

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 28 March 2014 at 1.30pm

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1.	<b>Receipt of Declarations of Interest (if any)</b>	
2.	<b>Apologies</b>	
3.	<b>Minutes of the Meeting of the Committee held on 7 February 2014</b>  (Copy attached.)	1
4.	<b>Corporate Assurance Map 2013/2014 - Update</b>  Report of the Head of Assurance, Procurement and Projects (copy attached).	7
5.	<b>Corporate Assurance Map 2014/2015</b>  Report of the Head of Assurance, Procurement and Projects (copy attached).	37
6.	<b>Proposed Forward Plan of Reports 2014/2015</b>  Report of the Head of Assurance, Procurement and Projects (copy attached).	53
7.	<b>Member Training and Development</b>  Report of the Head of Assurance, Procurement and Projects (copy attached).	57

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| 8. | <b>External Auditor – Audit Strategy Memorandum<br/>2013/2014</b> | 59 |
|    | Report of the Head of Financial Resources (copy attached).        |    |
| 9. | <b>External Auditor – Audit Progress Report</b>                   | 79 |
|    | Report of the Head of Financial Resources (copy attached).        |    |

ELAINE WAUGH  
Head of Law and Governance

Civic Centre  
SUNDERLAND

19 March 2014

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 7 February 2014**

**Present:**

Mr G N Cook

Councillors Farthing, Forbes, N Wright, T Wright and Mr M Knowles.

**In Attendance:**

Sonia Tognarelli (Head of Financial Resources), Dennis Napier (Assistant Head of Financial Resources), 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 Councillor Speding.

**Minutes**

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

**Treasury Management Policy and Strategy 2014/2015, including Prudential 'Treasury Management' Indicators for 2014/2015 to 2016/2017**

The Head of Financial Resources submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2014/2015. The report also presented the Prudential 'Treasury Management' Indicators for 2014/2015 to 2016/2017 and asked the Committee to provide comments to the Cabinet and Council on the proposed policy and indicators where appropriate.

The Assistant Head of Financial Resources stated that the Council was required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators (including specific Treasury

Management Indicators) for the next three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable. The Council was also required to adopt a Treasury Management Policy and to set out a Treasury Management Strategy which comprises the Council's strategy for borrowing and the Council's strategy and policy for managing its investments.

Members were directed to Appendix 2 of the report, the Treasury Management Policy Statement, which set out the Borrowing and Investment Strategies. The Assistant Head of Financial Resources stated that interest rates were monitored on a daily basis and the benchmark financing rate of 5.00% for long term borrowing was a reasonable rate for the year ahead. Opportunities for debt rescheduling had been dramatically reduced due to the changes which had been made to Public Works Loan Board (PWLB) rates.

With regard to the Investment Policy, the Authority had adopted a careful and prudent approach where the prime consideration was the security of the capital funds invested. Cash flows were maintained in such a way as to ensure that the Authority had enough funds to operate on a day to day basis. Rates of return were then only considered once these two areas had been fully observed with any placement of funds made in adherence to the council's prudent lending criteria and approved lending list, which were both reviewed continually.

There were no major changes being proposed to the overall Treasury Management Strategy in 2014/2015 and particular areas which would inform the strategy included the extent of potential borrowing included in the Council's capital programme, the availability of borrowing and the current and forecast world and UK economic positions.

The Lending List Criteria and approved Lending List was also set out at Appendices 6 and 7 of the report. These documents took into account expert advice and the opinions of the Treasury Management team and were reaffirmed on an annual basis.

The Assistant Head of Financial Resources summarised the key points of the report, highlighting that the Council had always operated a prudent and low risk approach and this was borne out within the report. The environment in which the Council was operating was still at risk from fluctuations and uncertainties within the Eurozone and US markets. The Bank of England base rate continued to be held at 0.50% and it was felt that this was unlikely to change until late 2014 at the earliest. Rates continued to be low for borrowing and the Council was able to be flexible in its approach to this.

Councillor Farthing referred to the benchmark rate of 5.0% for financing and asked if this was the mean of the figures in paragraph 2.6.1 of the Treasury Management Strategy Statement. The Assistant Head of Financial Resources advised that the view had been taken to build flexibility into the system by adopting the 5% benchmark and that he would be disappointed if the rate of new borrowing, if taken, went above 4.5%. The rates were creeping up but there was no real urgency to borrow at this time and they would be kept under review to try and access the most advantageous rate.

The Head of Financial Resources added that reserves were being used to finance the Capital Programme but at some point there would be a need to take out additional borrowing. There was a balance to be struck as borrowing at 4.5% could only be invested at 0.5% so there was a cost in the short term known as the cost of carry with any new borrowing.

Councillor Farthing asked how the value of the authority to be loaned to was judged and if the Local Asset Backed Vehicle (LABV) would affect this in Sunderland. Treasury Management was based purely on the financial strength of a local authority whose credit rating was usually very high and so considered low risk. The Head of Financial Resources advised that revenue and capital assets were considered as loan security but the assets being transferred into the LABV were categorised as investment properties. This would have an impact if a large proportion of assets were being transferred but the transfer to the LABV was only a small element of the Council's property portfolio and as such this would have very little impact on the Council's overall Balance Sheet.

When considering a loan, the strength of an Authority's balance sheet would be looked at and in Sunderland's case, the reserves were actually cash backed resources rather than a mix of cash and property assets.

Councillor N Wright commented that a number of authorities were using reserves to continue to provide services and asked how far Sunderland could go with this. The Head of Financial Resources stated that reserves were not being used to support the revenue budget but some were earmarked to help transition and budget proposals. Reserves would not be used to balance the budget but it was planned to use £4m in 2015/2016 to smooth the implementation of some plans.

The Head of Financial Resources also said that reserves were considered as part of the overall budget setting process and the outturn of the Statement of Accounts. Revenue monitoring took place quarterly and elected Members were made aware of any transfer of funds.

Mr Knowles highlighted the three fundamentals of Treasury Management which were outlined in the Policy Statement and fully endorsed those. He felt that Capita's base rate forecast was a little long but it was something to remain aware of. With regard to liquidity, he asked if the peak debt requirements were monitored regularly.

The Assistant Head of Financial Resources advised that a cashflow forecast spreadsheet was updated daily to ensure funds were available which also helped to pinpoint peaks and troughs of cash flows. This, and views on the continuing global economic uncertainty, meant the Authority could determine when and for how long investment of surplus funds could be invested and formed part of the prudent Treasury Management approach adopted by the Council. There was also a need to be able to move quickly when markets changed and this was how Sunderland consistently outperformed the benchmarking rate by taking up and timing investment opportunities.

The Chair noted that the three principles for Treasury Management had been followed for a number of years and asked where the information on the global

economy, set out in Appendix 5, had come from. The Assistant Head of Financial Resources stated that this was from the research carried out by Treasury Management team and Capita also provided their opinion. He highlighted that in comparison with the debt to GDP ratio of other European countries (Greece 176%, Italy 131%), the UK stood at 76% which helped to show the comparative strength of the UK compared to other EU countries.

Having given the report detailed consideration, it was: -

30. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2014/2015 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators 2014/2015 to 2016/2017 be noted; and
- (ii) the Council be advised that the Committee was satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

### **External Auditor – Audit Progress Report**

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to February 2014.

Gavin Barker, the Council's Senior Engagement Manager, informed the Committee the auditors were in the planning stage for the 2013/2014 audit and were on target to produce the Audit Strategy Memorandum and present it to the Committee in March 2014.

Turning to emerging issues and developments, Gavin highlighted that one of these was a report on the timeliness of the financial reporting of local public bodies. Audit opinions had been issued for 99% of councils by 30 September 2013. The report also named those authorities who had produced accounts early or late and there was now a consultation being undertaken on bringing forward the timetable for production of local authority accounts.

Gavin stated that this proposed change was likely to create a number of problems in the production and auditing of the accounts. At this point there was no indication of how far the deadline date would be brought forward but on the last occasion this had happened, the production timetable was brought forward in a phased approach one month at a time to the current deadlines of 30 June for the unaudited accounts and 30 September for the audited accounts.

The Chair enquired if the Authority had responded to the consultation on this and it was confirmed that they had and had expressed their concerns about the proposed changes. Gavin commented that the DCLG saw this as earlier public reporting and Councillor T Wright highlighted that this would place more pressure on staff who already had to contend with reduced resources.

Councillor N Wright asked if the Council could be penalised if the accounts were submitted late and Gavin advised that councils who did so were currently acting illegally but believed that the worst that had happened was that they were 'named and shamed' in an Audit Commission report. However, the Audit Commission would take into account any ongoing issues such as objections to the accounts, which was a legitimate reason for non compliance.

CIPFA had recently published a Good Practice Guide for Local Authorities on financial statements which acknowledged that the statements were complex and emphasised the role which local authorities could have in decluttering these. Gavin also informed the Committee that briefings had been produced for individual councils as a result of the Protecting the Public Purse 2013 report. There were no issues for Sunderland but Mazars would discuss the best way of presenting the findings to the Committee with Internal Audit.

The Chair asked if the Good Practice Guide on Financial Statements was being looked at by officers and the Assistant Head of Financial Resources advised that all new guidance was scrutinised. The Chair noted that the most useful element of the financial statements would be a summary in plain English and it was acknowledged that the Council had tried to address this in the explanatory foreword to the accounts.

Having thanked the external auditor for his report, it was: -

31. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK  
Chair





**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**CORPORATE ASSURANCE MAP 2013/14 – UPDATE**

**Report of the Head of Assurance, Procurement and Projects**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider the updated Corporate Assurance Map based on work undertaken so far during the year, the Internal Audit opinion on the adequacy of the overall system of internal control, and the performance of Internal Audit.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility; this is a matter for the bodies concerned.

**2. Description of Decision**

- 2.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map (the Map).

**3. Background**

- 3.1 In March 2013 the Committee approved the proposed Corporate Assurance Map for 2013/14 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 At that time, the Map was prepared based on knowledge of the assurance position from Internal Audit work, a risk assessment covering all of the corporate risk areas and consultation with the Chief Executive, all Executive and Corporate Directors and key officers across the Council.
- 3.3 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources and consider if there are any gaps or duplication in the assurance provided.

