

AUDIT AND GOVERNANCE COMMITTEE

AGENDA

**Meeting to be held in the Civic Centre (Committee Room No. 1) on
Friday 27 September 2019 at 1.30pm**

ITEM		PAGE
1.	Receipt of Declarations of Interest (if any)	
2.	Apologies	
3.	Minutes of the Meeting of the Committee held on 26 July 2019 (Copy attached.)	1
4.	Risk and Assurance Map Refresh 2019/2020 Report of the Assistant Director of Business and Property Services (copy attached).	11
5.	Treasury Management 2019/2020 – Second Quarterly Review Report of the Executive Director of Corporate Services (copy attached).	35
6.	Annual Audit Letter 2018/2019 Report of the Executive Director of Corporate Services (copy attached).	53

For further information and assistance, please contact:

Gillian Kelly, Principal Governance Services Officer Tel: 0191 561 1041
gillian.kelly@sunderland.gov.uk

7. **External Auditor Progress Report**

73

Report of Mazars LLP (copy attached).

ELAINE WAUGH
Assistant Director of Law and Governance

Civic Centre
Sunderland

18 September 2019

AUDIT AND GOVERNANCE COMMITTEE
Friday 26 July 2019

Present:

Mr G N Cook

Councillors Crosby, Lawson, Scullion, and Stewart together with Mr M Knowles.

In Attendance:

Jon Ritchie (Executive Director of Corporate Services), Paul Davies (Assistant Director of Business and Property Services), Paul Wilson (Assistant Director of Finance), Tracy Davis (Senior Manager Assurance), James Magog (Chief Accountant), Lisa Armstrong (Finance Manager), Rhiannon Hood (Data Protection Officer), Stuart Cuthbertson (Senior Policy Officer), Cameron Waddell and Diane Harold (Mazars) and Kate Kirton (Principal Governance Services Officer)

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

There were no apologies for absence.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 26 April 2019 be confirmed as a correct record subject to an amendment to the final paragraph of the item on the 'Review of Internal Audit' to read: "Diane Harold commented that the External Auditor had been assured about the risk mapping approach within the service".

Update on the City Plan

Stuart Cuthbertson, Policy Manager, was in attendance to provide an update to the Committee on Sunderland's City Plan.

The City Plan was to be the Council's overarching strategic plan and had been in development since August last year. The plan sets out six challenges for the city: -

- Migration
- City centre does not act as an economic motor for the city
- Good at inward investment; less good at growing Sunderland businesses
- Residents; do not have the skills and qualifications that local industry is looking for
- Health remains poor and health behaviours have not changed sufficiently
- High levels of children in need and care

The Plan set out three themes of Dynamic, Healthy and Vibrant City and each had five commitments in addition to a vision and values. The timeline of activities within the Plan showed the key activity which would happen between now and 2030. Activities were firm in the early years due to certainty about what was happening over that period but this was less certain in later years and the list became more illustrative. The timeline would be updated and would be an iterative process.

Performance would be measured and performance management arrangements would cover priorities, delivery actions, milestones and targets. The progress against the plan would be overseen through the monthly performance clinics and quarterly reporting to the Scrutiny Committee and Cabinet.

The draft City Plan had been shared with key partners and council staff and would primarily be published electronically on the Council's website and The Hub. There was previously a statutory requirement to produce a strategic plan but this was removed in 2010 by the Coalition Government. Sunderland City Council had continued its robust approach to strategic planning through the Corporate Plan since that time, however in the future this would take the form of the City Plan.

Having thanked Stuart for the update, it was: -

2. RESOLVED that the information be noted.

Risk and Assurance Map 2019/2020

The Assistant Head of Business and Property Services presented 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; and
- the performance of Internal Audit.

Members were directed to the Risk and Assurance Map and reminded that the Strategic and Corporate Risk Areas, together with the Cumulative Assurance Position were set out on the left hand side of the Map and the right hand side showed the sources of assurance. The first line was Management Assurance collected from Assistant Directors and the second line was from corporate functions and was collected on a quarterly basis. The third line of assurance was from Internal

Audit and External Assurance. The Strategic Risk Profile and Corporate Risk Profile were fully set out in Appendices 2 and 3.

The Council owned companies of Sunderland Care and Support, Together for Children and Sunderland Homes Limited were included within the Risk and Assurance Map. Members were advised that the assurance in relation to Financial Resources for Together for Children had changed from red to amber. Quarterly updates had shown an improving trend in this area, although the overall rating for the company remained at red/limited.

The risk rating for Strategic Financial Management had moved from green to amber due to the uncertainty of the future financial and funding position for Local Government and also the impact which Brexit may have on funding sources and levels. All other areas of risk had remained the same, however the Strategic and Corporate Risk Profiles would be updated in line with the new City Plan.

The work of the Risk and Assurance team over the last quarter had included major capital schemes such as the SSTC Phase 3, the IAMP, enterprise zones; corporate projects such as the introduction of Office 365 and the move to Cloud Technology and the new Civic Centre; risks in relation to Brexit; and arrangements in relation to anti-money laundering.

Appendix 4 showed the detailed results of completed Internal Audit work carried out so far this year and the performance in relation to targets was set out at Appendix 5. Performance was on target for all KPIs except for the implementation rate for agreed actions in relation to schools which stood at 86% against a target of 90%.

Mr Knowles commented that it was positive to see improvements in relation to Together for Children and accordingly, the Committee: -

3. RESOLVED that the report be noted.

Annual Report on the Work of the Committee 2018-2019

The Assistant Director of Business and Property Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2018/2019 and the outcome of the work. The report demonstrated how the Committee had fulfilled its role and would be presented to Council following consideration by the Committee.

The report set out the role of the Committee and the matters considered during the year which had included the Risk and Assurance Maps, the improvement of the Children's Safeguarding Service as part of Together for Children Limited, the systems for Adult Social Care Personal Budgets, the Council's Corporate Asset Management arrangements, external auditor progress reports, treasury management arrangements, the Annual Governance Review and the Statement of Accounts.

The report showed that the work of the Committee was wide ranging with Members monitoring performance more closely in those areas where it was deemed to be appropriate.

Having noted the positive report, it was: -

4. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

Audited Statement of Accounts 2018/2019

The Executive Director of Corporate Services submitted a report providing members with the Letters of Assurance required by the external auditor as part of the final accounts process and the Letter of Representation for 2018/2019. The report also presented the Audit Completion Report from Mazars LLP concerning the financial statements for 2018/2019 and provided an audited Statement of Accounts for 2018/2019.

The Committee were informed that the draft accounts were circulated and published online by 31 May 2019, meeting the statutory deadline and a Letter of Representation had to be prepared by the Section 151 Officer setting out the principles used in preparing the accounts and providing the external auditor with the necessary assurances required by regulation.

The Chief Accountant highlighted that the Statement of Accounts was positive overall and that Mazars proposed to issue an unqualified opinion on the financial statements. They also anticipated concluding that the Council has proper arrangements in place for securing Value for Money, except for those areas which had been assessed as inadequate by Ofsted in the report Children's services in July 2018. This 'except for' conclusion had been in place since the original assessment in 2015.

The production of the accounts was a team effort and the Chief Accountant thanked colleagues and Mazars for their assistance throughout the process.

The Statement of Accounts was set out at Appendix E to the report and the Audit Completion Report was at Appendix D. Members' attention was drawn to section 5 of the report which referred to the misstatements adjusted by the Council and set out some further detail on the on the main changes in the accounts. These were around Guaranteed Minimum Pensions (GMP) liabilities and the McCloud judgement, Siglion Fair Value and Airport Fair Value. Although these were complicated issues, the local authority had worked with Mazars to ensure a positive resolution and none of the misstatements had any bottom line impact on the Council in 2018/2019.

The Committee were advised that, should any subsequent amendments of note to the audited accounts be required, then these would be agreed by the Executive Director of Corporate Services in conjunction with the Chair. Changes would then be communicated to the Committee through an update to Mazars' Audit Completion Report

Mazars LLP had audited the financial statements of the Council in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the

National Audit Office and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

Cameron Waddell presented Mazars' Audit Completion Report which set out their opinion and Value for Money conclusion for 2018/2019.

The Committee were advised that given the tight timescales between the publication of the draft financial statements and the final date for issuing the audit report, work would continue right up to the point of signing off the accounts. The audit work was broadly complete but work needed to be finalised in relation to Pensions, Property, Plant and Equipment, group accounts and closing procedures.

Mazars were required to report on Key Audit Matters which were Property, Plant and Equipment and Defined Benefit Liability Valuation and there were no issues identified with either of these beyond the matters already identified in relation to McCloud judgement.

Work had been completed with regard to Management Override of Controls and Revenue Recognition and no significant issues had been found. The Council was required to make judgements in respect of the fair value measurements of unquoted equity investments it holds including those in Newcastle Airport and several joint ventures. Following the audit, the Council decided to change the basis of measurement of its investment in Siglion from fair value to cost and amendments to the financial statements were required to reflect this and the changes to the valuation of the Airport shares. Mazars had obtained the assurance sought and there were no significant issues to highlight to the Committee. There were also no matters to report in relation to impairment of debtor's allowance.

It was queried whether the Airport and Siglion shares had been revalued downwards and it was noted that the reduction in Airport shares value presented in the draft accounts had been corrected and reversed in the audited accounts. Siglion was now a fully owned subsidiary of the Council, with the shareholding reflecting this ownership.

Councillor Stewart asked about the leisure centre which had been omitted from the Group balance sheet adjustment for the leisure joint venture. The Assistant Director of Finance confirmed that this was the Raich Carter Centre; an up to date valuation was obtained and the centre was included within the adjustment and the external auditors were satisfied with this.

Turning to the Value for Money Conclusion, Cameron Waddell advised that the National Audit Office set an overall criterion that "in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people" with the following sub-criteria: -

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

The external auditors were satisfied that in all significant respects, Sunderland City Council had proper arrangements in place to ensure that it takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people. The exception to this was the areas of Children's Services which had been judged to be 'inadequate' in Ofsted's report to the Council in July 2018. This judgement immediately resulted in a qualification to the Value for Money conclusion and would remain an issue until the inadequate rating improved.

Diane Harold commented that it had been her first audit for the authority and she wished to record her thanks to officers for their help, support and commitment to quality.

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

5. RESOLVED that: -

- (i) the contents of the Letter of Assurance from those charged with governance and the Letter of Assurance from those charged with discharging management processes and responsibilities be noted;
- (ii) the contents of the Letter of Representation be noted;
- (iii) the contents of the Audit Completion Report provided by Mazars LLP be noted;
- (iv) the Amended Audited Statement of Accounts for the financial year ended 31 March 2019 be approved; and
- (v) it be agreed that should any amendments to the Statement of Accounts be required after the meeting of the Committee but prior to the sign off on 31 July 2019, these be agreed by the Executive Director of Corporate Services in conjunction with the Chair.

Treasury Management Review of Performance 2018/2019

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2018/2019 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 7 March 2018.

The Treasury Management function continued to contribute financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.04% was low and this compared favourably with other local authorities as did the 0.93% rate of return achieved on investments.

Members were reminded of the basis for the agreed Borrowing Strategy for 2018/2019 and that it had been reviewed in June, September and December 2018. During the year, the Bank of England had increased the base rate to 0.75%, and this had remained unchanged ahead of the original Brexit deadline of 29 March 2019, which had now been delayed until 31 October 2019. PWLB rates reflected continued

market volatility and, having set a benchmark financing rate of 3.5%, the Council had taken advantage of low borrowing rates troughs which had occurred and had taken out £60m of new borrowing during the financial year to support the agreed capital programme. Rates had not been sufficiently favourable for debt rescheduling in 2018/2019 but the Treasury Management Team continued to monitor market conditions and would secure early redemption if appropriate opportunities were to arise.

The Authorised Borrowing Limit for External Debt had been set at £584.123m for 2018/2019 and the Operational Boundary for External Debt was set at £459.123m and the authority was well within the tolerances for these.

The Investment Strategy for 2018/2019 was also approved by the Council on 7 March 2018 and had a general policy objective of the prudent investment of its treasury balances. The investment policy was regularly monitored and reviewed to ensure it had the flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The rate of return on investments, as reported during the year, had remained at very low levels compared to previous years, although there had been some upward movement since the increase in the base rate to 0.75% announced in August 2018.

Following consideration of the report, the Committee: -

6. RESOLVED that the positive Treasury Management performance for 2018/2019 be noted.

Treasury Management 2019/2020 – First Quarterly Review

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the first quarter of 2019/2020 and setting out the Lending List Criteria and Approved Lending List.

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 continued to be volatile, therefore no new borrowing had been taken out to date in 2018/2019 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 3.02%, 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 0.98% compared with a benchmark of 0.57%.

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. Appendix A provided further insight around the borrowing and investment strategy and the

current economic climate. There remained a caveat on all economic data in respect of the final outcome of Brexit discussions.

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.

7. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2019/2020 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Data Protection Annual Report 2018/2019

The Director of People, Communications and Partnerships and the Data Protection Officer submitted a joint report providing the Committee with information about the work and findings of the Council's Data Protection Office during the past year.

The Council was required to appoint a Data Protection Officer to advise on its data protection responsibilities and act as its point of contact with the Information Commissioner's Office (ICO). The Data Protection Office also provided a service under service level agreements to connected organisations, including the Council's wholly owned companies, NECA and those schools and academies which subscribed to the service.

