

AUDIT AND GOVERNANCE COMMITTEE
Friday 27 September 2013

Present:

Mr G N Cook

Councillors Farthing and T Wright.

In Attendance:

Malcolm Page (Executive Director, Commercial and Corporate Services), Paul Davies (Head of Corporate Assurance and Procurement), Rhiannon Hood (Assistant Head of Law and Governance), Dennis Napier (Assistant Head of Financial Resources), John Jordan (Lead Risk and Assurance Specialist) Gavin Barker (Mazars), Mark Kirkham (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Forbes, Speding and N Wright.

Minutes

13. RESOLVED that the minutes of the meeting of the Committee held on 28 June 2013 be confirmed and signed by the Chair as a correct record.

Members were informed that the annual report of the Committee had been presented to the Council on 25 September 2013.

Corporate Assurance Map – Update 2013/2014

The Head of Corporate Assurance and Procurement presented the updated Corporate Assurance Map which had been reviewed based on the work undertaken so far this year, the Internal Audit opinion on the adequacy of the overall system of

internal control and the performance of Internal Audit. The report also covered the key performance measures for Internal Audit.

Members were informed that the section of the Map relating to strategic risks had been updated following the agreement of the Strategic Risk Profile by the Council's Executive Management Team. The profile was set out in Appendix 1 to the report and showed the risk score as a combination of the likelihood and impact of the risk and was coded red, amber and green. The current score indicated the position as it was and the Profile outlined the mitigation and progress which had been made on the risk leading to the residual score. The Strategic Risk areas of People and Economy were coloured red on the Corporate Assurance Map but the Corporate Risk Areas were all rated as green or amber with a positive position being shown by the assurance activity on the right hand side of the Map.

The Key Performance Indicators for Internal Audit were shown at Appendix 4 and all of these were on target apart from two indicators; the percentage of audit reports issued within 15 days of completion which was 88% against a target of 90% and the percentage of medium risk recommendations implemented which was also 88% against a target of 90%.

The Chair highlighted that percentage of audits completed by the target date was well ahead of schedule and the Head of Corporate Assurance and Procurement advised that the timescale for completion of the audit was set for twice as long as the time taken to complete the audit fieldwork. The trends on this KPI would be reviewed to assess if this target should be revised upwards.

Turning to the Strategic Risk Profile, the Chair commented that this detailed some difficult issues and it was unlikely to show a lot of green areas for quite some time. Councillor Wright noted that some risk areas would never go beyond an amber rating as the impact of the risk would always be scored as a 4, even if the event was extremely unlikely to happen.

Having considered the report, the Committee: -

14. RESOLVED that the report and the updated Corporate Assurance Map be noted.

Public Sector Internal Audit Standards

The Executive Director of Commercial and Corporate Services presented a report informing the Committee of the requirements and the applicability of the Public Sector Internal Audit Standards (PSIAS) which came into force on 1 April 2013.

The PSIAS had been developed to create consistent standards for the practice of internal audit across the public sector and to establish the basis for its quality assurance. The standards replaced those currently in the CIPFA Code of Practice for Internal Audit.

The Council had carried out a self assessment and found that the existing arrangements already complied with the new Standards. Some minor updating of procedures would be carried out to reflect the new Standards and the Council's Audit Charter would be revised to incorporate the definition of internal audit contained in the Standards along with some other small changes. The revised Audit Charter was attached as Appendix 1 to the report.

Councillor Wright noted that over recent years, there had been more reference to EU accounting practices and queried whether this would affect the audit standards and whether officers were satisfied that the Council's agreements with partners would be strong enough to stand up to these standards.

The Head of Corporate Assurance and Procurement advised that he was not aware of any EU practices which would impact on the way the authority was working. There was a longstanding right of Internal Audit access included within the Council's partnership agreements and as the authority moved to develop more alternative service delivery models, then this would continue to be built in.

Following consideration of the report, the Committee: -

15. RESOLVED that the proposed revised Audit Charter be approved.

Treasury Management – Second Quarterly Review 2013/2014

The Executive Director of Commercial and Corporate Services presented a report outlining the Treasury Management performance for the second quarter of 2013/2014. The report also detailed amendments which had been made to the Lending List Criteria and Approved Lending List.

The Treasury Management function continued to look at ways of maximising financial savings and increasing the return on investments. One way of doing this was through debt rescheduling but as yet, this had not been possible in 2013/2014 as rates had not been considered sufficiently favourable. The Council continued to benefit from a low cost of borrowing, which at 3.51% was one of the lowest rates in the country.

The Treasury Management Prudential Indicators were regularly reviewed and the Assistant Head of Financial Resources reported that the Council was well within the limits set for all of these. The external debt limit was set at £398.602m and the Council was well within this limit.

A prudent approach was taken to investments and the Council continued to outperform the benchmark rate of 0.36% by achieving a rate of return of 1.01%. The rate of return on investments had fallen in recent months and indications were that this would continue until the Bank of England Base Rate began to increase but this was not expected until at least late 2016 according to the best information available. This date, however, could change but was dependent on how the wider economy performs in the future, as continued and sustained recent growth could result in interest rates rising sooner than anticipated. This position was being closely monitored by the Treasury Management team.

The Approved Lending List had been updated to take into account all recent financial institution mergers and changes in institutions' credit ratings and it was highlighted that the triple A rated Deutsche Managed Sterling Fund had been added to the list.

