in relation to Brexit. The Executive Director of Corporate Services highlighted that Nissan had a seven-year contract cycle, as did some of its supply chain. The first building was currently being constructed on the IAMP and CESAM would be looking at electric vehicle technology, future proofing the development and acting as a hub and spoke model for the rest of the UK. There was an eye to the future with IAMP as well as short term investments from the motor industry and it was to the benefit of Sunderland and the wider region that if technology was developed at the IAMP, then business would also locate there.

Councillor Wood supported the importance of using as broad a definition of 'advanced manufacturing' as possible and that recent events and announcements had led to uncertainty within the city.

Mr Knowles asked if independent assurance would be received on the treasury management arrangements and the Head of Assurance, Procurement and Performance Management stated that he would add that in to the work programme for Internal Audit for the forthcoming year.

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

23. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2019/2020 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2019/2020 to 2022/2023 be noted; and
- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **Audit Strategy Memorandum**

Mazars, the Council's external auditors, had submitted their Audit Strategy Memorandum for the year ending 31 March 2019.

The Audit Strategy Memorandum summarised the audit approach, highlighted significant audit risks and areas of key judgement and provided details of the audit team. Cameron Waddell, Engagement Lead with Mazars advised that Sunderland City Council was classed as a 'public interest entity' and as such would have additional acceptance and engagement considerations, enhanced quality control requirements and additional enhanced audit report requirements.

Diane Harold, Senior Manager, Mazars stated that the audit approach had been slightly tweaked to reflect the enhanced requirements, but the process was essentially the same. In relation to the group audit approach, the auditors had assessed that there were two significant components of the group, namely Together for Children and Sunderland Lifestyle Partnership and their financial statements would be required to be set out in detail within the group accounts.

The materiality thresholds had been adjusted for the 2018/2019 audit with overall materiality for the group being £14.776m and £14.077m for the Council itself. These thresholds were provisional and would be subject to the actual accounts. The triviality level had been set at £443,000 and errors above this would be reported to the Audit and Governance Committee.

Diane advised that the significant risks would be familiar to the Committee and noted that these included the management override of controls, risk of fraud in revenue

recognition, property, plant and equipment and investment property valuations and defined benefit liability valuation. There were two enhanced risks in relation to unquoted equity investment valuation and impairment of debtors' allowance. The accounting standards in relation to these had changed, therefore they had been assessed as enhanced risks.

In relation to the Value for Money Conclusion, there were two significant risks; responding to financial pressures and the Ofsted inspection of Children's Services. The Council had previously received an 'except for' qualification and this situation would remain until there was a judgement which identified sufficient improvements to issue an unqualified opinion. Diane noted that a letter had been issued the previous day highlighting positive progress and areas for improvement in Children's Services.

It was highlighted that the audit fees for 2018/2019 would be £104,546, a reduction of 23% from £135,774 in 2017/2018.

Councillor Wood commented that, in relation to the group audit approach, auditors for two of the components had yet to be appointed. Diane stated that the information had not been available at the time of writing the report but the auditors for all components had now been confirmed.

Following consideration of the report, it was: -

24. RESOLVED that the Audit Strategy Memorandum be noted.

### **External Auditor Progress Report**

Mazars, the Council's external auditors, had submitted their regular Audit Progress Report covering the period up to February 2019.

Diane Harold stated that the auditors were in the process of undertaking walk throughs and testing controls during February to April and the detail of the work had been included within the Audit Strategy Memorandum considered earlier in the meeting.

The report highlighted the publication and update of the following documents: -

- Local auditor reporting in England 2018, NAO, January 2019
- Local authorities – governance, NAO, January 2019
- NHS financial sustainability, NAO, January 2019
- A review of the role and costs of clinical commissioning groups, NAO, December 2018
- Local Audit Quality Forum, Public Sector Audit Appointments, December 2018
- Oversight of audit quality, quarterly compliance reports 2017/2018, Public Sector Audit Appointments Ltd
- Scrutinising Public Accounts: A Guide to Government Finances, CIPFA, November 2018
- CIPFA Fraud and Corruption Tracker 2017/2018, CIPFA, October 2018
- Summary of NHS long-term plan, Mazars, January 2019

Diane made particular reference to the NAO publication on local auditor reporting and how central Government picked up on this. She also highlighted that the Guide to Government Finances included a section on key questions for elected Members to ask in relation to the accounts.

Accordingly, the Committee: -

25. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK  
Chair