

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 4 February 2022**

**Present:**

Mr G N Cook in the Chair

Councillors Nicholson, Price, Stewart and P Wood together with Mr M Knowles

**In Attendance:**

Jon Ritchie (Executive Director of Corporate Services), Tracy Davis (Senior Manager - Assurance) Paul Dixon (Chief Accountant), 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 Councillor N MacKnight.

**Minutes**

14. RESOLVED that the minutes of the meeting of the Committee held on 24 September 2021 be confirmed as a correct record.

**Risk and Assurance Map - Update 2021/22**

The Assistant Director of Business and Property Services submitted a report which asked the Committee to consider:

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The proposed Risk and Assurance Map and planned work for the year had been agreed by the Committee in April 2021 and the Map had been updated to reflected changes in both the Strategic and Corporate Risk Profiles. The key changes to the Strategic Risk Areas were as follows: -

- The risk score in relation to R02 *'The city, its residents and businesses do not emerge from the Covid-19 pandemic in a strong and competitive position'* had reduced from 16 (Red) to 12 (Red) to reflect economic growth activity which was ongoing and planned within the city.
- The risk description in relation to R07 had changed to include the expected timescales regarding carbon neutrality and was now *'Resources and critical infrastructure are not in place to enable the Council to become carbon neutral by 2030 and Sunderland to be carbon neutral by 2040.'* The current risk score had been increased from 9 (Red) to 16 (Red) to reflect the importance and difficulty of meeting this global challenge.
- The risk description in relation to R015 had changed to *'The City cannot meet the challenge to develop an active and green transport system in response to Covid and other pressures.'* to reflect the challenge of lowering the City's carbon footprint.

There had been no changes to the Corporate Risk Profile since the last report and it was reported that the overall risk and assurance positions for the Council owned company Sunderland Care and Support had moved from an Amber to a Green rating as a result of a recent inspection from the Care Quality Commission.

There were some additional comments on the Strategic Risk Profile shown in red at Appendix 2 and the performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Councillor Stewart referred to the increase in the risk score for R07 and, as this was very important to the Council, he said that he would welcome more detail on how it was intended to bring the score down.

The Executive Director of Corporate Services commented that this was linked to the work currently being undertaken by the Assistant Director of Economic Regeneration and that an update report could be provided by her.

Mr Knowles said that he was very pleased to read the overall assessment that all assurance levels were green or amber and congratulated colleagues for achieving this.

Consideration having been given to the report, it was:-

15. RESOLVED that the report be noted.

## **Risk and Assurance Map – Consultation for 2022/2023**

The Assistant Director of Business and Property Services submitted a report setting out the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year. Members were given the opportunity to raise issues which they felt should be considered in the plans.

The allocation of resources would continue to be flexible given the level of changes occurring across the Council and the response to the pandemic, but there had been a number of priority areas identified as follows: -

- On-going audit work in relation to Council owned companies, such as Sunderland Care and Support, Together for Children and Siglion.
- Activity to deliver the City Plan, including the management of risks and projects to deliver key priorities
- Economic development including City Centre developments, the International Advanced Manufacturing Park and the proposed River Wear Footbridge
- Council's Smart Cities programme
- Council's approach to Cyber Security
- Arrangements for reviewing care packages
- Business continuity for assistive technology (adult social care) devices
- Information Governance/General Data Protection Regulations compliance
- Compliance with the Asset Management Policy and Strategy
- National Fraud Initiative and counter fraud work
- Key corporate systems and functions

The Senior Manager – Assurance advised that consultation with senior officers on the priority areas was ongoing and that Members could get in touch with feedback before the end of March 2022.

Having considered the proposed priority work areas, it was: -

16. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2022/2023 be noted.

## **Review of the Remit and Effectiveness of the Audit and Governance Committee**

The Chair of the Committee and the Executive Director of Corporate Services submitted a report presenting the outcome of a review of the remit and effectiveness of the Audit and Governance Committee.

The review was undertaken every three years and had taken the format of an update of the previous self-assessment based on CIPFA guidance, a review of the Terms of Reference for the Committee and consideration of the Annual Reports on the work of the Committee.

The self-assessment had found that the Committee was fully compliant and there were no suggested improvements. The only action was to remind Council of the Terms of Reference of the Committee as part of the Annual Report on the work of the Committee for 2021/2022.

The Chair commented that the reminder of the Terms of Reference was very useful and that the members of the Committee should not underestimate the work they did or the powers which they had.

Following consideration of the report it was: -

17. RESOLVED that the self-assessment at Appendix 1 be agreed.

### **Treasury Management Third Quarterly Review 2021/2022**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the third quarter of 2021/2022 and setting out the Lending List Criteria and the Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. The Public Works Loan Board (PWLB) rates had reduced towards the end of November 2021 and the Council had taken out £100m of borrowing to support the financing requirements of the Capital Programme. The rates were opportune and would benefit the revenue budget over the longer term and would also mean that the average rate of borrowing would reduce.