**4. Updated Corporate Assurance Map**

- 4.1 The updated Corporate Assurance Map, as at 19<sup>th</sup> March 2014, is shown overleaf. It has been updated based on the work to date of the Internal Audit, and Risk and Assurance Teams and assurance from other sources within the Council and external sources.

## Corporate Assurance Map

Assurance Position (as at 19 <sup>th</sup> March 2014) (Cumulative)		2013/14									
		1st Line	2 <sup>nd</sup> Line						3 <sup>rd</sup> Line		
		Management Assurance	Other Internal Assurance Activity						Risk and Assurance	Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Strategy, Policy and Performance	HR & OD	Business Continuity			
<b>Strategic Risk Areas</b>											
Current Risk	Residual Risk										
People								X			
Place								X			
Economy								X			
Organisational			X					X		X	
<b>Corporate Risk Areas</b>											
Customer Focus / Service		X			X			X	X		
Legality			X					X			
Service / Business Planning		X			X			X	X		
Programme and Project Management		X		X				X			
Change Management				X		X		X			
Partnerships		X						X	X		
Business Continuity Planning		X					X		X		
Procurement		X						X	X		
Relationship and Contract Management									X		
Financial Management		X	X					X	X	X	
Human Resource Management		X				X		X	X		
Information Governance		X	X					X	X		
Performance Management		X			X			X	X		
Asset Management		X						X	X		
ICT Strategy and Delivery								X	X		
Fraud and Corruption		X						X	X		
Risk Management (Service Delivery)		X						X			
Housing Benefits									X		
Schools		X	X					X	X		

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

## Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The Profile has been updated with EMT for 2013/14 and is attached at Appendix 1. Given the longer term nature of these risks the current risk rating is shown (i.e. what would be the level of risk if no actions were taken to manage the risks), and the residual risk level (i.e. the level of risk taking into account ongoing actions and planned actions). Progress against each of the mitigating actions is assessed with the lead officers and assurance levels determined.

## Assurance from Internal Audit

- 4.3 The detailed results of Internal Audit work are shown at Appendix 2, with the summary outcomes shown on the Map. Appendix 2 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level.
- 4.4 An audit report has recently been issued identifying an issue of significant risk in relation to the management of ICT equipment, specifically desktop and laptop computers and the data held thereon. The issue relates to the accuracy of the Sostenuto asset management system which records details of ICT assets, including their location. At the 2011/12 audit it was identified that there were backlogs relating to input to the system in respect of newly purchased IT assets, movement of equipment around the Council as a result of the Building Rationalisation project, and obsolete items of equipment either disposed of or awaiting disposal.
- 4.5 The current audit has identified that the backlog still exists, and in fact has increased as a result of the ongoing downsizing of the organisation. An additional issue is the fact that relocation of staff and the increase in home and mobile working has lead to difficulties in tracking the location of equipment and the employee or section in possession of equipment.

## Assurance from Risk and Assurance Team

- 4.6 Areas that the Risk and Assurance Team are currently involved in are shown at Appendix 3. 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:
- Support to the development of alternative service delivery vehicles such as the Local Asset Backed Vehicle, Sunderland Care and Support Ltd., and the future of ICT delivery.
  - Providing assurance on the delivery of the Transformation Programme and Key Projects.
  - Providing assurance on the delivery of the Workforce Transformation project (pay and grading review).

- Risks in relation to the delivery of ICT business objectives.
- Supporting the delivery of the Workforce Planning project to help Heads of Service achieve their efficiency targets.
- Significant work in support of the Customer Service Network migration.
- Intelligence Hub.
- Changes in relation to Adult Social Care.
- Planning for the implementation of the City Deal / Enterprise Zones.

4.7 Assurance work regarding ICT has considered risks in relation to 10 of their business objectives. This has provided the following risk ratings:

- Two business objectives – significant assurance (green)
- Three business objectives – moderate assurance (amber)
- Five business objectives – limited assurance (red)

4.8 Limited assurance has been given in relation to the roll out of the Virtual Desktop Infrastructure, opportunities for the Council to exploit its Cloud infrastructure, environmental controls, network infrastructure and alignment of ICT resources against the Council's priorities.

#### Assurance from others within the Council

4.9 Assurance provided from others within the Council is shown in the Corporate Assurance Map.

4.10 The assurance level in relation to Programme and Project management is currently shown as Amber. New Project Management Standards are being implemented from April aimed at improving project management for all Council projects.

4.11 The assurance level provided by the Business Continuity Officer has been Amber over the last three reports. This has mainly been due to the need for the arrangements within Children's Services to be brought up to date. A review of arrangements in all Directorates is underway, the results of which will be considered in future reports.

#### Assurance from Management

4.12 Arrangements are in place to obtain assurance from service management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

## Assurance from External Sources

- 4.13 The Map includes feedback received following the Council's recent Peer Challenge. The areas of the review which are relevant to the Corporate Assurance Map are Financial Planning and Implementation, Change Projects, Capacity and Resources and Customer Insight.

## Overall

- 4.14 The overall assurance levels remain the same however the results of work undertaken by the Internal Audit and Risk and Assurance teams have highlighted increased risks in relation to ICT Strategy and Delivery.

## **5. Internal Audit Performance**

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 4. Performance is on target for all KPI's apart from:
- The current percentage of medium risk recommendations implemented (excluding schools), which now stands at 82%.

A summary of the performance by directorate for medium risk recommendations is shown below:

<b>Directorate / Body</b>	<b>Implementation Rate</b>
People	85%
Office of the Chief Executive	81%
Commercial and Corporate Services	79%
<b>Implementation Rate (exc. Schools)</b>	<b>82%</b>
Schools	83%
<b>Total Implementation Rate</b>	<b>82%</b>

The performance for Commercial and Corporate Services has reduced from 95% in December 2013 to the current 79%. This is due to the results of one follow up in relation to ICT Asset Management where from 18 agreed actions, one had been implemented and one was no longer applicable, giving an implementation rate of 6%.

## **6. Conclusions**

- 6.1 This report provides an update on the assurance provided in the Corporate Assurance Map, work ongoing in relation to the Internal Audit and Risk & Assurance Teams and performance targets for Internal Audit.
- 6.2 Results of the work undertaken so far during the year have not highlighted any issues which affect the opinion that overall throughout the Council there

continues to be an adequate system of internal control.

**7. Recommendations**

- 7.1 The Audit and Governance Committee are asked to note the report and consider the updated Corporate Assurance Map.

## Strategic Risk Profile

### People

#### Desired Outcomes

A city where everyone is as healthy as they can be and enjoys a good standard of wellbeing

A city with high levels of skills, educational attainment and participation

A city which is, and feels, even safer and more secure

A city that ensures people are able to look after themselves wherever possible

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<b>PE 1</b> Failure to ensure appropriate health and wellbeing services to children and adults, in response to financial pressures	Neil Revely, ED of Health, Housing & Adult Services	3x4 = 12	<ul style="list-style-type: none"> <li>Implement the Health and Wellbeing Strategy to:               <ul style="list-style-type: none"> <li>Target prevention and early intervention</li> <li>Build capacity and reduce dependency to help individuals to be more independent and self-sustaining</li> </ul> </li> <li>Manage demand by empowering customers to take up viable alternatives to council services</li> <li>Coordinate and implement public health campaigns and promotional activities working with relevant external public health related organisations</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Newly created Health and Wellbeing Board have taken responsibility for delivering the Health and Wellbeing Strategy</li> <li>Continuing to integrate approach. Consideration being given to an integrated commissioning approach with Health</li> <li>Joint Strategic Needs Assessment to be undertaken by October 2013 signed off by April 14</li> </ul>	2x4 = 8
<b>PE 2</b> We fail to encourage more people to help themselves and communities to come up with local solutions	Sarah Reed, Assistant Chief Executive	3x3 = 9	<ul style="list-style-type: none"> <li>As a Community Leadership Council we will strengthen self-help capacity in our communities</li> <li>Deliver the Voluntary Community Sector Relationship Transition project</li> <li>Implement the Community Resilience Plan, Health and Wellbeing Strategy and Strengthening Families Strategy to develop asset based approaches to increase independence and self-reliance</li> <li>Through the "PEOPLE" strand of communications deliver an</li> </ul>	1x3 = 3

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p>integrated campaign, which encourages people to help themselves</p> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Continuing to develop the approach to being a Community Leadership Council</li> <li>VCSTR project developing approach that aligns engagement with the VCS and day to day service delivery</li> <li>Community Resilience Plan adopted by Sunderland Innovation Group (part of Sunderland Partnership) in November 2013. Still needs to be implemented across all partners. Arrangements for monitoring of progress and effectiveness need to be developed.</li> </ul>	
<p><b>PE 3</b> Despite improvement, a range of health indicators across the city continue to be below national averages including levels of child and adult obesity, rates of breastfeeding and levels of teenage pregnancy</p>	<p>Neil Revely, ED of Health, Housing &amp; Adult Services</p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>Deliver the Public Health improvement responsibilities</li> <li>Progress the delivery plan and performance management to address improvement in health indicators</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>“Plan on a page” being developed to improve individual Health indicators</li> <li>University to review methods of measuring progress</li> </ul>	<p><b>2x3 =6</b></p>
<p><b>PE 4</b> Economic conditions will mean that our interventions to help people, particularly young people, to gain employment will not be as effective as intended</p>	<p>Janet Johnson, Deputy Chief Executive</p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>Extend employment opportunities for people out of work and to ensure job progression and mobility for those people in work through the implementation of the Sunderland Employment Strategy</li> <li>Continue to deliver (and develop) early intervention and prevention practices to support young people who are a risk of becoming NEET</li> <li>Maximise learning opportunities afforded by the Youth Contract and by 3<sup>rd</sup> sector providers to young people requiring most support, to move them towards employment opportunities.</li> <li>The Education Leadership Board to continue to improve the links between schools and employers</li> <li>Extend the environmental apprenticeship scheme across other Streetscene services</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>ELB in process of carrying out a major restructure to replace the current Aim groups</li> </ul>	<p><b>2x3 = 6</b></p>



Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<ul style="list-style-type: none"> <li>• <b>NEET</b> interventions continue via work of Locality/Connexions team members. This is being supplemented through People Board initiatives</li> <li>• A total of 87 apprentices now engaged by the Council</li> <li>• Education Leadership Board continue to work with business leaders to encourage links with schools</li> </ul>	
<p><b>PE 5</b> The current skill levels of young people and adults are not sufficient to meet the current and future needs of the economy</p>	<p>Neil Revely, ED of Health, Housing &amp; Adult Services</p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>• Implement the Sunderland Skills Strategy to consider employer demand and the skills needed to fill any expected shortages or gaps within the growth sectors</li> <li>• Implement the Family, Adult and Community Learning Strategy which outlines the priorities and principles necessary to meet the learning needs of adults and families</li> <li>• The Education Leadership Board to continue to Improve links between schools and employers</li> <li>• Set up the Combined Authority whose remit will include regional skills issues</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Education Leadership Board is fully in place with key stakeholder involvement, i.e. employers, training providers, college/university, schools and nurseries, Council officer. In process of developing an Education and Skills Strategy. Key senior Council officer to support the development. Activities are developing e.g. Business School Group linking employers with schools, and 'Work Discovery Week</li> <li>• Combined Authority to be in place by April 2014</li> <li>• FACL continues to have increased participation and improved level of accredited course participation. Government funding has been constant</li> </ul>	<p><b>2x3 = 6</b></p>
<p><b>PE 6</b> Increasing poverty levels and community cohesion issues arising out of welfare reforms and economic conditions</p>	<p>Sarah Reed, Assistant Chief Executive</p>	<p><b>3x3 = 9</b></p>	<ul style="list-style-type: none"> <li>• Continue to deliver the Welfare Reform "Social Fund"</li> <li>• Prepare for the introduction of "Universal Credit"</li> <li>• Implement the Community Resilience Delivery Plan</li> <li>• Continue to implement the Child and Family Poverty Strategy</li> <li>• Deliver the Strengthening Families project</li> <li>• Develop and implement a delivery plan for the Access to Housing Strategy</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Social Fund in place and continues to provide support to local communities. Take up is lower than anticipated. Government</li> </ul>	<p><b>2x3 = 6</b></p>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p>funding will cease in March 2015. A review is planned to be carried out during 2014/15 to assess the whole Council provision of services in respect of financial inclusion. Emphasis of prevention.</p> <ul style="list-style-type: none"> <li>Uncertainty remains over the introduction of "Universal Credit"</li> </ul>	
<b>PE 7</b> Implementation of the Health & Wellbeing Strategy may not effectively target the most vulnerable groups resulting in widening inequalities	Neil Revely, ED of Health, Housing & Adult Services	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>Implement the Health and Wellbeing Strategy, delivery plan and performance management arrangements</li> <li>Continue to liaise with the Clinical Commissioning Group and GPs to gain a better understanding of vulnerable groups</li> <li>Develop an asset based approach to delivery, making better use of assets that already exist in families and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Health and Wellbeing Board monitor the actions to reduce inequalities The Design Principles that underpin the approach to health and wellbeing includes Equity – providing access to excellent services dependent on need and preferences that are also based on evaluated models. Equity in health means everyone being able to achieve their full health</li> </ul>	<b>1x3 = 3</b>
<b>PE 8</b> Failure to align partner services to ensure we have a city that is safe and secure	Sarah Reed, Assistant Chief Executive	<b>2x2 = 4</b>	<ul style="list-style-type: none"> <li>Continue to deliver the Safer Sunderland Partnership's delivery plan: tackling alcohol, drugs, domestic violence, violent crime, anti-social behaviour, safety and feelings of safety and re-offending</li> <li>Apply the Strengthening Families approach to support people out of offending</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>By the end of 2012/13, when compared with the previous year, the Safer Sunderland Partnership was able to report a 19% reduction in recorded crime and an 11.9% reduction in recorded anti-social behaviour incidents</li> <li>The multi agency Strengthening Families Programme is starting to record success in reducing offending</li> </ul>	<b>1x2 = 2</b>

## PLACE

### Desired Outcomes

An attractive, modern city where people choose to invest, live, work and spend their leisure time.

A responsible, well looked-after city that is adaptable to change.

A well connected city.

A city where cultural identity and vibrancy act as a significant attraction

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<b>PL 1</b> The Local Development Framework is not adopted thereby restricting development opportunities for the City	Janet Johnson, Deputy Chief Executive	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>Develop the LDF (Local Plan) to ensure it meets the required Government criteria</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Local Plan is being developed in line with government criteria. However adoption of Local Plan is expected to be late 2015/16. Draft plan for consultation due in late 2014. Development will not stop however until the Local Plan is adopted</li> </ul>	<b>1x4 = 4</b>
<b>PL 2</b> Failure to deliver our place-shaping activities in a coordinated manner (including economic housing and transport investments)	Janet Johnson, Deputy Chief Executive	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>Adopt an ambitious, developer/investor friendly Core Strategy (Land Use Plan) that will guide high quality future physical development that is synonymous with a modern, vibrant, aspirational city</li> <li>Develop and implement the Sunderland Housing Strategy</li> <li>Set up the Combined Authority that will have responsibility for the creation of an area wide integrated transport authority and preparation of a local transport plan</li> <li>Utilise all available funding opportunities to improve infrastructure e.g. Regional Growth Fund</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Discussions to create the Combined Authority are on going</li> <li>Schemes being developed to access RGF funding.</li> </ul>	<b>1x3 = 3</b>
<b>PL 3</b> Delivery of capital investment priorities is too slow to realise opportunities available	Janet Johnson, Deputy Chief Executive	<b>Score 2x3 = 6</b>	<ul style="list-style-type: none"> <li>Development of a Local Asset Backed Vehicle (LABV) to deliver accelerated regeneration and economic development activity</li> <li>Continue to support the development of priority areas including                             <ul style="list-style-type: none"> <li>Vaux site</li> <li>Sunniside</li> </ul> </li> </ul>	<b>1x3 = 3</b>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<ul style="list-style-type: none"> <li>Seaburn</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Implementation of the LABV is on-going</li> <li>As part of LABV procurement development plans are being prepared for Vaux Site (phase development), Seaburn and Chapelgarth</li> </ul>	
<b>PL 4</b> Inability to stimulate sufficient inward investment for development projects, particularly in relation to the City Centre	Janet Johnson, Deputy Chief Executive	<b>2x3 = 6</b>	<ul style="list-style-type: none"> <li>Promote the City nationally and internationally as a place to invest, through the Make it Sunderland campaign</li> <li>Private sector partners to develop a Business Improvement District proposal providing resources that will contribute to physical improvement in the city centre</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Make it Sunderland campaign continues to promote investment in the City</li> </ul>	<b>1x3 = 3</b>
<b>PL 5</b> The City's infrastructure does not provide appropriate access and movement for all, including those with restricted mobility	Neil Revely, ED of Health, Housing & Adult Services	<b>2x2 = 4</b>	<ul style="list-style-type: none"> <li>Continue to engage with Nexus to develop Community Transport, taking into consideration the market and the commercial viability of transport routes</li> <li>Engage with the Voluntary and Community sector to provide access for people with restricted mobility (e.g. volunteer drivers)</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>On going engagement with NEXUS in relation to community transport. Government funding in respect of community transport may be reduced</li> </ul>	<b>2x2 = 4</b>
<b>PL 6</b> Fail to agree and implement a Cultural Strategy and associated action plan	Neil Revely, ED of Health, Housing & Adult Services	<b>2x2 = 4</b>	<ul style="list-style-type: none"> <li>Develop Cultural Strategy and implementation plan</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Cultural Partnership formed to bring a wider base to the development of the strategy</li> </ul>	<b>1x2 = 2</b>

## ECONOMY

### Desired Outcomes

A national hub of the low carbon economy

A prosperous and well connected waterfront city centre

An inclusive city economy for all ages

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<b>EC 1</b> The increased costs of university fees and restricted access to appropriate learning opportunities will dissuade some young people from attending HE and skills levels will not increase as quickly as anticipated	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> <li>Education Leadership Board to promote the benefits of higher education</li> <li>North East Local Enterprise Partnership (NELEP) to support the promotion of higher education</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>NELEP and the Education Leadership Board continue to promote the benefits of higher education</li> </ul>	2x3 = 6
<b>EC 2</b> The City doesn't attract inward investors because of a lack of sites / finance	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> <li>Development of a Local Asset Backed Vehicle (LABV) to leverage private sector funding and investment in the City</li> <li>Allocation of appropriate employment sites through the LDF process</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Implementation of the LABV is on-going</li> <li>Funds secured in respect of the Enterprise Zone</li> </ul>	2x3 = 6
<b>EC 3</b> The more highly qualified/skilled people in the City will leave to find suitable work outside of the region, reducing the proportion of highly qualified/skilled people living in the City	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> <li>Continue to deliver the Make It Sunderland campaign that sets the direction for our efforts to attract employment opportunities to the city, across a wide range of sectors</li> <li>Implement a Housing Investment Plan that ensures we have the right range and types of housing, in the right locations, to retain existing residents and attract new people into the City</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Housing Investment Plan to be updated and included in the Housing Strategy</li> <li>Make it Sunderland campaign continuing to attract jobs and investment into the City</li> </ul>	2x3 = 6
<b>EC 4</b> Inability to deliver on the New Wear Crossing in line with the planned timescales	Janet Johnson, Deputy Chief Executive	3x3 = 9	<ul style="list-style-type: none"> <li>Complete the procurement phase and deliver the construction phase of the New Wear Crossing</li> </ul>	2x3 = 6