The Assistant Head of Financial Resources referred to the recent changes at the Lloyds Banking Group and highlighted that as yet, there was no credit rating for the TSB Bank and this position would be monitored. The Council's policy would not be affected at the present time as the Government still held shares in Lloyds, but when these shares were sold the credit rating of the bank, rather than the UK Government's rating, would be used to confirm its position on the Approved Lending List.

The Committee was informed that, in accordance with Treasury Management best practice, a risk analysis of Treasury Management functions had been carried out and was attached to the report at Appendix D.

The Executive Director of Commercial and Corporate Services advised that, under delegated powers, he had agreed to a request from the Association of North East Councils (ANEC) to hold funds for the organisation. This was subject to a small management fee from ANEC.

Accordingly, the Committee: -

16. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2013/2014 be noted: and
- (ii) the amendments to the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Audited Statement of Accounts 2012/2013

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation 2012/2013, the Audit Completion Report from Mazars LLP concerning the financial statements for 2012/2013 and the amended audited Statement of Accounts for 2012/2013.

The Audit Completion Report prepared by Mazars was a positive report and in summary showed that: -

- it was proposed that the external auditors would issue an unqualified audit opinion;
- most non-trifling misstatements had been adjusted by management and those not adjusted were set out with reasons accepted by the auditor in the Annual Audit report;
- no material weaknesses had been identified in the accounting and internal control systems;

- a number of presentational issues had been identified in relation to qualitative aspects of the Council's financial reporting and reference had been made in the Letter of Representation but these were not considered to be significant;
- no matters had been identified which were required by international auditing standards to be communicated to Members;
- no other relevant matters had been identified, relating to the audit, which needed to be brought to Members' attention
- the external auditors had reported that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and proposed to issue an unqualified value for money conclusion in respect of 2012/2013.

The Executive Director of Commercial and Corporate Services drew Members attention to his foreword to the Accounts and highlighted a number of key points.

The financial year had ended with a positive outturn and an underspend of £6m as a result of strong financial management. Savings of £28m had been delivered in 2012/2013, making a cumulative total of £100m of savings over the last three years, however the Council would have to deliver at least another £100m of savings over the next three years because of continued government grant funding reductions.

The Council had invested £55m in the city through the Capital Programme and had also participated in the refinancing of Newcastle International Airport Limited which had resulted in a strengthened public/private partnership for the Airport and its shareholders.

In the last year, the Council had settled some of its equal pay liabilities and this had been reflected in the Accounts and had also managed to downsize its workforce through implementation of a severance scheme without recourse to borrowing.

The Executive Director of Commercial and Corporate Services thanked the Assistant Head of Financial Resources and his team and colleagues from Mazars for their work and their contribution to the preparation of the Statement of Accounts.

Steve Nicklin, Engagement Lead from Mazars, stated that at the present time they were not in a position to issue the audit certificate but would do so once the Whole of Government Accounts was completed. He echoed the comments of the Executive Director and commended the excellence of the working papers which had been brought to him and his team. No issues had been identified which would impact on the bottom line and having heard how the Council was facing up to challenges, the external auditors had no hesitation in giving a positive view on the Accounts.

Members of the Committee were informed that the Audit Commission had requested that separate accounts should be produced for the Port of Sunderland to comply with Harbour Act requirements. The external auditors stated that this was not an issue that would impact on their opinion on the Council's accounts. The Executive Director, however, stated that the authority would comply with the judgement as most of the data was already available, as financial reporting was regularly made to the Port Board, and anticipated that a separate set of Port accounts would be achieved to comply with the requirements. These would be prepared separately and in addition

to the Council's accounts which fully complied with the accounts and audit regulations.

(a) Letter of Representation

The Committee considered the Letter of Representation prepared by the Executive Director of Commercial and Corporate Services which set out the principles used in preparing the accounts and provided the external auditor with the necessary assurances required by regulation.

17. RESOLVED that the Letter of Representation be received and noted.

(b) Audit Completion Report

The Committee considered the Audit Completion Report which had been produced by Mazars LLP in which the auditor's opinion was that the financial statements presented a true and fair view of the financial position of the Authority as at 31 March 2013 and its income and expenditure for the year then ended.

18. RESOLVED that the contents of the Audit Completion Report be noted.

(c) Amended and Audited Statement of Accounts 2012/2013

The Audited Statement of Accounts 2012/2013 were presented for consideration by the Committee.

The Accounts had been revised to reflect a few minor adjustments following the audit and was set out at Item 7 iii on the agenda.

Having considered the Audited Statement of Accounts, the Committee: -

19. RESOLVED that the Amended Audited Statement of Accounts for the financial year ended 31 March 2013 be approved.

Announcements

The Chair informed Members that Steve Nicklin was retiring and this would be his last meeting of the Committee. He thanked him for his support during his time as the Council's external audit lead.

Steve introduced Mark Kirkham to the Committee as the new Engagement Lead from Mazars for Sunderland City Council.

The Chair also offered his thanks and best wishes on behalf of the Committee to the Executive Director of Commercial and Corporate Services prior to him taking up his new post at Teesside University.

The next meeting of the Committee was scheduled to be held on Friday 13 December 2013 at 1.30pm. At the Chair's request, it was proposed that this be brought forward to earlier in the day and it was: -

20. RESOLVED that the next meeting of the Committee take place on Friday 13 December 2013 at 10.30am.

(Signed) G N COOK
Chair

