

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 21 July 2017**

**Present:**

Mr G N Cook

Councillors O'Neil, Scullion, Speding and Wood.

**In Attendance:**

Barry Scarr (Executive Director of Corporate Services), Paul Davies (Head of Assurance, Procurement and Performance Management), Tracy Davis (Assistant Head of Assurance), James Magog (Chief Accountant), Lisa Armstrong (Finance Manager), Mark Kirkham (Mazars), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Mr Knowles.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 5 May 2017 be confirmed as a correct record.

**Annual Governance Review 2016/2017**

The Executive Director of Corporate Services submitted a report providing details of the 2016/2017 Annual Governance Review, the Risk and Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The report also included a Draft Annual Governance Statement and an improvement plan for the year ahead.

The Head of Assurance, Procurement and Project Management advised that the Council was required to publish an Annual Governance Statement with its Statement of Accounts and this had to be supported by a comprehensive assurance gathering

process. Assurance was sought from all Heads of Service, Corporate and Executive Directors, specialists, the Risk and Assurance team and internal and external audit. The assurance gathered was shown on the Risk and Assurance Map attached as Appendix 1 to the report.

An improvement plan was shown at Appendix 2 and there were six actions identified, some of which were already ongoing but were included as they were still current.

In terms of Internal Audit performance, all of the targets had been achieved apart from the implementation of medium risk recommendations which stood at 89% against a target of 90%. There had originally been 66 audits planned for the year, however five were not undertaken as follows: -

- New Silksworth Infant School converted to an Academy
- The proposed development of the Human Resources local authority trading company, Ethos, was not established.
- The timescale for the Sport for Life grant was extended therefore an audit certificate was not required.
- Performance Management in Adult Services was not completed due to reducing audit resources but the arrangements were considered as part of the project to replace the SWIFT system.
- Business Continuity within People Services was not completed due to reducing audit resources, however the arrangements were reviewed by the Business Continuity Officer following the ICT outage in September 2016.

A further audit of the arrangements to calculate client's contributions by the Benefits Assessment Team in People Services had been widened in scope to include an end to end review and was therefore ongoing into 2017/2018. It was confirmed that 91% of the planned audits had been completed and an additional two unplanned audits were also completed during the year, meaning that sufficient audit work had been undertaken in order to provide an internal audit opinion on the Council's overall system of control.

Members were advised that the local code of corporate governance had been updated in line with guidance from CIPFA and the updated code was attached at Appendix 3 to the report. The draft Annual Governance Statement had been drafted taking into account the findings of the annual governance review and was attached at Appendix 4.

Having considered the report, it was: -

2. RESOLVED that: -

- (i) the report and the Risk and Assurance Map at Appendix 1 be noted;
- (ii) the Improvement Plan included at Appendix 2 be agreed;
- (iii) the updated Local Code of Governance at Appendix 3 be agreed; and
- (iv) the draft Annual Governance Statement at Appendix 4 be agreed.

## **Risk and Assurance Map 2017/2018 – Update**

The Head of Assurance, Procurement and Performance Management presented the updated Risk and Assurance Map which had been reviewed based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year and the performance of Internal Audit.

The Head of Assurance, Procurement and Performance Management stated that the Map had been updated for the first quarter of the year and reminded Members that the Strategic and Corporate Risk Profiles were the drivers of what went into the Map. Members were directed to the Map itself and informed that a new Corporate Risk Area of Health and Safety had been added as the request of the Council's Chief Officers Group.

The Strategic Risk Areas shown on the map were related to the Strategic Risk Profile and were updated quarterly through conversations with chief officers and senior managers. 'Growing the Economy' had been changed from red to amber to reflect progress which had been made under the Local Plan. A number of risk scores for individual risks under the Strategic Risk Profile had been reduced with the full detail shown at Appendix 2 to the report. The Corporate Risk Profile was shown at Appendix 3 and it was highlighted that there had been no changes to any scores from the previous quarter.

The bottom section of the Map showed the assurance position in relation to Council owned companies. There was no information in relation to Together for Children, however an audit plan was in place and views would begin to feed back in September.

The detailed results of Internal Audit work were shown at Appendix 4 and Members were advised that there were no colours in the column for 2017/2018 as the work was in progress, however some work in relation to schools and academies had been completed. The report also highlighted the range of large projects which the Risk and Assurance Team were involved in, including major capital schemes such as the new Wear Crossing and the International Advanced Manufacturing Park.