The new data protection laws were underpinned by the two key principles of transparency and accountability and one of the central data subject rights under GDPR and the Data Protection Act 2018 was to have access to records containing their personal information. A small team of four officers handled these requests and 172 cases were closed during the year with 147 of these being within the timescale of one calendar month. Of the 25 cases which exceeded the timescale, one was from the Council and 24 were for Together for Children. It had historically proved challenging to respond within time limits where a case involved multiple files and family members. Health and other professionals are also required to be asked for their view on the release of records originating from them and this could incur delay.

A dedicated reporting address had been established for incidents and concerns about data protection compliance and the authority required the reporting of all incidents, however low level these were. High level incidents were reported to the Information Commissioner and seven breaches had been reported during the course of the year. Four had been reported by the Council and three by members of the public. There had been no formal enforcement action take in relation to the Council's or its connected organisations' compliance with their data protection responsibilities, however the ICO had made practice recommendations in relation to cases reported to their office and these had been accepted and implemented.

The Data Protection Office also had oversight of the Council's use of covert surveillance with effect from April 2019 and there had been no use of Regulation of Investigatory Powers Act (RIPA) authorisation since that date.

Moving forward it was recommended that the Council and its connected organisations continued to work with the Data Protection Office to refine arrangements in the light of the first year's operation of GDPR. In preparation for the Council's move to City Hall and adopting a digital by default approach to record keeping, a programme was underway to identify and destroy or relocate paper records.

It was queried how long data would be retained under the new Office 365 system and the Data Protection Officer advised that there were a wide range of retention periods. If it was a formal record then it would be saved but it was temporary then there was no necessity to retain this.

Councillor Stewart asked about the threshold with regard to judging breaches as being amber or red. The Data Protection Officer said that a triage system had been adopted where green indicated that there had been no impact as a result of the breach. Amber would be used to score breaches such as a misdirected letter and red where an incident had a potential impact on the individual concerned.

Having considered the report, the Committee: -

8. RESOLVED that the Data Protection arrangements in place, performance against the Data Protection standards in the 2018-2019 year and the information provided in the report be noted.

(Signed) G N COOK
Chair

AUDIT AND GOVERNANCE COMMITTEE

27 September 2019

RISK AND ASSURANCE MAP REFRESH – 2019/2020

Report of the Assistant Director of Business and Property Services

1. Purpose of Report

1.1 To enable the Audit and Governance Committee to consider:

- the refreshed Risk and Assurance Map based on the priority areas within the Council's new City Plan;
- the refreshed Strategic Risk Profile updated based on the new priorities within the City Plan;
- the refreshed Corporate Risk Profile which has been updated based on the operational risks facing the Council currently;
- work undertaken by the audit, risk and assurance service during the year; and
- the performance of Internal Audit.

1.2 The report covers work undertaken for the Council and Council owned companies.

2. Description of Decision

2.1 The Audit and Governance Committee are asked to note and consider the report.

3. Background/Introduction

3.1 In April 2019 the Committee approved the proposed Risk and Assurance Map for 2019/20 and the plans of work for Internal Audit and the Risk and Assurance Team. Since this time the Council has been working with its partners to develop a new draft Plan for the City, which is going through the final consultation and approval stage, representing the current priorities for the city and its residents and where the city would like to be by 2030.

3.2 The Strategic Risk Profile always considers the risks to the achievement of Council's priorities and therefore needs to reflect the current position and the new priorities for the City. The Corporate Risk Profile represents the risks that the organisation faces during its operational activity to deliver priorities, it is therefore appropriate to review this in light of the Council's current priorities.

3.3 As the City Plan was in development at the time that the plans of work for Internal Audit and the Risk and Assurance Team were developed the current

risks being faced by the Council were taken into consideration. It is therefore considered that the plans of work remain relevant and can be mapped against the revised risk areas on the risk and Assurance Map.

4. Risk and Assurance Map

- 4.1 The Risk and Assurance Map has been updated to reflect the new strategic risk areas and updated corporate risk areas, see attached at Appendix 1. The new Strategic Risk Areas come under the priority themes in the City Plan of Dynamic, Healthy and Vibrant. The risk areas under enabling are those corporate risk areas which are thought to be so significant in supporting the delivery of priorities that they should be considered along with the priority themes. The cumulative risk scores and assurance position have been updated based on the changes and have been agreed with Chief Officers. The 'X's in the assurance columns show where assurance is expected to be received from in the current financial year.
- 4.2 As the Strategic Risk Areas have changed completely the assessment of risk has been undertaken afresh. Given the change in risk areas assurance has only been given where there is currently a clear link to previous assurances provided. The Risk and Assurance Team will update their assurances against the new Strategic Risk Areas once the profile is agreed.
- 4.3 The Corporate Risk Areas have been refined slightly to bring together those that fit better together rather than being considered separately. The risks, causes, impacts, risk scores and mitigating actions have all been reviewed in light of the current position.

Strategic Risk Areas

- 4.4 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile, attached at Appendix 2. As mentioned above, the risk ratings and assurance positions have been considered afresh and will be further updated for the next meeting of the Committee. The Risk Scoring Criteria is attached at Appendix 6.

Corporate Risk Areas

- 4.5 The middle section of the Map shows the cumulative risk assessments and the assurance levels relating to the risks identified in the Corporate Risk Profile, attached at Appendix 3. The main changes to the Corporate Risk areas are that the Current Risk Score for Relationship/Contract Management and Health and Safety have moved from Red to Amber due to the improved controls in place. The Current Risk Score for Programme and Project Management has moved from Amber to Red as the risk specifically relates to the achievement of benefits and outcomes (not the project management process itself) and it is considered that the Council has more work to do regarding the arrangements for identifying and measuring the achievement of benefits arising from programmes and projects.

Council Owned Companies

- 4.6 The bottom section of the Map shows the Assurance position in relation to Companies that are wholly owned by the Council and are part of the group for the financial statements. As Siglion LLP is now wholly owned by the Council it has been added to the Map and audit arrangements are being developed.

Assurance from Internal Audit

- 4.7 The audits to be carried out this year and the detailed results of completed Internal Audit work shown at Appendix 4, with the summary outcomes shown on the Map.
- 4.8 Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level for the new Strategic and Corporate Risk Areas. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time. A number of current year audits are also ongoing, as follows:

- Environmental Services
- Treasury Management
- Council Tax Setting
- Council Tax Liability
- ICT Asset Management
- Capital Procurement
- Liquid Logic - Adults

Assurance from Risk and Assurance Team

- 4.9 Areas that the Risk and Assurance Team are currently involved in are shown below. Much of their work is ongoing over a period of time, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work within the last quarter has included:

- Major capital schemes such as the development stage of the SSTC Phase 3 and the International Advanced Manufacturing Park.
- Corporate projects, including the introduction of Office 365 and the move to Cloud technology, SAP self-service arrangements for HR and procurement activities and the new Civic Centre.
- Risks in relation to Brexit.
- Risks in relation to information governance and security.
- National Fraud Initiative data matching exercise.
- Arrangements in relation to anti-money laundering.
- Refresh of the Strategic Risk Profile.
- Development of the risk arrangements in relation to the North East Combined Authority and the North East Joint Transport Committee (new

clients)

Assurance from others within the Council

- 4.10 Assurance provided from others within the Council is shown in the Risk and Assurance Map. There are no changes since the last.

Assurance from Management

- 4.11 Arrangements are in place to obtain assurance from all service areas within the Council through an annual governance questionnaire undertaken in the last quarter of the year.

Assurance from External Sources

- 4.12 The Map includes assurance from relevant external sources. There are no changes since the last report.

Overall

- 4.13 The overall assurance levels are either green or amber, with the exception of the Red ratings relating to Children's Safeguarding.
- 4.14 The Risk and Assurance Map was recently considered by officers of the Chief Officer Group and the issues raised above highlighted.

5. Internal Audit Performance

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5.
- 5.2 Performance is on target for all KPI's apart from:
- The percentage of significant risk actions implemented currently sits at 95% against a target of 100%. The 5% relates to the audit of Adults Social Care Personal Budgets. Significant progress has been made with the implementation of the actions with a small number remaining outstanding.
 - The percentage implementation rate for medium risk actions in relation to schools.

The implementation rate for medium risk agreed actions is as follows:

Area	Target	Implementation Rate
Council services	90%	100%
Schools	90%	87%

6. Conclusion

- 6.1 Results of the work undertaken so far during the year have not highlighted any issues which affect the overall opinion that the Council continues to have in place an adequate system of internal control.

7. Recommendation

- 7.1 The Audit and Governance Committee are asked to note and consider the report.

Risk and Assurance Map September 2019

Strategic and Corporate Risk Areas			1st Line	2nd Line							3rd Line	
	Current Risk Score	Cumulative Assurance Position	Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
				Law & Governance / DPO	Financial Resources	Programmes & Projects	Performance	ICT	People Mgt	Health & Safety	Business Continuity	Risk & Assurance
Strategic Risk Areas												
Dynamic City												
More and better jobs												X
More and better housing												X
More local people with better qualifications and skills to enable them to participate in and benefit from a stronger economy												X
A stronger City Centre with more businesses, housing and cultural opportunities												X
A lower carbon City with greater digital connectivity for all												X
Healthy City												X
Access to the same opportunities and life chances												X
More people living healthier longer lives												X
More people living independently												X
Cleaner and more attractive City and neighbourhoods												X
A City with great transport and travel links												X
Vibrant City												X
More creative and cultural businesses												X
More residents participating in their communities												X
More visitors visiting Sunderland and More residents participating in cultural events												X
More people feel safe in their neighbourhoods and homes												X
More resilient people												X
Enabling												X
Finance												X
Partnership Working												X
Corporate Risk Areas												
Strategic Planning												X
Commissioning												X
Service Delivery Arrangements												X
Partnership/Integrated Working												X
Procurement												X
Relationship/Contract Management												X
Legality												X
Risk Management												X
Corporate Performance Management												X
Financial Management												X
Income Collection												X
Capital Programme Management												X
HR Management												X
Health and Safety												X
ICT Infrastructure												X
Cyber Security												X
Information Governance/Security												X
Business Continuity Management												X
Programme and Project Management												X
Asset Management												X
Anti-Fraud and Corruption												X
Council Owned Companies												
Sunderland Care and Support Ltd.												X
Together for Children Sunderland Ltd.												X
Sunderland Homes Ltd.												X
Siglion LLP												X

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

City Plan Theme	Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	COG Lead	Timescale	Impact	Likelihood	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
HEALTHY	More people living independently.	R10	Current model of social care cannot be sustained in the future, due to a growing population of older people and fewer younger working age adults.	Increase in the level of long term conditions, including increasing proportions of people with multiple long term conditions. Potential market failure in the supply chain.	Care options for adults do not meet the needs of individuals or result in increased costs to the Council.	Health & Wellbeing Board. City Plan.	4	2	8	Further integration of Health & Social Care in Sunderland. Deliver better integrated care through promotion and support for self-care. Continue to investigate the use of technology to support the independence of older people. Continue to work with the Association of Directors of Adult Social Services on market sustainability for social care.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4											
	Cleaner and more attractive City and neighbourhoods.	R11	Council resources and the input of residents are not fully optimised to tackle environmental issues in neighbourhoods.	The level of services delivered by the council does not always meet customer expectations. Recycling bins are often contaminated. Increased fly tipping.	Fail to achieve cleaner and greener streets across the City. Recycling rates are not increased.	City Plan.	4	2	8	Implement a Waste Management Strategy to tackle environmental issues.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4											
	A City with great transport and travel links.	R12	Unable to develop and maintain a sustainable / integrated transport infrastructure across the City.	High cost of maintaining existing infrastructure. Limited pedestrian and cycling routes.	Restricted connectivity between different areas of the City.	Transport Movement Plan for Sunderland. City Plan.	3	2	6	Implement developments through the Transport Movement Plan for Sunderland for the period 2019-2030.	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3											
VIBRANT	More creative and cultural businesses.	R13	The approach to developing creative and cultural businesses is not integrated.	Partners have varied roles and engage at different levels with the diverse range of individuals / businesses.	Fail to enhance the reputation, attractiveness, vibrancy and economic development of the City.	Creative Industries Action Plan. City Plan. Vibrancy Board.	3	2	6	Deliver an up-dated Creative Industries Action Plan to support new enterprises and innovation, as well as stronger, more successful businesses. Provide clear development paths and support for emerging artists.	Executive Director of Neighbourhoods	Review Sept 2020	2	2	4											
	More residents participating in their communities.	R14	Pathways are not in place to encourage / support more residents to participate in making their neighbourhoods more desirable.	Residents are not fully aware of opportunities to participate in their neighbourhoods.	Neighbourhoods become less attractive. Outward migration continues.	City Plan. Vibrancy Board.	3	2	6	Implement Neighbourhood Plans. Develop and implement a Volunteers Strategy. Launch and promote Spacehive (a funding platform to support local projects)	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3											
	More visitors visiting Sunderland and More residents participating in cultural events.	R15	Sunderland may not be recognised as a cultural destination of choice.	The developing cultural offer is not fully understood. Limited number of City centre hotels.	City's cultural offer does not contribute fully to the City being an attractive and vibrant place to invest, work, learn, live and visit.	City Plan. Vibrancy Board.	3	2	6	Develop a wider Vibrancy Partnership to promote new events and increase cultural activity.	Executive Director of Neighbourhoods	Review Sept 2020	3	1	3											
	More people feel safe in their neighbourhoods and homes.	R16	Reduced trust in public protection.	Significant local crime events. Vulnerable residents are exploited by organised crime syndicates.	Localised community tensions. Vulnerable individuals have their lives controlled by criminal organisations.	Safer Sunderland Partnership. City Plan.	4	2	8	Support Partners to improve community safety and maintain high levels of feelings of safety for all. Criminal activity to be disrupted through increased Policing and other Agency intervention and enforcement activity. Promote Sunderland more positively as a City that welcomes all, with neighbourhoods that are attractive, safe, inclusive and cohesive.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4											
	More resilient people.	R17	Opportunities are not taken to enable individuals to support themselves, to mitigate the impact of indebtedness and welfare reforms.	Ongoing austerity and welfare reform changes have exposed many more residents to the effects of poverty – including food insecurity.	Increased child poverty, indebtedness and a rise in the 'working poor'. These impacts are worse in deprived areas due to underlying problems (for example poor health and lower wage levels).	Sunderland Foodbank. City Plan.	4	2	8	Support is ongoing from the Welfare Reform priority response areas of: Digital Inclusion (DI), Crisis Support (CS), Information, Advice & Guidance (IAG). Council to support Sunderland Foodbank to maintain stocks as demand increases.	Executive Director of Neighbourhoods	Review Sept 2020	4	1	4											
ENABLING	Finance.	R18	Delivery of the City Plan is restricted by financial pressures.	Uncertainty as to the level of Revenue Support Grant (4 year agreement ended). Progressive reduction in Government funding (change in Prime Minister and Cabinet Ministers). Brexit. Cessation of European Funding. Changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Inability / delay in addressing Sunderland's challenges / priorities. Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Medium Term Financial Strategy. Budget Plan. City Plan.	4	2	8	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position. The City Plan delivery actions to be refreshed / updated in line with financial resources. External funding opportunities are maximised.	Executive Director of Corporate Services	Review Sept 2020	4	1	4											
	Partnership Working.	R19	Objectives and priorities of Council and other Partner(s) may conflict or are not aligned to deliver the priorities in the City Plan.	Reducing resources may lead to partners concentrating on their own priorities at the expense of City priorities. Lack of understanding by each partner as to the contribution they can play to the delivery of the City Plan. Lack of partnership performance monitoring.	Unable to achieve City priorities and support communities.	City Plan.	4	2	8	Partners to be represented on the City Board to support delivery of the City Plan.	Strategic Director People, Communications and Partnerships	Review Sept 2020	4	1	4											