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<b>Progress</b> <ul style="list-style-type: none"> <li>New Wear Crossing is being re-planned.</li> </ul>	
<b>EC 5</b> Fail to ensure plans are in place to support carers, people with disabilities and mental health issues into or to maintain employment	Neil Revely, ED of Health, Housing & Adult Services	2x4 = 8	<ul style="list-style-type: none"> <li>Continue to engage with Remploy, who provide sustainable employment opportunities for disabled people and those who experience complex barriers to work</li> <li>Continue to support the Carers Strategy Group</li> </ul> <b>Progress</b> <ul style="list-style-type: none"> <li>On going engagement with Remploy and the Carers Strategy Group</li> </ul>	1x4 = 4
<b>EC 6</b> Pace and scale of regeneration in the City Centre does not satisfy economic prosperity ambitions	Janet Johnson, Deputy Chief Executive	2x4 = 8	<ul style="list-style-type: none"> <li>Progress development opportunities, e.g. Vaux site, City Square, Sunnyside</li> <li>Support the Business Improvement District proposal</li> </ul> <b>Progress</b> <ul style="list-style-type: none"> <li>City Centre businesses have voted to form a Business Improvement District. A Chief Exec has been appointed and the company should be set up by April 14</li> <li>LABV to be used to progress developments</li> </ul>	1x4 = 4
<b>EC 7</b> Partners do not have a coordinated approach to supporting, developing and attracting business to the City	Janet Johnson, Deputy Chief Executive	2x2 = 4	<ul style="list-style-type: none"> <li>Continue to support the Business and Innovation Centre which provides a joint approach for business support</li> <li>Implement the Enterprise and Innovation Strategy</li> <li>Continue to develop the North East Local Enterprise Partnership (NELEP) Enterprise Zones</li> </ul> <b>Progress</b> <ul style="list-style-type: none"> <li>Enterprise and Innovation Strategy signed off by the Economic Leadership Board</li> <li>Obtain funding through the City Deal to enhance the work of the Business and Innovation Centre</li> </ul>	1x2 = 2

**ORGANISATION**

**Desired Outcomes**

Achieving Community Leadership.  
 Delivering High Quality Services That Are Led By Our Customers' Needs  
 Ensuring Value for Money and Productive Use Of Resources

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
<b>OR 1</b> The Council and the community may not have the required skills and capacity to deliver the City's priorities	Sue Stanhope, Director of HR & OD Sarah Reed, Assistant Chief Executive	<b>3x3 = 9</b>	<ul style="list-style-type: none"> <li>Focus upon strengthening local self-help capacity, In order to meet our aspirations as a Community Leadership Council</li> <li>Utilise workforce planning to develop and transfer skills across the council</li> <li>Deliver the Voluntary and Community Sector Relationship Transition project</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>VCS project developing approach that aligns engagement with the VCS and day to day service delivery</li> </ul>	<b>2x3 = 6</b>
<b>OR 2</b> Lack of pace, leadership, innovation and commitment resulting in inability to achieve the required outcomes	Sarah Reed, Assistant Chief Executive	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>Develop the role of a Community Leadership Council to be more intelligent in setting relevant and focused priorities</li> <li>Deliver the Business Transformation Programme</li> <li>Deliver Alternative Service Delivery Models</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>Role of Community Leadership Council undergoing review</li> <li>Sunderland Care &amp; Support Ltd set up in December 2013 Leisure services review on going</li> </ul>	<b>1x4 = 4</b>
<b>OR 3</b> Council does not secure the required savings	Sonia Tognarelli, Head of Financial Resources	<b>2x4 = 8</b>	<ul style="list-style-type: none"> <li>Agree MTFS (in context of Community Leadership Council)</li> <li>Agree Service Area efficiency targets and monitor progress</li> <li>Deliver the Business Transformation Programme</li> <li>Deliver Alternative Service Delivery Models</li> <li>Deliver the Workforce Planning project</li> </ul>	<b>1x4 = 4</b>

Risk Description	Risk Owner	Current Score Lx I	Mitigation and progress to reduce current score	Residual Score Lx I
			<p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• MTFS in place</li> <li>• Workforce Planning efficiency targets for 2014/15 agreed</li> <li>• Care and Support ASDM went live December 13</li> <li>• Actions being progressed to develop detailed plans to address remaining funding gap 2015-2017</li> </ul>	
<p><b>OR 4</b> Failure to collect, analyse and use intelligence to enable customer insight to inform decision making</p>	<p>Sue Stanhope, Director of HR &amp; OD Sarah Reed, Assistant Chief Executive</p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Development and delivery of the Intelligence Hub</li> <li>• Strategic planning and service redesign to reflect the needs and preferences of our customers and communities</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Intelligence Hub project has reached procurement phase</li> </ul>	<p><b>1x3 = 3</b></p>
<p><b>OR 5</b> Employee engagement falls as a result of ongoing significant changes</p>	<p>Sue Stanhope, Director of HR &amp; OD</p>	<p><b>2x3 = 6</b></p>	<ul style="list-style-type: none"> <li>• Continue to monitor and intervene in areas where employee engagement is showing signs of diminishing</li> </ul> <p><b>Progress</b></p> <ul style="list-style-type: none"> <li>• Position continues to be monitored</li> </ul>	<p><b>1x3 = 3</b></p>



Detailed Internal Audit Coverage

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Customer Focus		Children's Services – Safeguarding	L	Early Intervention and Locality Based Services	Review the governance arrangements for multi agency working, information sharing & performance management.	Moderate	
		Personal Budgets	L	Out of Area Placements	Review implementation of new placements strategy.		
				Web Content Development	Review the arrangements for keeping the new website and intranet up to date, and for on line payments.		
				Crisis Loans / Social Fund	S		Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.
Legality		Equality Impact Assessments	M			Substantial	
		Licensing (Compliance with Provision of Services Regulations 2009)	N				
		Corporate Legality	F				
Service / Business Planning	Responsive Local Services			Corporate Service/ Business Planning	M	Review of corporate process	Moderate
	Facilities Management	Children's Services – Safeguarding	L	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	
	Reablement at Home - Adults			Out of Area Placements	L	Review implementation of new Placements Strategy.	
	Business Support			Building Management	L	Assess arrangements in place to manage portfolio of operational buildings	
				Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Programme and Project Management	Project Management Information Governance (Project Server)			Implementation of the Economic Master Plan	M	Review progress against Business Investment Team projects within the plan	Moderate
		Landscape and Reclamation Service	M				
		Programme and Project Management - support to major projects	M				
		Operating Model – realisation of benefits	S				
Change Management				Payroll		Verification of input of new pay and grading information to SAP HCM.	None (new risk area)
				Health and Wellbeing Partnership Board		A review of governance arrangements and transaction checks on public health activity payments.	
Partnerships				Health and Wellbeing Partnership Board		As above	Moderate
Business Continuity and Emergency Planning	Major Incident Planning			HHAS Business Continuity Planning	L	Examination of the process for determining the level of criticality of each function, and the arrangements for recovery of non critical functions on a service by service basis. (Business recovery for critical functions is currently being reviewed by the Corporate Business Continuity Officer).	Moderate
	Business Continuity Planning - Children's Services						

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Procurement	Purchasing Card Arrangements	Capital Procurement	S	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Substantial
	Capital Procurement	Unplanned Audit – Revenue Procurement	S	Out of Area Placements	L	Review implementation of new placements strategy.	
	Revenue Procurement			Building Maintenance	N		
				Revenue Procurement		Transaction Testing	
Relationship and Contract Management		Care and Support Sunderland Ltd – contract management	M	Corporate Contract Management Arrangements		Assess the robustness of the new Corporate Contract Management Framework and the arrangements for its implementation.	Insufficient work to enable opinion to be given
		Housing Related Support	L	Events Company Contract Management	M	Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.	
Financial Management	Corporate Budget Setting and Management	YPLA Schools Sixth Form Grant	S	EFA / SFA Funding	S	Grant Certification work	Substantial
	Adoption Allowances	YPLA Young Apprenticeships Cohort 6 Grant	S	DECC Fuel Poverty Grant	M	Grant Certification work	
	Social Care Resource Agency	YPLA Young Apprenticeships Cohort 7 Grant	S	Foster Care Allowances		Review the robustness of the arrangements for payment of allowances.	
	Personal Budgets - Adults	Department for Business Innovation & Skills – LEP Start Up Fund	S	Out of Area Placements	L	Review implementation of new placements strategy.	
	Port Governance Arrangements	Department for Business Innovation & Skills – LEP Capacity Fund	S	Direct Payments		Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.	

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Financial Management - continued	Treasury Management	Deprived Areas Fund Grant	F	Charging for Non Residential Adults Care Services	Review of the arrangements for determining and collecting charges from service users.	Overall Opinion	
	1 Leisure Centre	Single Investment Programme Grant	F	Personal Budgets	Transaction Testing (to include verification of Direct Payments)		
	Accounts Payable	Local Transport Capital Block Funding Grant	S	Local Transport Capital and Integrated Transport Grants	S		Grant Certification work
	Accounts Receivable - Collection	Growing Places Funds 2, 3 and 7	F	Growing Places Funds 2, 3 and 7	S		Grant Certification work
	Periodic Income - Recovery and Enforcement	1 Leisure Centre	S	SAP Organisation Structures	S		Review of staffing structures as recorded on SAP HCM, and assessment of the adequacy of the arrangements for amendments and updates.
	Cash Receipting - Central System	35 Schools	S	Monitoring of Multiple Employee Positions Building Management	L		Assess arrangements in place to manage portfolio of operational buildings
	Council Tax - Setting	Home Improvement Agency – Loans and Mortgages	S	Asset Register / Capital Accounting	S		Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.
	Council Tax - Billing	Personal Budgets	L	Capital Programme Funding and Monitoring	S		Review of the arrangements for developing and financing the Capital Programme, and for monitoring expenditure against plans.
	Council Tax - Valuation	Direct Payments	L	BACS Processing	S		Assessment of the effectiveness of the arrangements for monitoring use of Direct Payments following implementation of a risk based verification system.
	Council Tax - Recovery	Care and Support Sunderland Ltd – compliance	S	Treasury Management			Review of borrowing and lending arrangements, and compliance with the Prudential Code.
Business Rates – Recovery & Enforcement	Landscape and Reclamation Service	M	Cash Receipting	S	Transaction Testing, including a review of the arrangements for providing telephone facilities in Customer Service Centres to enable payments to the Council by credit / debit card.		