The assurance level for Performance Management had previously been rated red due to the Ofsted inspection of Children's Safeguarding in 2015. There had now been four monitoring visits from Ofsted which had made positive comments about the improvement to performance management arrangements and the external assurance level for this was to be changed from red to amber. Overall all assurance levels were green or amber apart from Cyber Security, however this rating was based on an out of date audit and a new piece of work would be carried out as part of this year's plan.

With regard to Internal Audit performance, all KPIs had been met apart from the implementation of medium risk recommendations which stood at 89% against a target of 90%.

The Chair commented that there was a lot of information within the report but noted that there were less red sections in the last few columns when you compared the

2017/2018 Map to 2016/2017. The Chair also asked if there was a further update about the Cyber Security issue and the Executive Director of Corporate Services stated that this had been a snapshot opinion and that the service had since been through a procurement process and there had been significant investment in ICT in the last year. He highlighted that the Council had come through the two recent cyber-attacks unscathed but processes had been reviewed and further recommendations made.

Councillor O'Neil asked if it was likely that information would be available from Together for Children in September and the Head of Assurance, Procurement and Project Management stated that the work was planned and there was no reason that this would not form part of the September update report.

Having considered the report, the Committee: -

3. RESOLVED that the update Risk and Assurance Map 2017/2018 be noted.

### **Annual Report on the Work of the Committee 2016/2017**

The Executive Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2016/2017 and the outcome of this work. The report was intended to demonstrate how the Committee had fulfilled its role and would be presented to the 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 Corporate Assurance Map, the Ofsted inspection of the Children's Safeguarding service, Information Governance arrangements, the Council's ICT disaster recovery and business continuity arrangements, the updated Strategic Risk Profile and new Corporate Risk Profile, the appointment of the Council's external auditors, Treasury Management and the annual 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.

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

### **Statement of Accounts 2016/2017**

The Executive Director of Corporate Services submitted a report presenting the letters of assurance required by the external auditor as part of the final accounts process and the Letter of Representation for 2016/2017. The report also presented the Audit Completion Report from Mazars LLP and provided an audited Statement of Accounts for 2016/2017. An appendix was tabled at the meeting setting out minor amendments to the Statement of Accounts and these would be included within the

final version of the document. The external auditors had also tabled a letter setting out updated Appendices A and B to the Audit Completion Report.

Members were advised that it had been decided by the Council and the external auditors to bring forward the accounts process for 2016/2017, ahead of the changes to the statutory deadline which would come into force for the 2017/2018 accounting year. He thanked the team for their work in getting this over the line and noted that the process would be reviewed at some stage to inform the arrangements for next year.

The Chief Accountant advised that the authority had met the 31 May accounts deadline by continuing to produce a high quality set of accounts. The estimating process had not been changed and officers were very pleased with how well the process had gone.

The Executive Director of Corporate Services was required to prepare a formal Letter of Representation setting out the principles used in preparing the accounts and providing the external auditor with the necessary assurances required by regulation.

Mazars LLP had audited the financial statements of the Authority in accordance with the relevant regulations and standards and had produced their Audit Completion Report. Mark Kirkham and Gavin Barker were in attendance to present the Audit Completion Report.

Mark Kirkham stated that the Accounts were a complex document and preparing this with the expectation of a rigorous audit was not an easy task. There were 3,000 pages of mandatory guidance in the IFRS along with CIPFA disclosures. Mark noted that taking two months out of the accounting timetable increased the challenges for officers but he had been impressed by the responses he had received and the quality of the document and supporting papers.

Gavin Barker directed Members to the Audit Completion Report at Appendix D and advised that the level of materiality had been increased from £7.5m (set out in the Audit Strategy Memorandum) to £9.95m and Group materiality was set at £10m. The external auditors were proposing to issue an unqualified opinion on the financial statements. The opinion in relation to Value for Money would be that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the areas assessed as inadequate by Ofsted in their report on children's services. It was intended to issue the opinion on either 28 or 31 July but not the certificate as the Whole of Government Accounts work was not yet completed.