CORPORATE RISK PROFIL

Risk Likelihood	Risk Impact	Likelihood	4	3	2	1
1 = Unlikely	1 = Minor		3	2	1	0
2 = Possible	2 = Moderate		2	1	0	0
3 = Likely	3 = Significant		1	0	0	0
4 = Almost Certain	4 = Critical		0	0	0	0
		Negative Impact				
			1	2	3	4

Current Score (Sept 2019)	
------------------------------	--

Forecast Score

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact Likelihood	Rating		
R01	Strategic Planning	The priorities set out in the City Plan do not address the needs of the City as whole.	Corporate planning process does not adequately reflect the views of the community. Various sections of the community are not engaged.	Fail to contribute to the welfare and future prosperity of our communities.	COG. JLT. City Plan.	4	1	4	City Plan driven by required outcomes and commissioning activity. Refresh of the JSNA	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
R02		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans.	Lack of timetable re corporate / service planning Lack of communication of plans	Lack of delivery of plans by those partners/services responsible	COG. JLT. City Plan.	4	2	8	Communication of the City Plan continues across the Council and Partners. Service planning process to ensure that service plans reflect delivery of the City Plan.	Strategic Director People, Communications and Partnerships	Risk and Assurance Team Internal Audit	4	1	4
R03	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	JSNA. Community engagement arrangements. Intelligence Service. Performance Management Framework.	4	2	8	Identify intelligence required and potential sources to inform decisions. Develop engagement plans to gather the required information. Analyse the information and use the results to inform the commissioning decisions, using the intelligence team.	All Assistant Directors	Governance questionnaire Internal Audit Corporate Performance Management	4	1	4
R04		Most appropriate and cost effective commissioning option to meet identified needs and achieve commissioning priorities and outcomes is not chosen.	Failure to identify and evaluate relevant possible commissioning options of delivering services taking into account the resources available. Failure to build or shape capacity in 'market' and cooperative working eg partnerships to enable effective service options not in place to help achieve commissioning priorities and outcomes Inadequate options appraisal process Lack of resource or expertise	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	City Plan. Service Plans.	4	2	8	Options appraisal undertaken on service design following assessment of customer needs. Appropriate procedure followed to commission the preferred option, eg, procurement, service re-design.	All Assistant Directors	Cabinet reports Governance questionnaire Internal Audit	4	1	4
R05		Commissioning assessment process is not undertaken on a timely or regular basis.	Inadequate resources. Insufficient forward planning for contracted services.	Changes in needs of community are not identified promptly. Inappropriate use of limited resources. Community's real needs are not met. Existing arrangements/contracts extended where it may not be the optimal solution	Service Plans.	4	2	8	Review of performance to ensure service delivery model is delivering outcomes. Commissioning Cycle to include planned review date either linked to outcome or contract timescales.	All Assistant Directors	Governance questionnaire Internal Audit	3	1	3
R06	Service Delivery Arrangements	Service Plans do not include actions to achieve the City Plan priorities	Service plans are not driven by the City Plan	Fail to meet the needs of the City	Service Planning Process. Performance Management Framework.	4	3	12	Service Planning process is driven by the City Plan. Service Planning Process is communicated to all Assistant Directors.	All Assistant Directors Strategic Director People, Communications and Partnerships	Internal Audit Corporate Performance Management	3	2	6
R07		The level of services delivered by the council does not meet customer needs and/or expectations.	Lack of understanding of the priorities Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues	Required outcomes for customers not achieved. Reputational damage. Wasted resources.	Service Planning Process. Performance management arrangements. Transformation Programme.	4	2	8	Performance in relation to the delivery of outcomes is regularly monitored.	All Assistant Directors	Corporate Performance Management Internal Audit Corporate Complaints	4	1	4
R08		Performance targets are not set or do not clearly identify the acceptable levels of service delivery performance.	Lack of understanding of how to measure acceptable performance.	Unable to understand if performance levels are acceptable.	Corporate performance management process.	3	2	6	Targets should be set for all performance measures (where appropriate to do so) to clarify acceptable levels of performance.	All Assistant Directors	Governance questionnaire Corporate Performance management Internal Audit	3	1	3
R09		Management fail to take prompt effective action in response to unacceptable performance results reported or fails to follow up to ensure remedial action is effective.	Lack of time to consider performance. Performance information not accurate, timely or understood. Management not held to account for performance. Lack of resource or control to make necessary changes.	No or delay in action taken to improve service which may have major impact on customers. Poor reputation for Council.	Corporate Performance management. Performance Clinics.	3	2	6	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance.	All Assistant Directors	Corporate Performance management arrangements Internal Audit Corporate Complaints	3	1	3
R10		Services fail to monitor their financial resources to ensure effective delivery of planned services.	Lack of time spent on budget monitoring. Lack of understanding of the service's financial position. Lack of complete or timely financial information.	Services not effectively delivered due to lack of resources.	Budget managers guidance. Financial Resources support.	4	1	4	Managers continue to engage with Financial Resources to understand the financial performance of their services areas	All Assistant Directors	Financial Resources Internal Audit	4	1	4
R11		Services do not meet the needs of the City as key risks are not identified or appropriately managed.	Potential barriers to the delivery of services are not identified or assessed.	Services not effectively delivered. Waste of resources.	Service Planning process.	3	3	9	Services should continue to identify risks to service delivery during the service planning process and consider appropriate mitigating actions.	All Assistant Directors	Risk and Assurance Internal Audit	3	1	3

Appendix 3

[illegible]

	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R12	Partnership / Integrated Working	Objectives and priorities of Council and other partner(s) conflict/are not aligned to deliver the priorities of the City.	Reducing resources forces partners to concentrate on their own priorities at the expense of partnership priorities. Lack of communication of plans between partners. Lack of partnership performance monitoring.	Unable to achieve City priorities and support communities.	City Plan. Partnership Boards. Partnership Framework.	4	2	8	Performance management arrangements include a review of the achievement of outcomes where partners have some responsibility for delivery. Corporate Partnership arrangements should be reviewed in light of the new City Plan.	All Assistant Directors Strategic Director People, Communications and Partnerships	Corporate Performance management Internal Audit	4	1	4	Partnership / Integrated Working										X	X	X
R13		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing).	Lack of formal comprehensive written partnership agreement.	Delay in delivery of plans and outcomes for community. Lack of delivery of priorities.	Partnership Framework.	4	2	8	All Assistant Directors should be reminded of the requirements of the partnership Code of Practice. Partnership agreement in place with each partner setting out the expectations of each party and the required reporting arrangements.	Strategic Director People, Communications and Partnerships All Assistant Directors	Corporate Performance Management Governance questionnaire Internal Audit	4	1	4		X										X	
R14	Procurement	The product or service procured does not deliver the intended outcomes.	Poor specification. Lack of understanding of what is needed by commissioner. Poor communication between commissioner and procurement. Inadequate evaluation process	Fail to obtain value for money. Objectives/outcomes are not achieved. Most appropriate commissioning options are not obtained.	Procurement Procedure Rules.	3	1	3	The Council's procurement procedures continue to be followed and good procurement practice is undertaken	All Assistant Directors	Internal Audit Risk and Assurance	3	1	3	Procurement										X	X	
R15		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training. Lack of knowledge of legal/Council requirements. Failure to adhere to requirements (deliberate, e.g. corruption or accidental).	Legal/financial penalties. Challenge, delays in award of contracts. Loss of reputation.	Procurement Procedure Rules in place. Procurement have skilled staff. Corporate Procurement support council officers.	2	1	2	Communication with COG / Assistant Directors regarding failure to comply with Procurement Procedure Rules. Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	Assistant Director of Business and property Services All Assistant Directors	Internal Audit	2	1	2											X	X	
R16		Value for money not obtained.	Lack of competition. Corruption. Inappropriate specification. Poor procurement planning.	Poor quality of goods/services and customer service. Pay higher prices - waste of scarce resources.	Procurement Procedure Rules in place. Procurement have skilled staff . Corporate Procurement support council officers.	3	2	6	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process.	All Assistant Directors	Internal Audit	3	1	3	Relationship / Contract Management											X	
R17	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes.	Lack of clear contract/specification provisions in place to allow effective management of the contract. Lack of appreciation of importance of contract management during the procurement process. Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award. Lack of contract management activity following contract award	Fail to obtain value for money, i.e. pay too much or poor service obtained. Objectives are not achieved. Excessive resources used on dispute resolution.	Contract management framework. Corporate Procurement support to officers.	4	2	8	Contract management arrangements should ne in place for all key contracts entered into by the Council.	All Assistant Directors	Governance questionnaire Internal Audit	4	1	4		X					X				X	X	
R18	Legality	Council fails to act within its statutory powers.	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers. Decision makers have lack of access to legal expertise. Lack of awareness of officers as to their legal responsibilities. Changes in law are not recognised and implemented.	Councils actions are found to be ultra vires. Financial penalties. Legal challenge. Loss of reputation. Delay in delivery of outcomes.	Constitution and Procedure Rules.	3	1	3	Ongoing review of key decisions by Law and Governance. Officers continue to be aware of changes in legislation that impact on their services.	Assistant Director of Law and Governance All Assistant Directors	Law and Governance Governance questionnaire Internal Audit	3	1	3	Legality	X	X								X	X	
R19	Risk Management	Failure to identify and manage the major risks and opportunities to delivering priorities and plans.	Risk Management process is not aligned with delivering priorities. Senior Management/Members do not monitor the management of key risks to the Council. Risk appetite of the Council is not identified and communicated.	Priorities are not achieved. Loss of reputation. Potential financial penalties.	Risk Management Policy and Strategy. Integrated Assurance Framework.	3	2	6	The Council's strategic and corporate risks are identified, assessed and managed through COG and the Audit and Governance Committee. Risk Management Policy and Strategy to be reviewed.	Assistant Director of Business and property Services	Risk and Assurance Team Audit and Governance Committee	3	1	3		X									X	X	
R20	Corporate Performance Management	Performance reporting fails to give a full and accurate picture of the progress in achieving strategic priorities and outcomes.	Performance reporting does not address all priority issues. Performance indicators are inappropriate. Performance targets not set to aid evaluation of performance. Performance data reported is inaccurate, out of date, difficult to understand or incomplete. Performance reporting not timely.	Reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Performance Management Framework.	3	1	3	Development of the performance management process in relation to delivering the priorities in the City Plan.	Assistant Director of Digital and Customer Service	Corporate performance management Internal Audit	3	1	3	Performance Reporting						X					X	
R21	Financial Management	Strategic financial plans do not align to Council priorities, objectives and direction as set out in the City Plan.	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched.	MTFS Budget consultation process	4	1	4	The strategic financial plan should be aligned with the priorities in the City Plan.	Executive Director of Corporate Services	Financial Resources	4	1	4		Strategic Financial Planning / MTFS			X	X							X
R22		Strategic financial plans are at risk due to all critical factors likely to affect the Council's finances moving forward, e.g. change in prime minister and Cabinet ministers, impacts of a no-deal BREXIT, changes to funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities etc.	Poor intelligence gathering or horizon scanning. Lack of resources. Lack of consultation/communication with senior officers.	Decisions made with inaccurate information. Plans made which are not adequately resourced. Failure to achieve plans and outcomes for community. Council financial resources overstretched.	Strategic financial planning process.	3	2	6	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position.	Executive Director of Corporate Services	Financial Resources External Audit	3	1	3				X								X	X