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Financial Management - continued	BACS Arrangements	BACS Payments	S	External Funding	S	A review of the arrangements that are in place to ensure that all possible sources of external funding are utilised and access to available funding is maximised.	
				Support to Partners / VCS	M		
	Charging for Services - HHA	Cash Receipting checks	S	Insurance Claims Handling	S		Review of the arrangements for dealing with insurance claims against the Council and South Tyneside Council.
	Future Jobs Fund Grant	Capital Procurement	S	Payroll			Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.
	Deprived Areas Fund Grant	Payroll transactions checks	M	Council Tax Support Scheme	S		A review of the arrangements for implementing the new Council Tax Support Scheme.
	Payroll Processing and Payment	Council Tax Transactions checks	S	Council Tax	S		Transaction Testing
	Unplanned Audit – SIB and Community Chest Grants	Business Rates transactions checks	S	Local Business Rates Scheme	S		A review of the arrangements for implementing the new Local Business Rates Scheme.
	Unplanned Audit – Future Jobs Fund – final audit certificate	Accounts Payable transactions checks	S	Business Rates	S		Transaction Testing
	Unplanned Audit – SWITCH Modelling	Accounts Receivable transactions checks	S	Crisis Loans / Social Fund	S		Review the arrangements for implementing the new Local Welfare Provision Scheme, and delivery of the new Crisis Support and Community Care Support, Services.
		Housing Related Support	L	Accounts Payable			Transaction Testing
				Accounts Receivable	M		Review of key controls in income collection arrangements, together with transaction testing
			Troubled Families Performance Reward Grant	L	Grant certification work		
			Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.		

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion	
Financial Management - continued			Aquatic Centre S	Examination of the arrangements for budget management, cash collection and purchasing.		
			Events Company Contract Management M	Review the arrangements for ensuring that Sunderland Live fulfils contractual requirements and examine payment arrangements.		
			Clusters of Empty Homes Grant S	Grant certification work (unplanned)		
Human Resource Management	Corporate Training and Development Arrangements	Corporate Attendance Management Arrangements	L SAP Organisation Structures S Monitoring of Multiple Employee Positions L	Verification of input of new pay grades to SAP HCM, following the Workforce Transformation Project.	Moderate	
	Personnel Administration Arrangement	Management of SWITCH	S Corporate HR Management M	Review of compliance with corporate HR procedures		
	Management of Employees in SWITCH					
Information Governance	Corporate Information Governance (including procedures for remote working)	Vulnerable Adults Protection Arrangements	S Corporate Information Governance Arrangements L	A survey of managers is to take place together with a general employee survey to gauge awareness and understanding of, and compliance with information governance policies and procedures.	Moderate	
	Email Security	Information Governance compliance checks	L			
	Smarter Working – Remote Working in Children's Services					
	Document Management					
	Corporate Data Protection Arrangements					
	Follow Up – Customer Services Network Info Gov (2010/11)					

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
Performance Management	Responsive Local Services	Design of corporate performance management arrangements	S	Building Management	L	Assess arrangements in place to manage portfolio of operational buildings	Moderate
	Port Governance Arrangements			Early Intervention and Locality Based Services		Review the governance arrangements for multi agency working, information sharing & performance management	
	Customer Services Network						
	Reablement at Home - Adults						
	Social Care Resource Agency						
	Follow up – Sunderland Compact						
Asset Management	Asset Register/Capital Accounting	Asset management	M	Derwent Hill	M	Assess the governance arrangements and the robustness of the key financial and non financial systems and procedures in operation at the Centre.	Moderate
	Unplanned Audit - Technoforge			Technology Forge	L	Examine progress in implementing the Technology Forge property management software.	
				ICT Asset Management	N	Review arrangements for identifying, recording and controlling mobile ICT equipment (desktops/laptops).	
				Asset Register / Capital Accounting	S	Review of the arrangements to ensure that all capital assets are recorded in the asset register, valuations are correct, and capital accounting rules have been complied with.	
ICT Strategy and Delivery	Asset Management - ICT Equipment			ICT Asset Management	N	Review arrangements for identifying, recording and controlling mobile ICT equipment (desktops/laptops).	Moderate
	ICT Remote Access Threats						

Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion
	Information Technology Infrastructure Library		ICT Strategy N	Review of the ICT Strategy to assess whether that it supports delivery of Council Objectives	
Fraud and Corruption	Counter Fraud Testing (including in schools)	Counter Fraud Testing	Counter Fraud Testing		Substantial
	Access to IT systems - with movement of employees	National Fraud Initiative checks	National Fraud Initiative Case Investigations		
	1 Leisure Centre	Home Improvement Agency	S Direct Payments	Transaction Testing	
	Asset Management - ICT Equipment	Direct Payments	L Personal Budgets	Transaction Testing	
	Unplanned Audit – SIB and Community Chest Grants	Cash Receipting Transaction checks	S BACS Processing	S Transaction Testing	
	Social Care Resource Agency	Payroll transaction checks	M Cash Receipting	S Transaction Testing	
		Council Tax transaction checks	S Payroll	Verification of input of new pay grades to SAP HCM after Workforce Transformation Project.	
		Business Rates transaction checks	S Council Tax	S Transaction Testing	
		Housing Benefit transaction checks	S Business Rates	S Transaction Testing	
		Accounts Payable transaction checks	S Benefits	S Transaction Testing	
		Accounts transactions	S Accounts Payable	Transaction Testing	
				Building Maintenance N	
			Accounts Receivable M	Review of key controls in income collection arrangements, together with transaction testing.	
Risk Management	Port Governance Arrangements				Substantial
	1 Leisure Centre				



Key Risk Area	2011/12 Audits / Opinions	2012/13 Audits / Opinions	2013/14 Audits / Opinions	Scope of 2013/14 Audit	Overall Opinion		
	Insurance Policies						
Housing Benefits	Housing Benefit Administration	Housing Benefit transaction checks	S	Benefits	S	Transaction Testing	Substantial
				Council Tax Support Scheme	S	Review of the arrangements for implementing the new Council Tax Support Scheme.	
Schools	38 schools audits completed – 35 good, 3 satisfactory	29 schools audits completed – 7 full, 20 substantial, 1 moderate, 1 limited	S	35 schools 33 schools completed to date – 5 full, 24 substantial, 3 moderate, 1 limited	S	Review of governance and financial management arrangements at 34 schools.	Substantial



## Risk and Assurance Activity

Area of activity	Work ongoing
Strategic Risk Profile	A review of the strategic risks affecting the Council was agreed with EMT. The risk areas have been categorised into People, Place, Economy and Organisational, in line with the Council's Outcomes Framework. Mitigating actions have been agreed and progress being monitored and reported in Appendix 1.
Transformation Programme	Ongoing assurance work is being undertaken in relation to progress in delivering the projects within the Transformation Programme and the related efficiency savings target. A progress report is presented to the Transformation Board on a monthly basis setting out the progress in relation to key project deliverables and the achievement of efficiency savings targets. Work is ongoing with Project Executives, Project Managers and Heads of Service to report the position and address any change control issues required.
Supporting Executive Directors and Heads of Service to manage risks	Activity is ongoing to aid the managing of risks through service planning, programmes and key projects and partnerships. This will be linked to mitigating actions in the Strategic Risk Profile where appropriate.
Support to Schools	A new approach to supporting schools has been introduced in the current year. A number of workshops have been held for schools to attend to help them identify and manage their risks more effectively. This will allow Schools to support each other and manage their risks on a more ongoing basis, as well as reducing the resources required from the Risk and Assurance Team. Positive feedback has been received regarding the workshops and a number of Academies have also booked specific sessions at their schools.

Area of activity	Work ongoing
Service Reviews (including alternative service delivery models), Programmes and Projects (including ICT)	<p>Major projects / service reviews being supported include:</p> <ul style="list-style-type: none"> <li>• Local Asset Backed Vehicle</li> <li>• Workforce Transformation Project</li> <li>• Workforce Planning Project</li> <li>• Sunderland Care and Support</li> <li>• Customer Service Network</li> <li>• Intelligence Hub</li> <li>• Training Centres</li> <li>• Transport and Fleet Management</li> <li>• ICT – various activity</li> <li>• Economic Master Plan</li> <li>• Leisure project</li> <li>• Adult Social Care</li> <li>• Development of the Intranet</li> <li>• Safeguarding – Childrens</li> <li>• Settlement of Equal pay claims</li> <li>• Streetscene projects</li> <li>• City Deal</li> <li>• New Wear Crossing</li> </ul>
Partnerships	<p>Updates are being obtained regarding the following specific partnerships:</p> <ul style="list-style-type: none"> <li>• Sunderland Economic Leadership Board</li> <li>• Waste Management Partnership</li> <li>• Health and Wellbeing Board</li> <li>• Sunderland Safeguarding Adults Board</li> </ul>
Governance Review	The results from Risk and Assurance activity feed into the Annual Governance Review and the Annual Governance Statement
Investigations	Two investigations have been recently completed (not significant)

## Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14

## 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 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	1) All key risk areas covered over a 3 year period 2) 90% 3) 70%	1) On target 2) Ahead of target – 96% 3) Ahead of target - 89%

## 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 recommendations made by the service are agreed and 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 – N/A Behind target - Medium 82% (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 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.0 to date 2) Non undertaken 3) 5 compliments 0 complaints



**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**CORPORATE ASSURANCE MAP 2014/15**

**Report of the Head of Assurance, Procurement and Projects**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider and comment on the proposed Corporate Assurance Map and the supporting plans for the Internal Audit and Risk and Assurance teams for 2014/15.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report does not set out the work undertaken for associated bodies for which the Council has a lead responsibility; this is a matter for the bodies concerned.

**2. Background**

- 2.1 In December each year the Audit and Governance Committee is asked for its comments in relation to the potential areas of work to support the Corporate Assurance Map for the coming year. Any suggestions are considered when developing the Map and the supporting plans of work for Internal Audit and the Risk and Assurance Team. In March of each year the proposed Corporate Assurance Map and plans of work are provided to Committee Members for their consideration.
- 2.2 This report presents the Corporate Assurance Map for 2014/15 and sets out where assurance will be obtained from, including the plans of work for Internal Audit and the Risk and Assurance team. Quarterly update reports will continue to be provided to Members throughout the coming year.

**3. Recommendation**

- 3.1 The Audit and Governance Committee is invited to consider and, if appropriate, make comment on the proposed Corporate Assurance Map and the plans of work for the Internal Audit and Risk and Assurance teams.