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.16% compared with a benchmark of -0.07%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. 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 economic climate was likely to be unclear and uncertain for some time.

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. There had been no changes to the Lending List Criteria which were set out at Appendix B.

The Chief Accountant highlighted that the report referenced the recent increase in the Base Rate to 0.25%, however as of yesterday this had been further raised to 0.5%. it was expected that there would be more rises with a possibility of the rate reaching 1.5% by mid-2023.

The Consumer Price Index (CPI) inflation rate was now 5.4%. up from 4.20% in October and it was predicted this would peak at approximately 7% in April. The Government target remained at 2%. Members were also directed to table showing the summary of investments; the cash balance was £294m and £79m was invested on a short term basis.

Councillor Wood queried if the likely further increase in interest rates would impact on Council finances. The Executive Director of Corporate Services explained that the vast majority of borrowing was at a fixed rate but the exposure would be felt when the authority came to borrow further. There was no immediate requirement due to the cash balance but all future borrowing, capital and cash flow requirements would be monitored.

The Chair commented that all authorities were facing this tricky situation and may be looking to pre-contract at fixed prices as far as possible.

Consideration having been given to the report, it was:-

18. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 3 of 2021/2022 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

### **Treasury Management Policy and Strategy 2022/2023, including Prudential Indicators for 2022/2023 to 2025/2026**

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 2022/2023. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2022/2023 to 2025/2026 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 Ministry of Housing, Communities and Local Government (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 2021. 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 and the reserves position.

Annex A 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 Annex B and C of the report.

The Executive Director of Corporate Services reported that the Council had an ambitious capital programme linked to the City Plan and the Cabinet would shortly consider the plan and the minimum revenue provision for repayments. Planning would be undertaken for capital financing costs on a prudent basis. He noted that some authorities had borrowed for yield, not for social purposes, but the key driver had always been investment in Sunderland, led by the needs of the city and in line with changing Government policy.

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

19. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2022/2023 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators to 2022/2023 to 2025/2026 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.

### **External Auditor's Progress Report**

Mazars, the Council's external auditors, had submitted a report which outlined the progress in delivering its responsibilities as the external auditors and included, at Section 2, a summary of recent reports and publications.

Diane reported that the draft Auditor's Annual Report 2020/2021 was now with the Council. There were no significant recommendations from the Value for Money work and it was a positive report highlighting many of the positive outcomes from the last year including the Ofsted inspection of Children's Services.

The audit work could not formally be finalised until the Whole of Government Accounts work was complete and this could not happen until guidance was received from Government.

The auditors were currently undertaking work on the Housing Benefits subsidy return for 2020/2021 and some testing on a specified error in the 2019/2020 return.

The formal plan for the 2021/2022 audit would be brought to the next committee meeting and the planning process would be completed during this quarter, including the walk through of key systems.

The attention of the committee was drawn to the list of national publications and in particular to the report of the Department of Levelling Up, Housing and Communities on measures to improve local audit delays as only 9% had been signed off by the end of September. Members were also asked to note the positive report from the Financial Reporting Council on the quality inspection of major local audits.

Following consideration of the report, it was:-

20. RESOLVED that progress report be noted.

### **Decision to Opt-In To The National Scheme for Auditor Appointments Managed by Public Sector Audit Appointments (PSAA)**

The Executive Director of Corporate Services submitted a report seeking Members' approval to accept the invitation from Public Sector Audit Appointments (PSAA) to opt-in to the national sector-led arrangement for the appointment of external auditors with effect from 1 April 2023.

The current auditor appointment arrangement covered the period up to, and including, the audit of the 2022/2023 accounts and PSAA was currently undertaking a procurement for the next appointing period covering audits for five financial years from 2023/2024 to 2027/2028.

Options for the Council include arranging to carry out its own procurement process to appoint an external auditor, or to do so in conjunction with other bodies, or join and take advantage of the national collective scheme administered by PSAA. It was recommended that the latter option would produce better outcomes and be less burdensome than a procurement undertaken locally.

Councillor Stewart mentioned that he had read of a situation where an audit company had been taken to court by the Government and asked how much of a say individual authorities would have regarding the appropriateness of auditors.

The Executive Director of Corporate Services stated that representations could be made to the PSAA but he would have to look into whether there was an appeal process. The Chair noted that a number of other authorities would be likely to have concerns if placed in this situation.

Diane commented that there was probably not one firm who had not had an issue with the Financial Reporting Council (FRC) at one time. There was a quality process in PSAA and assurance could be provided from the FRC report which was publicly available.

21. RESOLVED that it be recommended to Council at its meeting on 2 March 2022 that Sunderland become an opted-in authority.

(Signed) G N COOK  
Chair