	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance	
R23		Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council.	Financial savings in one area may have a more than proportionate increase in other service areas	Savings plans are not achieved in practice.	Financial Reporting Procedures.	3	1	3	The Council's financial position is regularly reported to COG and Members.	Executive Director of Corporate Services	Financial Resources	3	1	3	Financial Reporting			X								X		
R24		The Council does not take all opportunities to pursue external funding when available.	Lack of awareness of funding streams available. Lack of planning regarding priorities to be able to react to available funding.	The Council fails to deliver its priorities in an efficient way. Some priorities may not be delivered.	External Funding Team. Strategic funding group.	3	1	3	Ensure that horizon scanning considers changes in future sources of funding.	Executive Director of Corporate Services	Internal audit	3	1	3														
R25		The Council does not maximise the use of external funding that has been allocated.	Lack of planning Lack of awareness of the terms and conditions of the funding Delays in project completion	Loss of grant income. Some priorities may not be delivered.	Financial monitoring. Project management standards.	3	2	6	The Council monitors the use of all grant monies to ensure there is no loss.	Assistant Director of Finance	Internal Audit	3	1	3														
R26		Financial reporting fails to give a full and accurate picture of the progress to achieving corporate financial priorities and targets.	Financial reporting does not address all priority issues Financial performance measures are inappropriate Financial targets not set to aid evaluation of performance Financial performance data reported is inaccurate, out of date, difficult to understand or incomplete Financial performance reporting not timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required. Appropriate remedial actions are delayed.	Corporate Performance Reporting. Performance Clinics.	3	1	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies or inconsistencies.	Executive Director of Corporate Services	Financial Resources Corporate Performance Management	3	1	3					X		X						X	
R27		The Council fails to pay its employees (and those of other clients) accurately and on time.	Lack of resources to process the changes to the payroll Lack of a clear timetable for the submission of information Lack or payroll staff with the required training	Delay in making salary payments. Claims from employees for costs incurred for late payment of bills. Loss of reputation as a payroll provider.	Policies and procedures in place for operating the payroll system. Employee self service.	3	1	3	Controls in place to ensure that the payroll runs are complete and accurate and operate efficiently.	Assistant Director of people Management	Internal Audit	3	1	3													X	X
R28		The Council fails to make payments to its suppliers and clients accurately and on time.	Lack of resources to process the required payments. Lack of appropriate checks on payments before processing. Lack of controls in place to ensure payments are processed per the required timescales.	Loss of reputation with suppliers. Claims for interest for late payments.	Procedures in place within the Purchase to Pay system	3	1	3	Procedures required for making payments accurately and on time are up to date and fully understood by staff within the payments service	Assistant Director of Finance	Internal Audit	3	1	3													X	X
R29		The Council fails to process payments for benefits accurately or on time.	Poor assessment procedures. Lack of timetable for assessing claims. Delay in the processing of claims.	Customers do not receive the correct amount of benefit resulting in financial hardship. Customers receive their payments late causing unnecessary debt.	Assessment procedures and performance indicators in place.	4	1	4	Established procedures are in place and followed by adequately trained staff for the assessment and processing of benefit claims.	Assistant Director of Digital and Customer Service	Internal Audit	4	1	4												X	X	
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to it.	Lack of resources. Inadequate procedures for raising accurate bills. Inappropriate methods to allow customers to pay bills. Over generous credit terms. Economic conditions increase the number of bad debtors. Procedures fail to identify non payments. Ineffective enforcement of credit control arrangements.	Financial loss. Unable to balance the budget.	Financial procedure rules. Performance indicators in place.	3	1	3	Regular monitoring that the income received is in line with that expected as per the Council's budget.	Assistant Director of Finance	Financial Resources Internal Audit	3	1	3	Income Collection (including CT/NNDR)			X									X	X
R31		Prosperity within the City fails to grow resulting in the expected level of income being uncollectable.	Number of businesses in the City reduces or does not grow. Increased number of families suffering financial hardship. Debts increase and become harder to recover.	Financial loss. Negative impact on cashflow. Inability to achieve financial targets.	City Plan. Strategic financial planning.	3	3	9	Clear performance measures and regular monitoring of the debtor position highlight potential loss of income.	Executive Director of Corporate Services	Financial Resources Internal Audit	3	2	6				X										
R32	Capital Programme Management	Capital projects do not support the delivery of strategic priorities and desired outcomes.	Capital projects are based on available funding and not linked to priorities. Inadequate business cases for projects.	Priorities are not delivered. City does not have the required infrastructure. Poor integration of city developments.	Capital Programme Board	3	1	3	The Capital Programme is directly aligned to the City Plan and strategic priorities.	Executive Director of Corporate Services	Financial Resources Internal Audit	3	1	3	Capital Programme Management			X								X	X	
R33		The intended benefits of capital projects are not identified and/or realised.	Lack of awareness of funding conditions Poor planning Poor monitoring of projects Lack of monitoring of the realisation of benefits after the completion of the projects	Loss of funding. Council resources used to fill funding gaps. Other planned projects postponed. Lack of delivery of the Council priorities.	Capital Programme Board	3	3	9	Corporate approach to planning and monitoring of the delivery of the benefits of each project and the wider Capital Programme.	Executive Director of Corporate Services	Financial Resources Internal Audit	3	2	6												X	X	
R34	HR Management	The council does not have the required skills and capacity to deliver the City's priorities.	Shrinking workforce leading to a reduction in capacity and skills. Rapid loss of key/senior officers and associated expertise. Lack of effective workforce planning to ensure Council has workforce to meet the needs of Council going forward. Insufficient resources to maintain effective HR management resource and arrangements. Insufficient training and development.	Lack of or delay or increased costs in delivering priorities.	Corporate Performance Management.	3	3	9	Workforce planning strategy in place that is appropriately monitored to ensure it is effectively implemented.	Assistant Director of People Management	People Management Internal Audit	3	2	6	HR Management	X							X			X	X	
R35		Reduction in productivity and morale of workforce.	Increasing workloads. Instability due to ongoing changes. Job insecurity.	High absence/sickness rates. Stress related absence. Lower standards of service delivery. Increased costs.	Corporate Performance management. Performance Clinics.	4	3	12	Recognition of reduced capacity. Employees feeling valued and supported.	All Assistant Directors	Governance questionnaire People Management Internal Audit	4	2	8		X							X				X	

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R36	Health and Safety	Council officers do not fully understand H&S roles and responsibilities.	Roles and responsibilities not clearly documented and/or communicated effectively. Loss of knowledge from organisational change and staff churn. Ineffective training and awareness programme. Lack of easy access to relevant documents on the Hub.	Lack of ownership and accountability for H&S. Inconsistent approach to the management of H&S issues across directorates, divisions and teams. Reduced compliance with quality standards and best practice. Inability to adequately prevent incidents occurring. Inadequate documentation and controls leading to injury and death.	Corporate Health and Safety Team. Corporate Health and Safety Statement of Intent.	4	2	8	H&S Strategy/Policy to be reviewed and revised. Revised Strategy/Policy to be agreed by COG.	Assistant Director of People Management	People Management Internal Audit	4	1	4	Health and Safety							X			X	X	
R37		The council's key H&S risks are not identified, understood or agreed.	Lack of effective coordinated corporate approach to the identification of H&S risks. Lack of awareness or prioritisation of H&S across Chief officers, managers and operational colleagues. Lack of clear responsibilities of premises managers, landlords and leaseholders.	Key H&S risks not effectively managed leading to injury or death of the public, staff, suppliers or partners. H&S legal duties not fulfilled and/or demonstrated. Reduced oversight and accountability at strategic and operational levels across the council leading to uninformed decision making. None compliance with quality standards. Litigation and adverse PR.	Corporate Health and Safety Team.	4	2	8	Continue to monitor Health and Safety Risks through the assurance framework and work with relevant colleagues to manage the risks in place.	Assistant Director of People Management	Head of HR and OD Internal Audit	4	1	4												X	
R38		Appropriate action plans are not developed and agreed to manage the council's key H&S risks.	Lack of joined up corporate approach to the management of H&S risks. Lack of effective process to develop clear and robust action plans to establish relevant controls and officer ownership.	Effective controls not established and/or operated appropriately. Inconsistent and disjointed approach across the council to the management of shared risks leading to confusion and mismanagement of control systems.	Corporate Health and Safety Team. Health and Safety Audits.	4	2	8	Continue to oversee the management of Health and Safety risks through the Executive Group and annual reporting to COG.	Assistant Director of People Management	People Management Internal Audit	4	1	4												X	
R39		Strategic approach to incident management does not adequately inform decision making.	Lack of understanding of responsibilities and accountability for incident response. Non-compliance with incident reporting arrangements. imited trend analysis and learning lessons from incidents. Availability of quality data/information to inform effective reporting to COG.	Ineffective decision making. Implementation of inappropriate controls. Existing controls not reviewed and revised in response to learning from incidents becoming out-of-date and ineffective. Avoidable repetition of incidents.	Corporate Health and Safety Team. Annual Health and Safety Report.	3	2	6	Continue to monitor compliance with incident reporting arrangements and address any areas for development.	Assistant Director of People Management	People Management Internal Audit	3	1	3												X	
R40	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive).	Reducing resources impacts upon the ability to maintain a stable infrastructure. Lack of funds to maintain/upgrade infrastructure. Lack of understanding of importance of role of ICT in delivering more efficient and effective services. Lack of understanding of extent of reliance on ICT. Lack of expertise and time to	Disruption to service provision impacting on delivery of priorities. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	ICT development plan.	4	2	8	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	1	4	ICT Infrastructure	X						X		X	X	X	
R41		ICT infrastructure is not resilient to 'disasters'.	Lack of planning for disasters (prevent or respond to). No adequate business continuity/disaster recovery ICT infrastructure in place. Lack of business continuity/disaster recovery plan which has been tested. Key employees not briefed as to their disaster recovery responsibilities.	Disruption to service provision impacting on delivery of priorities. Loss of productivity. Waste of financial resources due to excessive cost. Less efficient and effective service delivery. Loss of productivity.	Business continuity arrangements (ICT and in services).	4	2	8	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services.	Assistant Director of Digital and Customer Service All Assistant Directors	ICT Internal Audit Business continuity officer	4	1	4		X						X		X	X	X	
R42	Cyber Security	The Council is exposed to vulnerabilities and threats, both internal and external, (e.g. hacking, phishing, denial of service attack) resulting in a loss of systems and/or confidential information.	Lack of appreciation by management of threat/risks of cybercrime to Council's operations. Low priority given to cybersecurity. Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness). Lack of monitoring of alerts/warnings, e.g. no Security and Incident and Event Management (SIEM) solution in place.	Loss of public trust, customer confidence, finance and reputational damage. Fines / compensation. Loss of systems or data loss. Major business disruption.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	4	2	8	A Cyber security Strategy is in place, including and threat assessment, development plan and response plan.	Assistant Director of Digital and Customer Service	ICT Internal Audit	4	2	8	Cyber Security							X			X	X	
R43	Information Governance / Security	Council's data is not accurately protected.	Lack of awareness of the importance of protecting the Council's data. Lack of compliance with data security arrangements. The Council is not aware of the data it holds or ensures that it is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data.	Loss of public trust and reputational damage. Fines / compensation. Claims from those who have been adversely effected.	Strategic Information Governance Group. Operational Information Governance Group. ISO 27001. Cyber security arrangements	3	2	6	Council has appropriate information governance and security arrangements in place which are complied with throughout the organisation.	Strategic Director People, Communications and Partnerships All Assistant Directors	Data Protection Office Governance questionnaire Internal Audit	3	1	1	Information Governance / Security	X	X								X	X	
R44	Business Continuity Management	The Council's business critical services cannot function in the event of an incident.	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes. Business continuity plans are not tested appropriately.	Services are unable to respond in adverse conditions.	Corporate Business Continuity Group. Business Continuity plans.	4	2	8	Business continuity plans are reviewed and tested on a regular basis.	Business Continuity Officer All Assistant Directors	Business Continuity Officer Internal Audit	4	1	4	Business Continuity Management	X								X	X	X	
R45		Lack of awareness of content of business continuity plans.	Lack of effective communication strategy. Lack of testing.	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals. Loss of reputation.	Corporate Business Continuity Group. Business Continuity plans.	4	2	8	Relevant staff are made aware of the content of the business continuity plans and understand their role in implementing them.	All Assistant Directors	Business Continuity Officer Internal Audit Governance questionnaire	4	1	4		X								X		X	
R46	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes.	Lack of agreed Project Management Standards. Lack of Project Plans and Governance. Lack of monitoring of achievement.	Fail to obtain value for money. Standards. Lack of Project Plans and Governance. Lack of monitoring of achievement.	Corporate Project /Programme management arrangements.	3	3	9	The expected benefits of programmes and projects are clearly set out at the start and their achievement monitored throughout.	All Project Sponsors	Project Office Risk and Assurance Internal Audit	3	1	3	Programme / Project Management	X			X						X	X	X