## **Corporate Assurance Map 2014/15**

### **1. Introduction**

- 1.1 In order for the Council to ensure that it has robust arrangements for delivering its priorities, managing its affairs and completing its Annual Governance Statement with some certainty, it must have in place three key elements: good Governance, Risk Management and Assurance. The Council's Integrated Assurance Framework provides a comprehensive view on the arrangements in place within the Council.
- 1.2 The Framework brings together assurance from service management, specialist functions which have a corporate role within the Council, the Risk and Assurance Team, Internal Audit and External Bodies.

### **2. Corporate Assurance Map**

- 2.1 The proposed Corporate Assurance Map for 2014/15 is shown overleaf. This highlights those areas that assurance will be provided on, where the assurance is expected to be obtained from and the current assurance level based on work undertaken previously.
- 2.2 As previously, the Map is split into two parts, Strategic Risk Areas which come from the Strategic Risk Profile and Corporate Risk Areas which represent the risk areas that need to be managed for the Council to maintain a strong system of internal control.
- 2.3 Where assurance is expected to be provided from a particular source this is marked with an X. As in previous years the level of assurance provided will be updated based on the results of the work undertaken during the year.

## Corporate Assurance Map

Assurance Position (as at 19 <sup>th</sup> March 2014) (Cumulative)		2014/15								
		1st Line	2 <sup>nd</sup> Line						3 <sup>rd</sup> Line	
		Management Assurance	Other Internal Assurance Activity						Internal Audit	External Assurance
	Legal Services	Financial Resources	Programmes and Projects	Strategy, Policy and Performance	ICT	HR & OD	Business Continuity	Risk and Assurance		
<b>Strategic Risk Areas</b>										
Current Risk	Residual Risk									
People								X		
Place								X		
Economy								X		
Organisational			X					X		X
<b>Corporate Risk Areas</b>										
Customer Focus / Service		X			X			X	X	
Legality			X					X		
Service / Business Planning		X			X			X	X	
Programme and Project Management		X		X				X	X	
Partnerships		X						X	X	
Business Continuity Planning		X					X	X	X	
Procurement		X						X	X	
Relationship and Contract Management		X						X	X	
Financial Management		X	X					X	X	X
Human Resource Management		X					X	X	X	
Information Governance		X	X					X	X	
Performance Management		X			X			X	X	
Asset Management		X						X		
ICT Strategy and Delivery						X		X	X	
Fraud and Corruption		X							X	
Risk Management (Service Delivery)		X						X	X	
Schools		X	X					X	X	

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

- 2.2 The Strategic Risk Areas have been reviewed by the Executive Management Team and will be refreshed with the update of the Council's Corporate Plan.
- 2.3 The current assurance position in relation to the corporate risk areas is either Amber or Green in all cases. This is a positive position given the significant amount of change ongoing within the Council, with a significant movement of experienced staff and changes to procedures and ways of working.
- 2.4 The Map has been prepared based on the work undertaken and reported previously and the planned activity has been developed in consultation with the Chief Executive, all Executive and Corporate Directors and key offers across the Council.
- 2.5 The work to be undertaken by Internal Audit in support of the Map is shown at Appendix 1. The appendix shows all of the audits that contribute to providing assurance against each risk area (some audits provide assurance to more than one risk area).
- 2.6 The plan of activity for the Risk and Assurance team is shown at Appendix 2. This is a high level plan as much of the work of the team cannot be planned in detail. The team will be involved in providing support, challenge and assurance to all of the major projects ongoing, especially those considering alternative service delivery models, transformation, migration of services to the Customer Services Network and other key projects which contribute to the Council's achieving its strategic priorities and achieving its efficiency savings.
- 2.7 Monthly, the Risk and Assurance team reports progress of the Transformation Programme and Key Corporate Projects to the Executive Management Team. This work verifies whether or not projects are progressing as expected and whether the outcomes will be achieved on time, including the expected efficiency savings.
- 2.8 Performance measures for the Internal Audit team are shown at Appendix 3.

### **3. Key Areas of Activity**

- 3.1 As in previous years the level of change ongoing within the Council will continue to be significant. The Risk and Assurance Team will continue to provide support and assurance in relation to key projects where there are major changes to services and where alternative models of delivery are being planned.
- 3.2 The work of the Risk and Assurance team includes obtaining assurance on the progress in relation to the actions identified to manage risks in the Strategic Risk profile. In relation to the Economic Masterplan progress will be monitored in relation to the following, with detailed assurance work being undertaken in some areas:

- City Deal / Enterprise Zones.

- Combined Authority.
- Local Asset Backed Vehicle.
- Development projects such as the New Wear Crossing, Magistrate's Square and preparation of the Vaux site.
- Port
- Regional Growth Fund

3.3 Internal audit work is undertaken in new models where the Council is the owner or has the controlling interest such as Sunderland Live Ltd. and Sunderland Care and Support Ltd. Internal Audit will also be reviewing the effectiveness of some of the services which have migrated to the Customer Services Network to determine if the anticipated benefits have been achieved, as well as the Multi Agency Safeguarding Hub which has been established to improve the way different agencies co-ordinate activities to safeguard vulnerable adults and children.

3.4 There will be a significant amount of change in relation to Adults Social Care with the implementation of the Care Bill which changes the assessment arrangements of those requiring care, and the integration of services with the health sector through the Better Care Fund. This will result in a significant workload for the People Directorate which will be supported by the Risk and Assurance Team.

3.5 The significant change within the Council brings demands on services such as the ICT Unit. Dedicated resource will be committed to ensuring the Council's ICT infrastructure is robust as well as supporting the review of how the service will be delivered to meet the demands placed upon it in the future.

3.6 The cycle of audits of key systems and counter fraud will continue.

#### **4. Developments for the coming year**

4.1 It is planned that assurance arrangements within directorates and within the specialist functions will continue to be developed throughout the year.

#### **5. Reporting Protocols**

5.1 A quarterly progress report will be presented to the Committee. The update reports will indicate the level of assurance provided and any major findings arising from the work undertaken. Any areas requiring improvement will be highlighted to Members for them to consider, and highlighted to the relevant Executive Director.

5.2 An Annual Report (including the year end Corporate Assurance Map) will be prepared for the Audit and Governance Committee in order to provide assurance or otherwise, and enable the Annual Governance Statement to be completed.

## Detailed Audit Coverage

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2014/15
Customer Focus	33%	Risk and assurance involvement in Customer Services Network to continue.  Internal Audit work to assess the success of the migrated services.	Customer Services Network (16 days)
Legality	25%	Risk and Assurance work on ASDM proposals.	None planned
Service / Business Planning	46%	Risk and assurance team have had input into the new corporate process.  Internal Audit to review implementation.  Audit of new People Commissioning Team	Corporate Service Planning Arrangements (10 days) LEP Accountable Body Arrangements (15 days) Early Intervention and Locality Based Services (15 days) Multi Agency Safeguarding Hub (15 days) Port Governance Arrangements (12 days) Commissioning (30 days)
Programme and Project Management	42%	Risk and assurance team to provide support and challenge throughout individual projects and consider the consistency of approach across the projects.  Internal Audit to carry out an audit of benefits identification and realisation.  Audit of compliance with new Project Management standards.	Programme and Project Management (12 days) Realisation of Benefits (15 days)
Partnerships	48%	Risk and assurance team to provide support to the Council's review.  Internal Audit to review the arrangements later in the year.  Audit of corporate arrangements (inc. code of practice)	Corporate Partnership Arrangements (15 days) Sunderland Partnership (12 days) Multi Agency Safeguarding Hub (15 days)

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2014/15
Business Continuity and Emergency Planning	41%	Internal Audit to work with the Business Continuity Officer to review arrangements in specific service areas.	Corporate Business Continuity Arrangements (20 days)
Procurement	30%	<p>Internal Audit to continue to review a sample of procurements to ensure compliance with PPRs.</p> <p>Issues raised recently in relation to low value procurement through investigations.</p> <p>A focused approach to counter fraud work to be continued in 2014/15.</p>	<p>Commissioning (30 days)</p> <p>Capital Procurement (8 days)</p>
Relationship and Contract Management	53%	<p>Audit of Contract Management in People Directorate to be undertaken (Dec 2014)</p> <p>Audit of contract management of other significant contract to be undertaken</p> <p>Risk and Assurance team to advise on performance and contract management when ASDMs are being developed.</p> <p>Audit work in relation to ASDMs once operational.</p>	<p>Commissioning (30 days)</p> <p>Contract Management (15 days)</p> <p>Capital Procurement (8 days)</p>

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2014/15
Financial Management	46%	Annual transaction testing on key financial systems.  Periodic review of corporate systems as agreed with s151 officer.	Accounting / General Ledger (10 days) LEP Accountable Body Arrangements (15 days) Payroll Processing and Payment (25 days) Accounts Payable (20 days) Accounts Receivable - Recovery and Enforcement (5 days) Periodic Income (10 days)
Local Taxation	22%	Review standard procedures on a periodic basis as agreed with the s151 officer and annual substantive testing.  Annual transaction testing by Internal Audit.	Business Rates - Valuation (8 days) Council Tax - Valuations (8 days) Benefits Administration (10 days) Benefits - Recovery of Overpayments (10 days) Cash Receipting (15 days) BACS Transactions (4 days) EFA Funding (8 days)
Payroll	23%	Periodic review of central systems and annual transaction testing /counter fraud work.	Local Transport Capital Maintenance Block Funding (5 days) Local Transport Capital Integrated Transport Block Funding (5 days) Troubled Families Performance Reward Grant (5 days)
Housing Benefits	32%	Periodic review of central systems and annual transaction testing /counter fraud work.	Contaminated Land Grant (2.5 days) Benefit Cap Advisors Funding (2.5 days) Adoption Reform Grant (5 days) Personal Budgets / Direct Payments (12 days) Commissioning (30 days) 32 schools (70 days in total) Port Governance Arrangements (12 days) Organisation Structures (22 days) Use of Mobile Devices (VFM Study) (20 days) Realisation of Benefits (15 days)
Human Resource Management	48%	Risk and assurance team to consider through risk registers and projects.  Internal Audit to carry out testing on multiple occupant positions on the organisation structure.	Organisation Structures (22 days) Corporate Training and Development Arrangements (15 days)

Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2014/15
Information Governance	55%	<p>Internal Audit to continue to monitor the implementation of recommendations and cover information governance through compliance work, physical security checks and checks on email traffic.</p> <p>Risk and Assurance team to consider through risk registers.</p>	<p>Multi Agency Safeguarding Hub (15 days) Security of Email Correspondence (8 days)</p>
Performance Management	47%	<p>Risk and Assurance team are aligning the strategic risk profile with the corporate plan. Additional work to be considered once review completed.</p> <p>Internal Audit to carry out audit to review the information supporting reports to EMT.</p> <p>Undertake Internal Audit work following Children's Centre Ofsted report.</p>	<p>Corporate Performance Management (15 days) Early Intervention and Locality Based Services (15 days)</p>
Asset Management	53%	<p>Risk and Assurance Team to be involved in project to address identified issues from internal audit work.</p> <p>Internal Audit work to assess progress.</p>	<p>Follow up work only</p>
ICT Strategy and Delivery	62%	<p>Risk and assurance team are heavily involved in ICT work to ensure that the risks are appropriately identified and managed, including follow up work relation to internal audit work.</p> <p>Will also be involved in providing assurance on the development of a model for future delivery of ICT.</p> <p>Internal audit - refresh plan of work / separate risk assessment.</p>	<p>Physical and Environmental Controls (10.5 days) Use of Mobile Devices (VFM Study) (20 days)</p>



Corporate Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Audits Planned 2014/15
Fraud and Corruption	29%	<p>Counter fraud testing based on fraud risk assessment.</p> <p>Dedicated Internal Audit resource to identify fraud.</p>	<p>Personal Budgets / Direct Payments (12 days)</p> <p>Organisation Structures (22 days)</p> <p>Payroll Processing and Payment (25 days)</p> <p>Accounts Payable (20 days)</p> <p>Accounts Receivable – Recovery and Enforcement (5 days)</p> <p>Periodic Income (10 days)</p> <p>BACS Transactions (4 days)</p> <p>Cash Receipting (15 days)</p> <p>Capital Procurement 8 days)</p>
Risk Management (service delivery)	24%	<p>The strategic risk profile is based on the Council's priority outcomes. Risk and Assurance team provide assurance on the mitigating actions.</p> <p>Assurance plans are developed in line with the risk registers to assess how robust risk management arrangements are.</p>	Port Governance Arrangements (12 days)
Schools	27%	<p>High level audit work to be carried out to gain assurance over the monies spent in schools.</p> <p>Themed work in addition to cover specific areas each year.</p> <p>Risk and Assurance attend the Joint Intelligence Meeting for schools.</p>	32 schools (70 days in total)



## Risk and Assurance Plan

Area of activity	Estimated Days
Strategic Risk Profile (creation, review, monitoring and reporting)	100
Supporting Alternative Service Delivery Models	180
ICT – Strategy and key projects	170
Adult Social Care developments / safeguarding of adults and children	220
Workforce Transformation Project	65
Supporting, monitoring and reporting on Key Transformation and Other Programmes and Key Projects	430
Risk Management support to Executive Directors and Heads of Service	150
Economic Development (e.g. LABV, Economic Masterplan, City Deal, Combined Authority)	120
Financial Appraisals	30
General Advice, Guidance and Support regarding service developments	80



Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2014/15		
<b>Efficiency and Effectiveness</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report)	1) All corporate risk areas covered over a 3 year period 2) 90% 3) 80%
<b>Quality</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To maintain an effective system of Quality Assurance 2) To ensure recommendations made by the service are agreed and implemented	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
<b>Client Satisfaction</b>		
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>
1) To ensure that clients are satisfied with the service and consider it to be good quality	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported



**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**Proposed Forward Plan of Reports for 2014/15**

**Report of the Head of Assurance, Procurement and Projects**

**1. Purpose of Report**

- 1.1 To enable the Committee to consider and comment on the proposed Forward Plan of reports for 2014/15.
- 1.2 During the year there will be 4 quarterly meetings – at which the Committee will consider the Corporate Assurance Map alongside other reports. An additional meeting is scheduled for February in order to consider the Treasury Management Policy and Strategy in order that it can be agreed by Cabinet in February and then by Council in March of each year in line with good practice.

**2. Recommendations**

- 2.1 Members are asked to consider and agree to the attached proposed Forward Plan of reports.





**Forward Plan of Reports  
Audit and Governance Committee 2014/15**

<b>Month</b>	<b>Brief Description</b>	<b>Report of</b>
June 2014	Annual Review of Governance Arrangements / Annual Governance Statement (including Annual Report covering work of Internal Audit and Risk and Assurance teams)	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map - update	Head of Assurance, Procurement and Projects
	Review of Internal Audit 2013/14	External Auditor
	Audit Progress Report	External Auditor
	Annual Report on the Work of the Committee	Executive Director of Commercial and Corporate Services
	Unaudited Statement of Accounts 2013/14	Executive Director of Commercial and Corporate Services
	Treasury Management Annual Review 2013/14	Executive Director of Commercial and Corporate Services
	Treasury Management 2014/15 - First Quarterly Review	Executive Director of Commercial and Corporate Services
September 2014	Corporate Assurance Map – update	Head of Assurance, Procurement and Projects
	Treasury Management 2014/15 – Second Quarterly Review	Executive Director of Commercial and Corporate Services
	Audit Completion Report 2013/14	External Auditor
	Audited Statement of Accounts 2013/14	Executive Director of Commercial and Corporate Services

**Forward Plan of Reports  
Audit and Governance Committee 2014/15**

<b>Month</b>	<b>Brief Description</b>	<b>Report of</b>
December 2014	Treasury Management 2014/15 – Third Quarterly Review	Executive Director of Commercial and Corporate Services
	Corporate Assurance Map – update	Head of Assurance, Procurement and Projects
	Corporate Assurance Map Consultation 2015/16	Head of Assurance, Procurement and Projects
	Annual Audit Letter 2013/14	External Auditor
	Audit Progress Report	External Auditor
	Certification of Claims and Returns 2013/14	External Auditor
February 2015	Treasury Management Strategy and Policy for 2015/16 including Treasury Management Prudential Indicators for 2015/2016 to 2017/2018	Executive Director of Commercial and Corporate Services
	Audit Progress Report	External Auditor
March 2015	Corporate Assurance Map - update	Head of Assurance, Procurement and Projects
	Corporate Assurance Map – 2014/15 (including Internal Audit Plan, and Risk and Assurance team plan)	Head of Assurance, Procurement and Projects
	Proposed Forward Plan of Reports 2014/2015	Executive Director of Commercial and Corporate Services
	Member Training and Development	Executive Director of Commercial and Corporate Services
	Audit Strategy Memorandum 2014/15	External Auditor
	Audit Progress Report	External Auditor

Note: Other ad-hoc reports/items shall be added to the Agenda where considered necessary

**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**Member Training and Development**

**Report of the Head of Assurance, Procurement and Projects**

**1. Purpose of Report**

- 1.1 The purpose of this report is to provide members of the Committee with the opportunity to identify areas for which they require any further training / refresher / awareness sessions to be arranged.

**2. Training / Development Requirements**

- 2.1 The agreed forward plan of reports that are to be presented to the Committee throughout the year is included on the agenda for this meeting. This may provide members with a reference for any areas for which they would like to receive further training / awareness sessions. Due to the significant changes that are currently ongoing and being considered across the Council it is proposed that an update be provided at the beginning of the next committee meeting.

**3. Recommendations**

- 3.1 Members are asked to consider the areas for which they would like to receive training or awareness sessions, and:
- Agree to receive an update on significant changes taking place or being proposed at the next Committee meeting.
  - Suggest any further areas for training sessions required.



**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**EXTERNAL AUDITOR - AUDIT STRATEGY MEMORANDUM 2013/14**

**Report of the Head of Financial Resources**

**1.0 Purpose of the Report**

1.1 This report details the external auditors (Mazars) Audit Plan which notifies the Council of the work that they are proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2013/2014.

**2.0 Audit Plan 2013/2014**

2.1 The attached document Memorandum advises on the scope and nature of this work together with the scale of fee for the 2013/2014 audit and the assumptions that help to inform this charge to the Council.

2.2 It is welcomed that Mazars are to hold their audit fees of £179,562 at last years level for its audit services for the 2013/2014 audit work, which members will recall represented a 40% reduction in the fees compared to the 2011/2012 charge made under the previous arrangements. The paper also sets out the proposed fees for grant certification work of £16,050 and the other non audit work they will complete in 2013/2014 for the council totalling £35,500.

2.3 The Audit Plan identifies the specific areas for the planned audit work based upon a risk assessment process. These areas of work are set out in the attached document on Pages 5 to 8 of the document and have been discussed with senior officers.

2.4 The document also sets out the protocol the auditors will follow in completing their planned work by providing an audit timeline of key phases of their work and also sets out their proposed methods of communication at each stage.

2.5 A representative from Mazars, will be in attendance to outline the content of the Plan and to answer any questions that may arise.

**3.0 Description of Decision**

3.1 The Committee is recommended to note the contents of this report.



# Audit Strategy Memorandum

Sunderland City Council – year ended 31 March 2014

March 2014



Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Audit and Governance Committee  
Sunderland City Council  
Civic Centre  
Burdon Road  
Sunderland  
SR2 7DN

14 March 2014

Dear Members

**Audit Strategy Memorandum for the year ending 31 March 2014**

We are delighted to present our Audit Strategy Memorandum for Sunderland City Council for the year ending 31 March 2014.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit and Governance Committee meeting on 28 March 2014. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Mark Kirkham  
Director, for and on behalf of Mazars LLP



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# 01 Purpose and background

## Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Sunderland City Council (the Council) for the year ending 31 March 2014, and forms the basis for discussion at the Audit and Governance Committee meeting on 28 March 2014.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

## Scope of engagement

We are appointed to perform the external audit of Sunderland City Council for the year to 31 March 2014. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

## Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you. The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for Local Government bodies.