The Audit Completion Report had highlighted significant matters which remained outstanding and Gavin was able to confirm that he had now received a response from the auditors of Sunderland Lifestyle Partnership but was still awaiting a response from the auditor of the Tyne and Wear Pension Fund. There had also been difficulties in obtaining direct confirmation of loans from financial institutions.

Members were directed to the significant findings of the audit and it was highlighted that these included the conclusions regarding the significant risks which had been outlined in the Audit Strategy Memorandum. The first significant risk was 'management override of controls' and there had been no issues identified. The other significant risks had been in relation to pension entries and revenue recognition and the auditors confirmed that there were no matters to be brought to the Committee's attention. Accounting for Property, Plant and Equipment was also a key area of management judgement which was focused on within the audit and there were no issues identified in this area.

Gavin echoed previous comments about the quality of the accounting arrangements and the high quality of statements and working papers. He stated that Mazars had only been able to complete the audit in the required time due to the cooperation and support of Council officers and there had been no significant matters arising or difficulties during the course of the audit work and there were been no internal control recommendations.

The Value for Money Conclusion set out the commentary on the key areas which were required to be considered and it was noted that the Council had a clear and comprehensive Corporate Plan which set priorities and enhanced performance management arrangements. In terms of resources, Sunderland experienced difficulties in common with all public bodies but had responded well in the past. The Council had achieved savings in 2016/2017 and had to make a further £74.4m over the next three years. Financial pressures and the Ofsted assessment continued to be significant risks in relation to value for money.

Appendix A to the report highlighted one unadjusted misstatement of £2.9m. This had not been material and the statements had not been amended. There was one adjusted misstatement relating to income and expenditure in the prior year's accounts which did not impact on the net position.

The Chair commented that the Audit Completion Report was most reassuring and thanked all staff involved for their efforts. Councillor Speding echoed these comments and emphasised his appreciation for the officers involved in preparing the Accounts.

The Chair having thanked the external auditors for their report, it was: -

5. RESOLVED that: -

- (i) the contents of the Letters of Assurance from those charged with governance and 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; and

- (iv) the Amended Audited Statement of Accounts for the financial year ended 31 March 2017 be approved.

### **Treasury Management Annual Review 2016/2017**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management borrowing and investment performance for 2016/2017 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Council on 2 March 2016.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.32% was low and this compared favourably with other local authorities as did the rate of return on investments of 0.83% for the year.

Members were reminded of the basis of the Borrowing Strategy for 2016/2017 and that it had been reviewed in June, September and December 2016. The strategy had agreed a benchmark financing rate of 4.00% for long term borrowing and the Council had taken advantage of low borrowing rate troughs which had occurred during the year and had taken out £20m of new borrowing at rates of 2.55% and 2.15%. Rates had not been sufficiently favourable for debt rescheduling in 2016/2017 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 as £541.902m for 2016/2017 and the Operational Boundary for External Debt was set as £458.953m and the authority was well within the tolerances for these.

Although the Council was achieving comparatively well in terms of rates of return on investments, rates were reducing year on year due to the low rates which were being offered by financial institutions at the current time.

Accordingly the Committee: -

6. RESOLVED that the positive Treasury Management performance for 2016/2017 be noted.

### **Treasury Management 2017/2018 – First Quarterly Review**

The Executive Director of Corporate Services presented a report outlining the Treasury Management performance for the first quarter of 2017/2018 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 had fluctuated throughout 2016/2017 and

continued to be volatile, therefore no new borrowing had been taken out to date in 2017/2018 but the position continued to be monitored.

The Council's interest rate on borrowing was very low, currently 3.41%, 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 0.61% compared with a benchmark of 0.11%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. The investment policy was also regularly monitored and reviewed to ensure that it had the flexibility to take full advantage of any changes in market conditions which would benefit the Council.

The Council's authorised lending list continued to be updated regularly to take into account financial institution mergers and changes in institutions' credit ratings. The updated Approved Lending List was attached as Appendix C to the report for information.

7. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2017/2018 be noted; and
- (ii) the Lending List Criteria set out at Appendix B and the Approved Lending List at Appendix C be noted.

### **Public Sector Auditor Appointments**

At the invitation of the Chair, Gavin Barker reported that Mazars had successfully won a place on the framework issued by Public Sector Audit Appointments Limited. The appointments to individual Councils would be confirmed in due course after consultation with each Council.

(Signed) G N COOK  
Chair