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Mitigating Actions	Owner	Source of Assurance	Impact	Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Health and Safety	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R47	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised.	Council does not "sweat" its assets to obtain the maximum returns. Fail to maintain property. Changes in size and direction of Council and services it provides. Lack of asset management planning. Changes in how services delivered.	Fail to increase council income. Fail to decrease costs.	Asset Management Plan.	3	3	9	The use of Council assets are monitored on an ongoing basis, particularly in response to changing staffing levels and changing service delivery models.	Assistant Director of Business and Property Services	Internal Audit	3	2	6	Asset Management										X	X	
R48		The Council does not fulfil its statutory duties in relation to its property portfolio.	Lack of clarity as to the 'Corporate Landlord' role and responsibilities. Lack of resources. Lack of planning. Lack of monitoring or conditions of assets. Lack of knowledge of changes to the property portfolio.	Members of the public or staff are at risk of being harmed. Legal action taken against the Council. Reputational Damage.	Asset Management Plan.	4	2	8	The Council's Asset Management Plan is updated maintained accurately on an ongoing basis. Condition of assets are monitored on an appropriate basis and maintenance scheduled as required.	Assistant Director of Business and Property Services	Health and Safety Internal Audit	4	1	4													
R49	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption.	Relaxation of controls due to a reduction of resources. Lack of anti fraud culture. Lack of anti fraud and corruption procedures embedded into processes.	Financial loss.	Anti fraud and corruption policy and procedures.	2	2	4	Managers are aware of the fraud risks within their area and maintain appropriate controls bearing in mind changes to service delivery and staffing levels.	All Assistant Directors	Governance questionnaire Internal Audit	2	2	4	Anti Fraud and Corruption	X										X	

Internal Audit coverage

Strategic Risk Profile

Key Risk Area	2016/17 Audits / Opinions		2017/18 Audits / Opinions		2018/19 Audits / Opinions		2019/20 Audits / Opinions		Overall Opinion
Cleaner and more attractive City and neighbourhoods							Environmental Services		
More People Living Independently			Assessment and Management of Personal Budgets	M					
Finance			Provision for significant financial liabilities	S					
Partnership Working	Partnerships	S					Partership Arrangements		

Corporate Risk Profile

Key Risk Area	2016/17 Audits / Opinions		2017/18 Audits / Opinions		2018/19 Audits / Opinions		2019/20 Audits / Opinions		Overall Opinion
Strategic Planning	Corporate Service Planning Arrangements	S	Service/Business Planning						
	Transformational Change Programme	M	Service/Business Planning		Service/Business Planning	M			
	Corporate Service Planning Arrangements	S			Derwent Hill	S			
	Ethos								
Commissioning			Commissioning	M					
Service Delivery Arrangements	Better Care Fund	M	Corporate Performance Management	S	Liquid Logic including business processes		Licencing		
	Transformational Change Programme	M			Derwent Hill	S	Development Control		
	Leaving Care Grants	L					Environmental Services		
	Ethos						Delivery of Council Restructure		
	Business Continuity Planning						Liquid Logic - Adults		
	Bereavement Services	S							
	Adult Services Performance Management								
Partnership /Integrated Working	Partnerships	S	Corporate Partnership Arrangements				Partnership Arrangements		
	North East Local Enterprise Payment of Loans and Grants (including repayment of loans)	S							
Procurement	Agency Workers - Off contract spend	L	Commissioning	M	Revenue Procurement	S	Revenue Procurement		
			Revenue Procurement	M	Use of agency contract	M	Capital Procurement		
			Homecare Payments	L	Catering consortium	L	Financial Assessments		
Relationsip/Contract Monitoring	Leisure Services Management	S	Contract Management - Public Health School Nursing Service	S	Contract Management Arrangements for key contracts	S	Contract Monitoring SCAS		
	LABV Client Arrangements	M	Commissioning	M	Contract Management - IAMP consultants	M	Contract Monitoring - Siglion		
	Highways Contract Monitoring	M	Together for Children Contract Monitoring	S			Contract Monitoring - Sunderland Homes		
Legality	Employment Clearances	S			Delegated Decision Making	M			
					Emergency Planning and Response	S			

Risk Management					Derwent Hill	S			
Corporate Performance Management	Corporate Performance Management Arrangements	S	Corporate Performance Management	S	Performance Reporting - Data Quality	S	Performance Monitoring - City plan		
							Delivery of PEER Review Action Plan		
Financial Management			Provision for significant financial liabilities	S					
	Better Care Fund	M	Budget Setting and Management		Financial Reporting Arrangements				
	Transformational Change Programme	M							
	Leaving Care Grants	L	Budget Setting and Management		EFA Funding	S	Main Accounting		
	Bereavement Services	M	Payroll compliance testing	S	Local Transport Capital Settlement - Capital Maintenance	S	Treasury Management		
	North East Local Enterprise Partnership Payment of Loans and Grants (including repayment of loans)	S	BACS Compliance testing	S	Local Transport Capital Settlement - Integrated Transport	S	BACS	S	
	Agency Workers - Off contract spend	L	Housing Benefit Assessment	S	Nexus (Combined Authority)	S	Payroll		
	EFA/SFA Funding	S	Sport for Life Grant	S	Pothole Action Fund	S	Accounts Payable		
	Local Transport Capital and Integrated Transport Grants	S	EFA Funding	S	Sunderland A1290 Safety Improvement Scheme Phase 1	S	EFA Funding		
	Troubled Families Performance Reward Funding	S	Local Transport Capital Settlement	S	Better Care Fund - DFG	S	Local Transport Capital Settlement - Capital Maintenance	S	
	City Deal (which replaces Big Coastal Communities Grant for which there is no audit requirement)	S	Local Transport Integrated Transport	S	Vaux Phase 1		Local Transport Capital Settlement - Integrated Transport (Combined Authority)	S	
	Disabled Facilities and Social Care Capital Grants (replaces Sunderland a City by the Sea grants for which there is no audit requirement)	S	Nexus (Combined Authority)	S	Tall Ships Cultural Programme	S	Nexus (Combined Authority)	S	
	Sport for Life Grant		Pothole Action Fund	S	Local Transport Capital - National Productivity Investment Fund	S	Pothole Action Fund	S	
	SSTC2	S	City Centre Cycle Permeability Scheme	S	A19 Ultra Low Carbon Enterprise Zone	S	Local Transport Capital Settlement - Incentive Element	S	
	Adult Social Care Contributions		Disabled Facilities Grant	S	External Funding	S	Better Care Fund - DFG		
	Port Fuel System	L			Building Maintenance Financial Management	L	Vaux Phase 1		
	Payroll	S			Payroll	S	Northern Gateway	S	
	Asset Register/Capital Accounting	S			BACS	S	Local Transport Capital - Highway Maintenance	S	
	Accounts Payable	M			Accounts Payable	S	Liquid Logic including business processes		
	Pension Arrangements	S			Liquid Logic including business processes		Pothole Action Fund - Additional Monies	S	
					Derwent Hill	S			
Income Collection (including CR/NNDR)	Income	S	Cash Receipting, collection of Council Tax, NNDR, AR and PI	S	Cash Receipting	S	Cash Receipting, compliance	S	

			Business Rate Recovery	S	Accounts Receivable/Periodic Income	S	Council Tax Setting and Billing		
			Council Tax Recovery	S	Derwent Hill	S	Periodic Income		
			AR Recovery	S			Council Tax Liability		
							Business Rates setting and billing	S	
							Business Rates Liability	S	
Capital Programme Management					Benefits Realisation		Project Management Benefits Realisation, including capital funding		
HR Management	Employment Clearances	S	Workforce Planning and Apprenticeship Scheme		Human Resource Management - updated SAP procedures		HR - SAP Optimisation		
	Ethos				Apprenticeships	M	Port - Effectiveness of Restructure		
	Agency Workers - Off Contract	L					Communications re organisational change		
	Payroll	S							
	SAP Organisation Structures	S							
	Personnel Administration Arrangements	M							
	Pension Arrangements	S							
Health and Safety			Corporate Health and Safety Arrangements		Corporate Health and Safety Arrangements	M			
ICT Infrastructure	ICT Technology Allocation Process	M	ICT Strategy and Infrastructure		Externally hosted systems	M			
			Disaster Recovery/Business Continuity Arrangements	M	Intrusion prevention and incident management	M	ICT Asset management		
Cyber Security			Cyber Security Arrangements	M	Intrusion prevention and incident management	M	Cyber Security		
							Mobile Device Management		
Information Governance/Security	Corporate Information Governance Arrangements	M	Building Access Security Sites - Remote Sites	M	General Data Protection Regulation - Compliance	M	GDPR		
	Use of Email	M	General Data Protection Regulations	M	Derwent Hill	S			
Business Continuity Management	Business Continuity Planning		Corporate Business Continuity Arrangements	S			Update of Directorate plans re new structures		
Programme/Project Management	Transformational Change Programme	S	SAP Procedure Update		Benefits Realisation		Project Management Benefits Realisation, including capital funding		
Asset Management	LABV Client Arrangements	M	Corporate Asset Management	L					
	Asset Register/Capital Accounting	S							
	ICT Technology Allocation Process	M							
Anti Fraud and Corruption	Port Fuel System	L	Revenue Procurement	M	Building Maintenance Financial Management	L	Payroll compliance Testing		
			Homecare Payments	L	Revenue Procurement	S	BACS compliance testing	S	
			Payroll compliance Testing	S	Use of Agency Contract	M	Cash Receipting	S	
			BACS compliance testing	S	Payroll compliance testing	S	AR Recovery		

Schools			Cash Receipting	S	BACS	S	ICT Asset Management		
			Business Rate Recovery	S	Accounts Payable	S			
			Council Tax Recovery	S	Cash Receipting	S			
			AR Recovery	S	Accounts Receivable/Periodic Income	S			
					Derwent Hill	S			
					Refuse Collection	S			
	31 schools in the plan, 30 completed to date. 25 Substantial, 5 Moderate	S	27 schools in the plan, 2 cancelled, 25 completed to date. 16 Substantial, 8 Moderate, 1 Limited	S	14 schools in the plan, 15 completed to date. 12 Substantial, 2 Moderate, 1 limited	S	23 schools in the plan. 12 complete to date. 11 Substantial, 1 Moderate	S	
Sunderland Care and Support	Establishment Visits/Supported Living	M	Establishment Visits/Supported Living	M	Unit Costing		Risk and Assurance Framework		
			Unit Costing		Risk and Assurance Framework		DPO Checks		
			Procurement/Transaction Testing		Information Governance/GDPR	M	Unit Costing		
			Governance/Audit Committee		Compliance with Financial Procedures in Establishments	M	Compliance with financial procedures in establishments		
							Business Continuity (Telecare)	L	
							Recruitment and DBS Checks		
Together for Children			Governance Arrangements	S	Troubled Families Grant Claim	S	Troubled Families Grant Claim		
			Effectiveness of SLA Relationships	S	Budget Monitoring	M	Schools Financial Support Service	S	
			Financial Procedures - bank account/income	M	HR management / recruitment / agency workers / performance	M	Performance Management - Data Quality	S	
			Information Governance/GDPR	L	Information Governance/GDPR	L	Purchase cards		
					Next Steps	S	Achievement of cost savings		
					Financial procedures in establishments	M	Legal services		
					Liquid logic		Liquid logic		

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20

Efficiency and Effectiveness			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified for the Council	1) All key risk areas covered over a 3 year period	1) On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork	2) 90%	2) Ahead of target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	3) 85%	3) Ahead of target – 100%
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – behind target – 95% Medium – ahead of target 100% (excluding schools)
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (1=Good and 4=Poor)	1) On target – 1.1 to date
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) On target – Positive results received from TFC management survey
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	2 compliments 0 complaints

Risk Scoring Matrix

Impact	4				
	3				
	2				
	1				
		1	2	3	4
		Likelihood			

Risk Impact

1 = Minor
2 = Moderate
3 = Significant
4 = Critical

Risk Likelihood

1 = Unlikely
2 = Possible
3 = Likely
4 = Almost Certain

Red 9-16	HIGH Unacceptable level of risk exposure requiring immediate corrective action or escalation
Amber 3-8	MEDIUM Unacceptable level of risk exposure requiring constant monitoring and appropriate action
Green 1-2	LOW Acceptable level of risk exposure subject to regular active monitoring measures

Negative Impact	Description	Likelihood	Description
4 Critical	<ul style="list-style-type: none"> Inability to deliver a number of organisational priorities or strategic objectives Major disruption to a number of important services Loss of life Extensive coverage in national press and broadsheet editorial and/or national TV Non compliance with local procedures and policies. Huge financial loss >£1M in a year 	4 Almost Certain	<ul style="list-style-type: none"> More than 80% chance of occurrence Is expected to occur in most circumstances Occurs on a daily/weekly basis
3 Significant	<ul style="list-style-type: none"> Inability to deliver an organisational priority or strategic objective Major disruption to important service Extensive/multiple injuries Coverage in national (broadsheet) press and/or low coverage on national TV Non Compliance with council policies Major financial loss >£250K – <£1M in a year 	3 Likely	<ul style="list-style-type: none"> Between 40% and 80% chance of occurrence Will probably occur at some time or in most circumstances Occurs on a quarterly basis
2 Moderate	<ul style="list-style-type: none"> Inability to deliver a service objective that is not key to the delivery of an organisational priority or objective Significant disruption to important service Major disruption to non-crucial service Serious injury (medical treatment required) Extensive and/or front-page coverage in local press and/or minimal coverage in national tabloid press/TV Subject of internal enquiry High financial loss >£50K – <£250K in a year 	2 Possible	<ul style="list-style-type: none"> Between 10% and 40% chance of occurrence Is fairly unlikely to occur but could occur at some time Occurs once every three years
1 Minor	<ul style="list-style-type: none"> Inability to deliver team/individual objective that is not key to the delivery of an organisational priority or objective Minor impact on delivery of strategy or operational activities Brief disruption of important service Minor/significant disruption to non-crucial service Minor injury (first aid treatment) Minimal reputation damage (minimal coverage local press) Interventions by industry or other regulatory bodies Low or medium financial loss <£50K in a year 	1 Unlikely	<ul style="list-style-type: none"> Less than 10% chance of occurrence May occur only in exceptional circumstances Has never or very rarely happened before

AUDIT AND GOVERNANCE COMMITTEE

27 SEPTEMBER 2019

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2019/2020

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 To report on the Treasury Management performance to date for the second quarter of 2019/2020.

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:
- Note the Treasury Management performance during Quarter 2 of 2019/2020.
 - Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2019/2020, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2019/2020 – Quarter 2

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have reduced in recent months but continue to be volatile, in part linked to continued uncertainty over the outcome of Brexit negotiations. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred and has taken out £50 million of new borrowing during the financial year. These rates were considered opportune and will benefit the revenue budget over the longer term.
- 4.2 One option to make savings is through debt rescheduling; however, no rescheduling has been possible in 2019/2020 as rates have not been

considered sufficiently favourable. The Council's interest rate on borrowing is very low, currently 2.89%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its Treasury Management Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £673.627m for 2019/2020. The Council's maximum external debt during the financial year to 31st August 2019 was £497.047m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in section A2 of Appendix A for information.
- 4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 31st August 2019, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.97% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.57%. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.
- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management performance for the second quarter of 2019/2020.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Detailed Treasury Management Performance – Quarter 2 2019/2020

A1 Borrowing Strategy and Performance – 2019/2020

- A1.1 The Borrowing Strategy for 2019/2020 was reported to Cabinet on 13th February 2019 and approved by full Council on 6th March 2019.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view when the Treasury Management Policy and Strategy was drafted was that there would be further increases to the current 0.75% Bank of England (BoE) Base Rate of 0.25% by June 2019, early/late 2020 and further increases to 2.00% by March 2022. PWLB borrowing rates were expected to rise, albeit gently, during 2019/2020 across all periods but could be subject to exceptional levels of volatility due to continued uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.

After raising the Bank Rate from 0.5% to 0.75% in August 2018, the BoE Monetary Policy Committee (MPC) are unlikely to make further changes until the outcome of Brexit negotiations is known. The original withdrawal deadline of 29th March was put back in the hope that progress could be made on a proposal that would be approved by Parliament. The new Prime Minister has reaffirmed his commitment for Brexit to happen by 31st October 2019, even if there is no deal. With Parliament passing legislation designed to delay a no deal Brexit and forcing the Prime Minister to request a further extension, something he has refused to do, there is a growing likelihood the country is heading towards a general election.

The BoE August Inflation Report reports growth in the UK economy has been volatile during the first half of the year. Stronger than expected growth of 0.5% during the first quarter was attributed to stockpiling by businesses in the run-up to the original March withdrawal date. Growth is expected to be flat during the second quarter with this volatility continuing into the second half of the year reflecting a slowdown in global economies and companies scaling back investment due to Brexit uncertainties.

Link Asset Services, the Council's treasury advisors, have revised their Base Rate forecasts and have pushed back the timing of the next increase to the fourth quarter of 2020. This is based on a central assumption that some form of deal can be reached, possibly including a further delay to the withdrawal deadline. If that proves not to be the case then both Base Rate and PWLB rate forecasts will change including the potential for the BoE to vote for an immediate cut of 0.25% - 0.50% in the Base Rate to support growth.

Current forecasts from Link Asset Services predict a gradual rise in PWLB rates reaching 1.50%, 1.80%, 2.40% and 2.30% for 5, 10, 25 and 50-year durations by 31st March 2020. High levels of volatility in PWLB rates and bond yields are expected to continue during 2019 and 2020 particularly due to the continued Brexit uncertainty.

The following table shows the average PWLB rates for Quarter 1 and 2 to date.

2019/2020	Qtr 1* (Apr - June) %	Qtr 2* (Jul – 10th Sept) %
7 days' notice	0.57	0.56
1 year	1.48*	1.31*
5 years	1.54*	1.21*
10 years	1.85*	1.43*
25 years	2.41*	2.05*
50 years	2.26*	1.93*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

- A1.2 The strategy for 2019/2020 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.50% for long-term borrowing was set for 2019/2020 in light of the views prevalent at the time the Treasury Management policy was set in March 2019.

There have been high levels of volatility in the financial markets during 2019/2020. PWLB interest rates increased during April 2019, with 50-year rates peaking at 2.60%. However, continued uncertainty over the outcome of Brexit negotiations and the increased risk of leaving without a deal have led to a downward trend in rates. In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred and has taken out £50 million of new borrowing during the financial year. These rates were considered opportune and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future capital programme requirements. The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	13/08/2019	15/08/2019	15/08/2069	1.89	20.0
50 years	06/09/2019	10/09/2019	10/09/2069	1.82	30.0

- A1.3 The Borrowing Strategy for 2019/2020 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2019.

A1.4 The Council's treasury portfolio position at 10th September 2019 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	343.7		
	Market	39.6		
	Other	9.1	392.4	3.05
Variable Rate Funding	Temporary / Other		27.7	0.65
Total Borrowing			420.1	2.89

A2 Treasury Management Prudential Indicators – 2019/2020

A2.1 All external borrowing and investments undertaken in 2019/2020 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Treasury Management Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2019/2020 as follows:

	£m
Borrowing	598.239
Other Long-Term Liabilities	<u>75.388</u>
Total	<u>673.627</u>

The Operational Boundary for External Debt was set as shown below: -

	£m
Borrowing	573.239
Other Long-Term Liabilities	<u>75.388</u>
Total	<u>648.627</u>

The Council's maximum external debt in respect of 2019/2020 (to 31st August 2019) was £497.047m and is within the limits set by both these key indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		2019/2020 (to 10/09/19)	
		Limit £'000	Actual £'000
P9	Upper limit for fixed interest rate exposure		
	Net principal re fixed rate borrowing / investments	485,000	268,041
P10	Upper limit for variable rate exposure		
	Net principal re variable rate borrowing / investments	48,000	27,640

Prudential Indicators		2019/2020 (to 10/09/19)	
		Limit £'000	Actual £'000
P11	Maturity Pattern	Upper Limit	
	Under 12 months	50%	9.18%
	12 months and within 24 months	60%	1.67%
	24 months and within 5 years	80%	4.19%
	5 years plus	100%	87.87%
	A lower limit of 0% for all periods		
P12	Upper limit for total principal sums invested for over 365 days	75,000	0

A3 Investment Strategy – 2019/2020

A3.1 The Investment Strategy for 2019/2020 was approved by Council on 6th March 2019. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 31st August 2019, the funds managed by the Council's in-house team amounted to £205.346 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2019/2020 Actual to 31/08/19 %	2019/2020 Benchmark to 31/08/19 %
Return on investments	0.97	0.57

A3.3 Investments placed in 2019/2020 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.4 Investment rates available in the market remain lower than those achieved in previous years, although there has been some upward movement since the Bank of England Monetary Policy Committee announced the 0.25% increase in the base rate to 0.75% on 1st August 2018.

A3.5 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments to shorter term periods.

- A3.6 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.
- A3.7 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes are reflected on the Approved Lending List shown in Appendix C.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	<u>Maximum Deposit</u> £m	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	365 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					250	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies					40	20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These new limits are as follows:

Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £250m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	250
Non-UK	50

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	250
Local Government	250
UK Banks	250
Money Market Funds	120
UK Building Societies	100
Foreign Banks	50

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List

Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA	-	Aa2	-	AA	-	250	2 years
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A	F1	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	80	2 years
NatWest Markets plc (NRFB)	A	F1	Baa2	P-2	A-	A-2	80	2 years
Santander UK plc	A+	F1	Aa3	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A2	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank *	A-	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	B3	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	365 days
HSBC Bank plc (NRFB)	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
HSBC UK Bank plc (RFB)	AA-	F1+	-	-	AA-	A-1+	75	2 years
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	65	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	365 days
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AAA		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA	F1+	Aa2	P-1	AA-	A-1+	50	365 days
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	365 days
Finland	AA+		Aa1		AA+		50	365 days
OP Corporate Bank plc	-	-	Aa3	P-1	AA-	A-1+	50	365 days
Germany	AAA		Aaa		AAA		50	365 days
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	365 days
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	50	365 days
Netherlands	AAA		Aaa		AAA		50	365 days
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	365 days
Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa3	P-1	A+	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	50	365 days
Singapore	AAA		Aaa		AAA		50	365 days
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	365 days
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	365 days
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	365 days
Sweden	AAA		Aaa		AAA		50	365 days
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	365 days
USA	AAA		Aaa		AA+		50	365 days
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	365 days
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA rating applied to them thus giving them a credit limit of £80m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
<p>1. Strategic Risk</p> <p>The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.</p>	<p>This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Treasury Management team's view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Link Asset Services).</p> <p>The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.</p>
<p>2. Interest Rate Risk</p> <p>The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.</p>	<p>The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy.</p> <p>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Treasury Management team's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy.</p> <p>A proactive approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.</p>

Risk

Controls

3. Exchange Rate Risk

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk.

This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.

4. Inflation Risk

There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.

Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance.

Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.

5. Counterparty Risk

The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.

The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited.

The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement.

The Executive Director of Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep

Risk

Controls

the approved lending list up to date and fully informed, using the latest available information.

6. Capital Financing and Refinancing Risk

There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.

The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required.

PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted.

7. Statutory and Regulatory Risk

There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.

The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council.

8. Treasury Management Arrangements Risk

There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.

This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well-established Treasury Management team that operates under the Executive Director of Corporate Services and is staffed appropriately with a good mix of both experienced and qualified staff.

Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

AUDIT AND GOVERNANCE COMMITTEE

27 September 2019

ANNUAL AUDIT LETTER 2018/2019

Report of the Executive Director of Corporate Services

1.0 Purpose of Report

- 1.1 This report details the external auditors (Mazars) Annual Audit Letter (AAL) covering the year 2018/2019. A copy is attached. The Annual Audit Letter will subsequently be referred to council in November for information.

2.0 Description of Decision

- 2.1 Members are recommended to:

- Consider the Annual Audit Letter and note its contents.

3.0 Introduction

- 3.1 The Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office require auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing an AAL is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from the auditors' work, which auditors consider should be brought to the attention of the audited body.

- 3.2 The AAL summarises the findings of the 2018/2019 audit, which comprises of two key elements:

- An audit of the Council's financial statements;
- An assessment of the Council's arrangements to achieve value for money in the use of its resources.

4.0 Summary Position

- 4.1 The AAL is positive overall, providing a strong endorsement of the financial management and governance arrangements in place across the Council.

- 4.2 The key findings arising from the audit work were:

- The financial statements give a true and fair view of the Council and the Group's financial position as at 31 March 2019;

- The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019;
- All other information in the Statement of Accounts is consistent with the audited financial statements;
- That the Council's Whole of Government Accounts Assurance Statement was completed by the 13 September 2019 in line with requirements;
- That the auditors did not use powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

4.3 The Auditor continues to issue an 'except for' qualification in relation to children's safeguarding services on the Council's Value For money conclusion. The auditor concluded that the Council had put in place proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, 'except for' the areas highlighted as inadequate by Ofsted in relation to children's safeguarding services. This issue is fully set out on page 9 of the Auditors correspondence.

5. Alternative Options

5.1 Not applicable as the report is for information only.

6. List of Appendices

6.1 Appendix A - Sunderland City Council Annual Audit Letter 2018/2019.

Annual Audit Letter

Sunderland City Council

Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Sunderland City Council (the Council) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council and the Group's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019, except for those areas assessed as inadequate in Ofsted's re-inspection report on Children's Safeguarding Services in July 2018.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, we reported by the deadline of 13 September 2019 to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts (WGA) return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
-------------------------------------	-------------

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and the Group and whether they give a true and fair view of the Council and the Group’s financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council and the Group's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor’s report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council and the Group’s financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements of the Council and the Group for the year ended 31 March 2019:

Materiality element	Basis	Council	Group
Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure at surplus / deficit on provision of services level	£13.320m	£13.861m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality	£0.400m	£0.416m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to key audit matters, significant risks and key areas of management judgement

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and Group's financial statements that required special audit consideration. We reported key audit matters, significant risks and key areas of management judgement identified at the planning stage to the Audit and Governance Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

The following table outlines those risks, the work we carried out on those risks and our conclusions.

Identified risk	Our response	Our findings and conclusions
<p>Key audit matter - defined benefit liability valuation (pensions)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>Due to the high estimation uncertainty of pension calculations, we consider this to be a 'key audit matter'.</p>	<p>How we addressed the key audit matter:</p> <ul style="list-style-type: none">• we critically assessed the competency, objectivity and independence of the Actuary;• we liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund were operating effectively;• we gained assurance over the processes and controls put in place by management to ensure data provided to the Actuary by the Pension Fund for the purposes of the pension valuation was complete and accurate;• reviewed the appropriateness of the pension asset and liability valuation methodologies applied by the Pension Fund Actuary and the key assumptions included within the valuation;• we compared assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office;• we agreed the data in the Actuary's valuation report for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and• we challenged the Council on the completeness of pension liabilities in relation to the McCloud judgement and guaranteed minimum pension equalisation.	<p>Following the amendments in respect of McCloud liabilities and several presentational amendments, we obtained the assurance required, with no other significant issues arising we are required to highlight to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks (continued)

Identified risk	Our response	Our findings and conclusions
<p>Key audit matter - Property, Plant and Equipment and Investment Property valuations</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of Property, Plant and Equipment (PPE) and Investment Properties. Due to the volatility of valuations, we consider this area to be a 'key audit matter'.</p> <p>The Council employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE and Investment Properties due to the significant judgements and number of variables involved.</p>	<p>How we addressed this key audit matter:</p> <ul style="list-style-type: none">• we critically assessed the Council's arrangements for ensuring that PPE and Investment Property valuations are reasonable;• we critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's Valuer;• we considered the competence, skills and experience of the Valuer and the instructions issued to the Valuer, including checking whether planned revaluations had taken place;• substantively tested capital expenditure additions and disposals during the year;• substantively tested the Council's PPE and Investment Properties to gain assurance that they existed and were owned by the Council;• substantively tested revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they were not materially misstated; and• where necessary, performed further audit procedures on individual assets to ensure the basis of valuations was appropriate.	<p>Testing identified the following:</p> <ul style="list-style-type: none">• an omitted leisure centre from the Group balance sheet consolidation adjustment for the leisure joint venture; and• two properties which should have been brought back onto the Council's balance sheet. <p>There are no other significant issues arising from our work to date that we are required to report to you.</p>
<p>Significant risk - management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We raised a recommendation during the audit that senior officers carry out a review of material journals during the year; this was appropriately actioned.</p>	<p>There are no significant issues arising from our work that we are required to report to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks and key areas of management judgement (continued)

Identified risk	Our response	Our findings and conclusions
<p>Significant risk: risk of fraud in revenue recognition - fees, charges and other income</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>How we addressed this risk</p> <ul style="list-style-type: none"> • we substantively tested fees, charges and other income to ensure they had been correctly classified and recognised; • we tested journals; and • we obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger. 	<p>There are no significant issues arising from our work to date that we are required to report to you.</p>
<p>Key area of management judgement - unquoted equity investment valuations</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several joint ventures.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p>	<p>How our audit addressed this:</p> <ul style="list-style-type: none"> • we critically reviewed the basis of valuation for the Council's unquoted equity investments; and • we assessed whether disclosures were in line with the Code of Audit Practice. <p>Following the audit, the Council decided to change the basis of measurement of its investment in Siglion from fair value to cost, which is permitted by the Code.</p>	<p>Following amendments to the financial statements in respect of the changed basis of valuing the Council's investment in Siglion and the amendments to the valuation of the Airport shares, we have obtained the assurance sought, with no significant issues arising from our work that we are required to report to you.</p>
<p>Key area of management judgement – impairment of debtors allowance</p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of the assumptions and uncertainties relevant to this area, therefore they have been assessed as enhanced risks.</p>	<p>How our audit addressed this:</p> <ul style="list-style-type: none"> • we critically reviewed the Council's calculation of its impairment of debtors allowance; and • we assessed whether disclosures were in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt. 	<p>We have obtained the assurance sought, with no significant issues arising which we are required to report to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified no significant deficiencies in internal control as part of our audit. Other recommendations, as well as our follow-up of prior year recommendations, are detailed in this section.

Description of deficiency	Housing Benefit system walkthrough (Level 2 – medium priority) Our walkthrough of a new claim within the housing benefits system identified two errors, namely: <ul style="list-style-type: none">evidence of Child Tax Credit income was not retained on the system as required; andthe assessment of income incorrectly included a figure for the claimant’s capital, resulting in an underpayment of benefit. We were able to obtain evidence for the Child Tax Credit income at the time of our walkthrough, however this should have been retained on file. We note the assessment of income for benefits is prone to error due to its complexity.
Potential effects	Non-compliance with DWP subsidy requirements. Incorrect calculation of benefits.
Recommendation	The Authority should consider strengthening quality assurance and training in relation to the assessment of income.
Management response	Further instructions and reminders have been issued to staff regarding the retention of evidence of income on a claim and regarding the importance of ensuring that the assessment of income used in the calculation of a claim is correct. More targeted checks on income assessment are planned and any identified areas of concern will be addressed. Training and/or coaching will be delivered where appropriate, and this will be followed up with additional monitoring of staff and procedures.

Description of deficiency	Journal controls (Level 2 – medium priority) Journals are a key control to prevent and detect fraud and / or error. Within the Council’s general ledger, the same person can input and authorise a journal. There are various controls in place around journals, including a review of year-end journals over £1m by senior officers. This control should be extended to cover the full-year including any year-end journals post-March. It is also important that evidence is retained of this check i.e. a clear audit trail.
Potential effects	Risk of fraud and / or error.
Recommendation	The review of material journals should cover the full year, including the closedown period.
Management response	This was actioned during the year.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	Reporting actual versus planned savings at the year-end (Level 2 – medium priority) The Council has robust monitoring arrangements for the delivery of savings required during the year. At the year-end, the Council reports its outturn position overall, which takes into account the achievement of savings. However, it is not clear which savings were achieved and which were compensated for by other budget underspends.
Potential effects	Lack of clarity on savings, impacting on decision-making.
Recommendation	The Council should expand existing monitoring reports on planned and actual savings to report on year-end outcomes.
Management response	The Council has refreshed its budget monitoring and reporting approach with the aims of improved transparency and understandability. This recommendation will be considered in line with these aims.

Description of deficiency	Evidence of Treasury Management reconciliation review (Level 3 – low priority) A monthly reconciliation of the Treasury Management system to the general ledger is carried out. This is checked and authorised by a second person, however no evidence is retained of this review. Treasury Management is a key system, with highly material figures, therefore such evidence should be retained (this does not have to be via a hardcopy working paper, but could be electronic).
Potential effects	Risk of fraud and / or error.
Recommendation	Retain evidence of the approval of the monthly Treasury Management system reconciliation to the general ledger.
Management response	This has been actioned.

Description of deficiency	Completeness of bank account confirmations (Level 3 – low priority) Testing identified that the direct confirmation provided to us by the Council's bank had omitted one bank account in respect of a school. In this particular case, the letter we received listed all accounts (including schools) where there was a right of set-off in one section of the letter, but had then omitted one of the schools' actual bank balance in the earlier section of the letter in error. Whilst we were able to gain the assurance required, the completeness and accuracy of bank confirmations is an important source of assurance.
Potential effects	Lack of assurance over bank accounts - a key area.
Recommendation	The Council should liaise with its relationship manager at the bank to discuss the controls in place for ensuring bank confirmations provided are accurate and complete.
Management response	This has been actioned.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Qualified
----------------------------	-----------

Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019 except for those areas assessed as inadequate in Ofsted's re-inspection report of July 2018 on children's safeguarding services.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below, followed by consideration of significant risks identified to our Value for Money conclusion.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p><i>City Plan</i></p> <p>Alongside changes in senior management over the last year, the Council has refreshed its strategic approach, as encapsulated in its new City Plan. The City Plan 'Sunderland 2019-2030' will replace the existing Corporate Plan which covers up to and including 2019/20 and will be the Council's overarching strategic plan for the period 2019/2020 to 2029/2030 as well as for the city's Strategic Partnership arrangements.</p> <p>The detail behind the new City Plan is currently being developed; it is important that appropriate measures and targets are in place to help the Council measure progress and inform its decision-making.</p> <p><i>Medium-term financial strategy</i></p> <p>The Council has a robust medium-term financial strategy in place, supported by regular financial reporting in the year. We comment further on the financial resilience of the Council overleaf.</p> <p><i>Risk assurance and mapping</i></p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2018/19, the Council's internal auditors have given an opinion that there continues to be an adequate system of internal control.</p> <p>The Council continues to develop its risk assurance and mapping, which provides a useful oversight of the activities of the Council, as well as encompassing its interests in other entities.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework, including risk management and internal audit, and approval of the Council's financial statements.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p><i>Financial resilience</i></p> <p>The final revenue outturn for 2018/19 was an underspend of £0.682 million (prior year £0.788 million). This was after making an additional contributions to Together for Children Sunderland Limited to address financial pressures, in particular, demand pressures around the costs of looked after children. It was also after providing additional support for Sunderland Care and Support Limited to support workforce transformation costs.</p> <p>The Council has maintained comparatively healthy levels of usable reserves; these have decreased slightly to £154.022 million as at 31 March 2019 (£159.1 million at 31 March 2018). Although these are earmarked for specific purposes, they do provide flexibility to manage the medium-term financial position.</p> <p>The Council continues to face a funding gap to address in coming years, therefore further savings and / or sources of additional income continue to be required. We comment on this further in the next section on our VfM significant risks.</p> <p><i>Capital programme</i></p> <p>The Council has maintained a substantial capital programme of investment projects. The final outturn for 2018/19 was a capital spend of £80.9 million (prior year £94.1 million), and the capital programme for 2019/20 amounts to £168.9 million. Similar to other local government bodies, there is a degree of slippage in capital projects, resulting in significant changes between the original and revised budgets; this should be kept under review.</p> <p>A major part of the Council's asset management strategy involved transferring its commercial property portfolio to its joint venture local asset-backed vehicle, Siglion LLP, with the aim of accelerating regeneration schemes. Earlier this year, the Council bought out it's partner in Siglion and therefore now wholly owns the company.</p> <p><i>Workforce development</i></p> <p>Going forward, the Council faces the challenge of supporting the cultural change that will be needed, as resources continue to reduce and new ways of working are sought – including the move to the new civic centre when it is built.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>As set out earlier, the Council's new City Plan sets out its strategic direction, as well as for its strategic partnership arrangements. The City Plan sets out the key challenges facing the Council and is clear that it requires the input of all partners in the city if it is to be delivered.</p> <p>The Council already has well developed partnership arrangements in place, however, a new focus will be needed to deliver the ambitions of the City Plan, with, as set out in the peer review feedback report, alignment of performance and risk management frameworks.</p> <p>Continuing to build upon working arrangements with the local health economy is important, with April 2019 seeing the start of the new 'All Together Better' alliance in Sunderland, which brings together health and social care professionals together in commissioning services in the most effective manner to support individuals.</p> <p>The Council continues to work closely with its various interests, namely:</p> <ul style="list-style-type: none">• Together for Children;• Sunderland Care and Support;• Sunderland Homes;• Siglion;• Sunderland Lifestyle Partnership; and• International Advanced Manufacturing Park. <p>The use of separate entities and joint ventures by the Council to achieve its aims presents both opportunities and challenges. It is important that good governance arrangements continue to be maintained in respect of these various interests, as well as wider partnership working arrangements.</p> <p>We note the deterioration in arrangements at Together for Children, as highlighted by Ofsted in its recent monitoring letter of June 2019. However, some sub-areas of Children's Services such as fostering, adoption and Children's homes were rated as good or outstanding. We consider this further in our significant risks section overleaf.</p> <p>Sunderland Care and Support, after adjusting for pension liabilities, reported a small profit for 2018/19 and is refreshing its business plan and actively seeking other income streams.</p>	Yes – other than in respect of those aspects of Children's Services rated as inadequate by Ofsted (see significant risks section overleaf).

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO’s guidance requires us to carry out work to identify whether or not a significant risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risks:

- responding to financial pressures; and
- Ofsted’s inspection of Children’s Services.

The work we carried out in relation to the significant risks is outlined below.

Risk	Work undertaken	Conclusion
Responding to financial pressures The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council’s financial resilience and service performance could deteriorate.	<p>We reviewed budget monitoring and reporting. We note the refreshed format of budget monitoring and reporting going forward.</p> <p>We also considered the adequacy of plans that are developed to deliver savings and improvements.</p> <p>The Council set out it needed to deliver savings of approximately £25 million for 2018/19. This target has been met overall by virtue of the net underspend of £0.682 million.</p> <p>We note there is regular monitoring of the delivery of savings during the year, but there is no formal year-end position statement on whether planned savings have been delivered as it is considered to be covered via the overall budget monitoring outturn. We would recommend the actual versus planned savings position is formally reported, to aid good decision-making.</p> <p>The Council has plans to meet the funding gap identified for future years and recognises this remains very challenging, in particular given the scale of savings already delivered to date.</p>	<p>We obtained the assurance sought, with no significant issues arising.</p> <p>We highlighted one best practice recommendation, as set out to the left.</p>
Ofsted inspection: Children’s Services There is a risk Council does not make the required improvements to Children’s Services, or does not make the improvements rapidly enough.	<p>We considered the progress made by the Council in relation to Children’s Services. This requires an expert judgement, therefore, we have relied on the updated assessment of Ofsted made in July 2018. This concluded that whilst some improvement had been made, their overall assessment remained that Children’s Services was ‘inadequate’.</p> <p>We note the most recent Ofsted monitoring visit in 2019 which highlighted a deterioration in some areas of performance. However, some sub-areas of Children’s Services such as fostering, adoption and Children’s homes were rated as good or outstanding</p>	<p>Children’s Services has been rated as ‘inadequate’ by Ofsted.</p> <p>This resulted in a qualification of our VFM conclusion, on an ‘except for’ basis (i.e. that adequate arrangements are in place, except for those aspects assessed as inadequate by Ofsted.</p>



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	No matters to report
Other information published alongside the audited financial statements	Consistent

The National Audit Office’s (NAO) Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council’s external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. In line with group audit instructions issued by the NAO, we reported by the deadline of 13 September 2019 to the group auditor in line with the requirements applicable to the Council’s Whole of Government Accounts (WGA) return.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in February 2019.

Having completed our work for the 2018/19 financial year, we can confirm our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£104,546	£104,546*

*subject to discussions in respect of the additional audit work arising from the McCloud pensions issue.

Fees for other work

We have been engaged to carry out the area of work detailed below. We also anticipate carrying out work in respect of the Council's Teachers' Pensions return.

Area of work	2018/19 proposed fee	2018/19 final fee
Housing Benefits Subsidy return	£9,210	£9,210*

* subject to completion of work

Services provided to other entities within the Council's Group

Mazars LLP carries out the external audit of Sunderland Care and Support Ltd, one of the Council's subsidiaries. The fees for 2018/19 are set out below. In order to ensure independence, this external audit is led by a separate audit Engagement Lead, based from our Leeds office.

Area of work	2018/19 proposed fee	2018/19 final fee
External audit of Sunderland Care and Support (Holding) Company Limited	£2,300	£2,300
External audit of Sunderland Care and Support Limited	£15,400	£15,400

6. FORWARD LOOK

Financial outlook

The Council has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions, with the final revenue outturn for 2018/19 being an under spend of £0.682m.

Progress in the implementation of the £17.364m approved savings plans for 2019/2020 has continued and overall shows positive progress. However, the position reflects the continued challenge the Council faces in delivering significant savings year on year.

Longer-term uncertainties continue in relation to business rates retention and the fair funding review.

Strategic and operational challenges

The Council has set out its ambitions for the city in its new 'City Plan'. The City Plan sets out the key challenges facing the Council and city as being:

- stemming outward migration;
- ensuring the city centre functions as the economic motor for the whole city,
- growing Sunderland businesses;
- improving the skills and qualifications of local residents to match the needs of industry in the city;
- changing poor health behaviours; and
- addressing the high levels of children in need and in care.

On top of these the Council also has the continued pressures arising from the government's austerity measures, increasing adult social care costs and the potential impacts of Brexit.

In addition, the Council has summarised the main areas for on-going improvement in the coming year in its Annual Governance Statement for 2018/19 as including:

- ensuring appropriate performance management arrangements are in place to monitor delivery of the City Plan;
- reviewing partnership arrangements to ensure they support the delivery of the City Plan;
- implementing the action plan arising from the recent LGA Corporate Peer Challenge report; and
- continuing to work collaboratively with Together for Children Sunderland Ltd (TfC) to maintain the improvement of services.

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. In the coming year we will continue to:

- attend Audit and Governance Committee meetings and present Audit Progress Reports including updates on regional and national developments; and
- host events for officers such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector. In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members, the Audit and Governance Committee and officers for their support and co-operation.



CONTACT

Cameron Waddell

Partner & Engagement Lead

Phone: 0191 383 6314

Email: cameron.waddell@mazars.co.uk

Diane Harold

Senior Manager

Phone: 0191 383 6350

Email: diane.harold@mazars.co.uk

Audit progress report
Sunderland City Council
September 2019





CONTENTS

1. **Audit progress**
2. **National publications**

This document is to be regarded as confidential to Sunderland City Council. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

The 2018/19 audit has been completed and we have issued the Annual Audit Letter for the year which is also on the agenda.

Work in the next quarter will include assurance work in respect of the 2018/19 Housing Benefits Subsidy return.

In addition, subject to engagement, we anticipate carrying out work in respect of the Council's 2018/19 Teachers' Pensions return.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
National Audit Office (NAO)		
1.	Whole of Government Accounts 2017/18	Qualified.
2.	Consultation – new Code of Audit Practice from 2020	Second stage of consultation to take place in the second half of 2019. New Code to take effect from 2020/21.
Public Sector Audit Appointments Ltd (PSAA)		
3.	Local audit quality forum	June 2019 meeting slides are now available covering practical help for Audit Committees from a range of sources.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
4.	A practical guide for Local Authorities on Income Generation (2019 edition)	Updated publication. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure councils act prudently.
Mazars		
5.	Rethinking Social Value: Unlocking Resources to Improve Lives	Research in respect of social value.
Local Government Association		
6.	Spending Round 2019: on the day briefing	Briefing on the latest spending round.

2. NATIONAL PUBLICATIONS

1. Whole of Government Accounts 2017/18, National Audit Office, May 2019

The Whole of Government Accounts consolidates the accounts of over 8,000 bodies across the public sector, including central and local government and public corporations such as the Bank of England, to produce an accounts-based picture of the UK's public finances. It sets out what the government receives, pays, owns and owes.

The headline results in WGA 2017/18 show income of £760.9 billion (2016/17 £720.8 billion), expenditure of £814.8 billion (2016/17 £760.7 billion). After financing costs are taken into account, the net expenditure for WGA is £212.4 billion (2016/17 £97.8 billion). On the Statement of Financial Position, WGA shows total assets of £2,013.8 billion (2016/17 £1,903.0 billion), and liabilities of £4,579.2 billion (2016/17 £4,323.7 billion).

The 2017/18 WGA has been qualified as a result of qualifications in underlying accounts and as a result of issues relating to the boundary, non coterminous year ends, and accounting policies applied by the Treasury when carrying out the WGA consolidation.

<https://www.nao.org.uk/report/whole-of-government-accounts-2017-18/>

2. Consultation – new Code of Audit Practice from 2020, NAO, May 2019

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The consultation is taking place in two stages. The first has concluded and the second will be undertaken in the second half of 2019. The NAO plans to consult on the draft Code text during late summer/autumn and then finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

The first stage of the consultation showed broad support for maintaining the principles-based nature of the Code, being the wider scope of public audit, independence and public reporting. However the responses highlighted that this should be supported by more detailed sector-specific guidance.

Value for money arrangements

The 2014 Act places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code, this is referred to as work on arrangements to secure value for money (VFM arrangements).

Currently, the auditor reports against a single overall criterion as to whether: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

There were three common issues identified, namely:

- financial sustainability;
- financial governance; and
- wider partnership working.

The NAO plans to consider how the auditor should report their findings on the adequacy of arrangements, and whether this should be replaced, or supplemented, by a commentary on the specified risks set out in auditor guidance.

<https://www.nao.org.uk/code-audit-practice/about-code/>

2. NATIONAL PUBLICATIONS

3. Local audit quality forum June 2019 slides, Public Sector Audit Appointments, June 2019

The local audit quality forum meeting place in which all of the parties which share a responsibility for audit quality can share experiences and good practice. The June 2019 slides are now available as per the link below. The forum addressed 'practical help for Audit Committees', including the following:

- what should the Audit Committee look for in the financial statements?
- what is it like being an Audit Committee Chair;
- support for Audit Committees from CIPFA;
- how can Internal Audit help the Audit Committee to deliver its remit;
- support from the Local Government Association for Audit Committees; and
- new Code of Audit Practice consultation.

The next event is in November 2019. Local bodies, including Sunderland City Council, which have opted into PSAA's national scheme are entitled to attend LAQF events free of charge (up to two delegates per body).

<https://www.psaa.co.uk/wp-content/uploads/2019/06/10-07-19-LAQF-Presentation-Slides.pdf>

4. A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019

CIPFA's revised income generation guide reflects on the income generation issues of 2019 and the changes that are being made.

The issues that are examined in this publication include:

- the need for thorough testing and business cases to robustly assess income proposals;
- the impact of the 2018 MHCLG Statutory Investment Guidance; and
- how the pattern of local authority income is changing.

The guide will allow councils to maximise their income potential against a backdrop of Brexit uncertainties and other economic changes. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure councils act prudently.

The publication also has practical guidance on income generation for different service areas and there is a full coverage of discretionary charging rules.

<https://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-for-local-authorities-on-income-generation-2019-edition>

5. Rethinking Social Value: Unlocking Resources to Improve Lives, Mazars, June 2019

We have been taking views from our clients in the public and not-for-profit sectors on how social value is defined, delivered and its impact on communities. We are pleased to share the results of this research in our brand new report: *'Rethinking social value: unlocking resources to improve lives'*. The report focuses on:

- the opportunities around social value;
- leadership, communication, and building support;
- case studies highlighting innovative approaches in charities, not-for-profits and private sector partnerships; and
- how to measure the impact of social value.

<https://www.mazars.co.uk/Home/Industries/Public-Services/Public-Services-Insights/Rethinking-Social-Value>

2. NATIONAL PUBLICATIONS

6. Spending Round 2019: on the day briefing, Local Government Association, September 2019

Briefing issued by LGA in early September.

Key messages

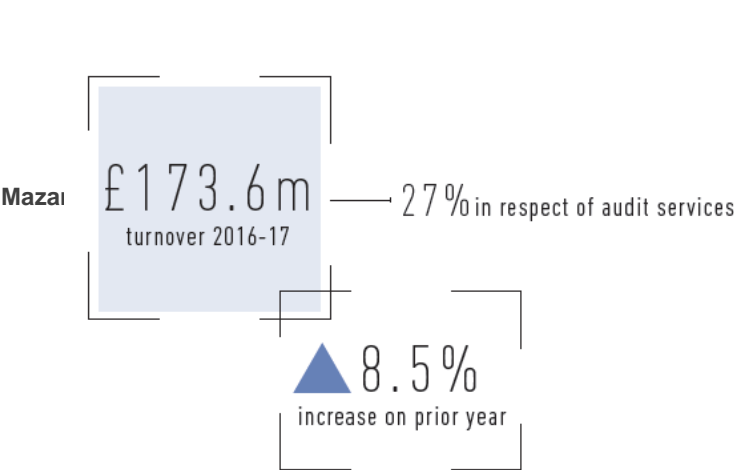
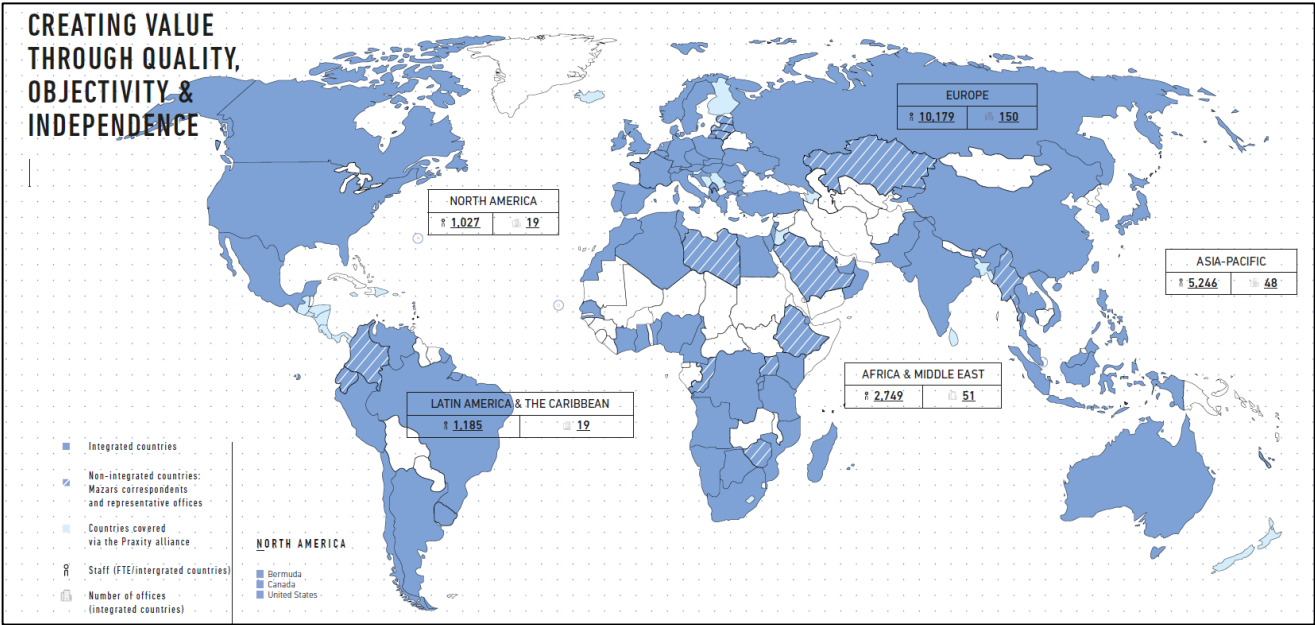
- The 2019 Spending Round has provided councils with much of the funding certainty and stability they need for next year. The Chancellor has announced a funding package of more than £3.5 billion for vital council services. This is the biggest year on year real terms increase in spending power for local government in a decade. This funding will allow councils to meet the increase in cost and demand pressures they face in 2020/21, which we assess as amounting to £2.6 billion.
- We are pleased the Government has responded to our calls and provided desperately-needed new money, including £1 billion for social care and £700 million for children and young people with special educational needs and disabilities. The Chancellor confirmed that key grants to local government will also continue next year.
- With this investment councils will be better able to ensure older and disabled people can live the lives they want to lead. Councils will also be better able to support our most vulnerable young people, and to continue to improve their local areas.

<https://www.local.gov.uk/parliament/briefings-and-responses/spending-round-2019-day-briefing>

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6314

Mobile: 07813 752 053

Email: cameron.waddell@mazars.co.uk

Senior Manager: Diane Harold

Phone: 0191 383 6322

Mobile: 07971 513 174

Email: diane.harold@mazars.co.uk