We, as auditors to the Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole of Government Accounts submission with the audited financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud, we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

# 02 Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

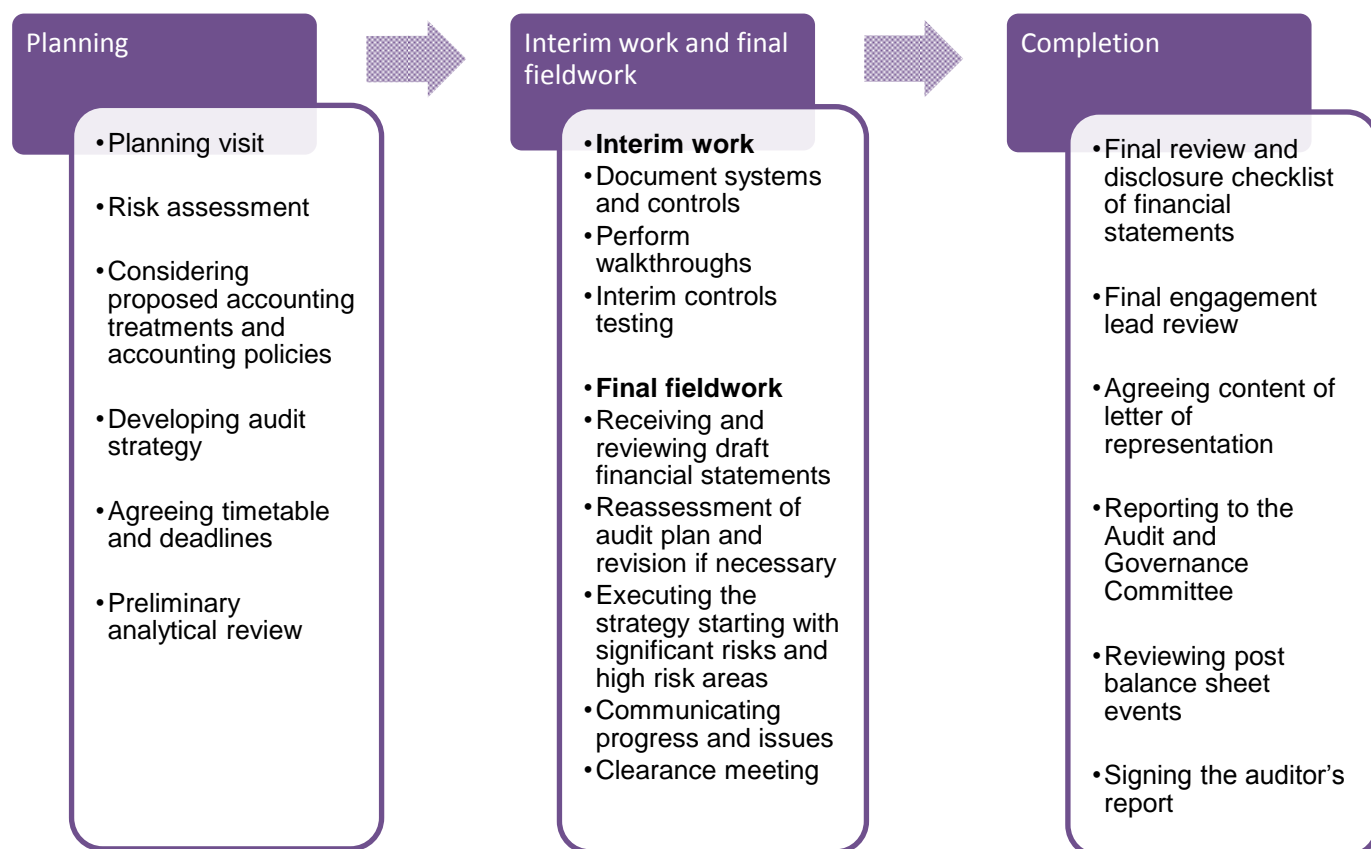
Our audit approach is a risk-based approach, primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



## Group financial statements

Local authorities are required to consider interests in other entities and whether those interests might necessitate the production of group financial statements. The Council has determined that group financial statements are required for the first time this year, to consolidate the transactions of the Council with Sunderland Care and Support Ltd, Care and Support Sunderland Ltd and Sunderland Live Ltd.

Our work on group accounts will include:

- a review of the Council's arrangements to consolidate the accounts of the component entities;
- seeking to rely on the work of the auditors of the component entities;
- reviewing the consolidation process and ensuring that the group accounts are consistent with the audited accounts of each component.

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

We do not have any current plans to specifically rely on the work of Internal Audit.

## Reliance on other auditors

We plan to place reliance on the work of another auditor in relation to pension entries, namely the auditor of the Pension Fund, PWC. We have agreed a work programme and timetable for the receipt of information with PWC.

## Service organisations

We are required to assess whether there are any material entries in your financial statements where the Council is dependent on an external organisation. We call these entities service organisations. There are no such service organisations for the Council where we need to carry out special procedures.

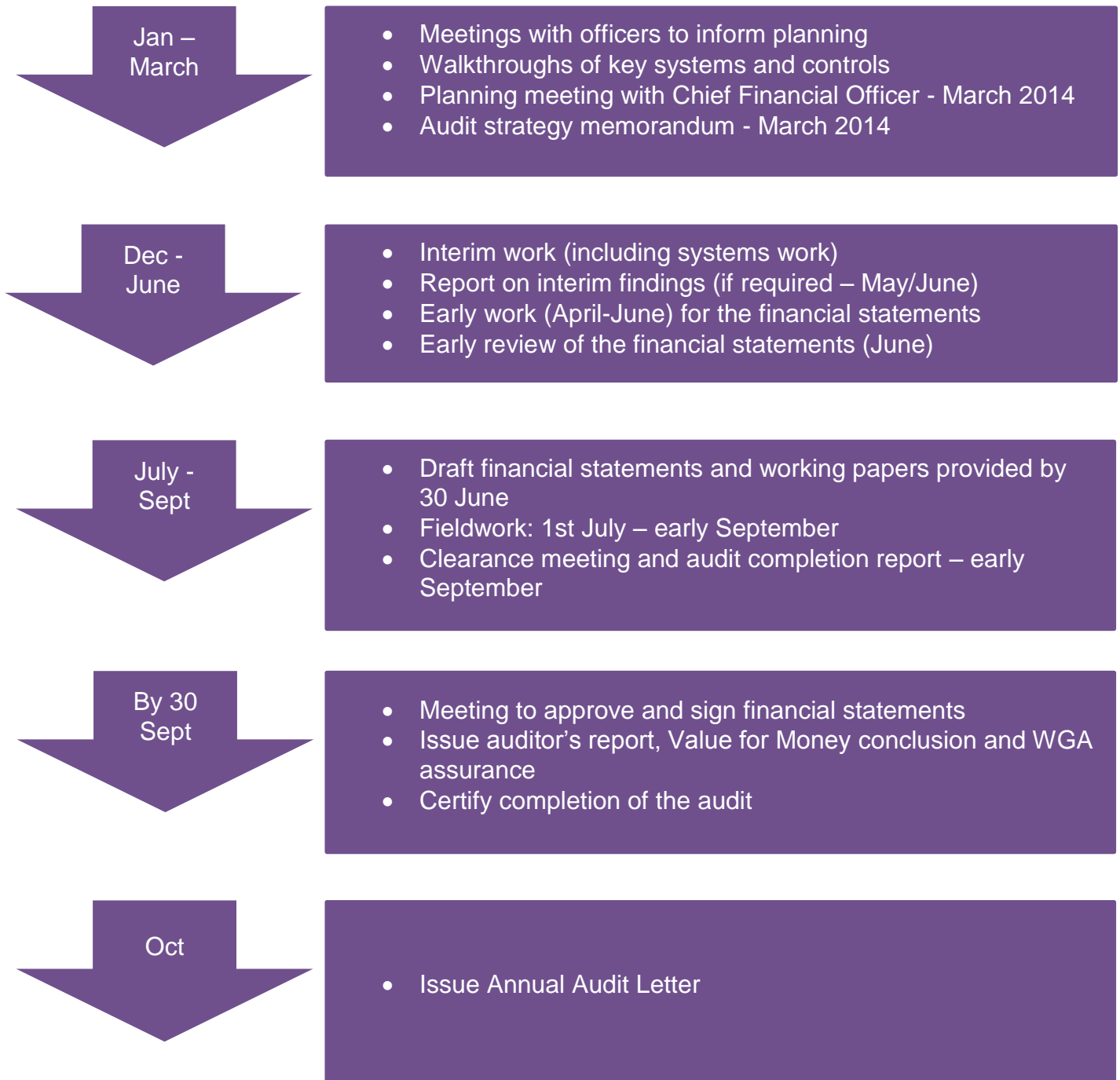
## The work of experts

We plan to rely on the work of the following experts:

Items of account	Management's expert	Our expert
Asset valuations	Internal Valuer	Audit Commission's consulting valuer (Gerald Eve)
Pension liability	Actuary (AON Hewitt Ltd)	Audit Commission's consulting actuary (PWC)
Financial instruments – fair value disclosures	Capita Asset Services (Treasury Management Advisor)	Audit Commission – national consideration of the use of Capita Asset Services

## Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



# 03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

## Significant audit risks

### Management override of controls

#### Description of the risk

Auditing standards state that 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

#### How we will address this risk

We have updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this, we will seek written assurances from the Audit and Governance Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.

Our testing strategy for this significant risk due to fraud will include:

- journals recorded in the general ledger and other adjustments made in preparation of the financial statements;
- consideration and review of material accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- consideration of any other local factors.

### Revenue recognition

#### Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. As there is an inherent risk of fraud in revenue recognition we consider it to be a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

#### How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing receipts in March and April 2014 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

## Expenditure recognition

### Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of expenditure recognition and in relation to judgements made by management as to when expenditure has been incurred. As there is a risk of fraud in revenue recognition we regularly consider it to be a significant risk. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

### How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of expenditure being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing payments in March and April 2014 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

## Pension entries (IAS 19)

### Description of the risk

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.

### How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and
- consider the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.

## Group accounts

### Description of the risk

The Council has determined that group financial statements are required for the first time this year, to consolidate the transactions of the Council with Sunderland Care and Support Ltd, Care and Support Sunderland Ltd and Sunderland Live Ltd. As this is a new and significant accounting development for the Council, there is a risk of material misstatement.

### How we will address this risk

We will work with officers as they develop the Council's approach to group accounts. Our work on group accounts will include:

- a review of the Council's arrangements to consolidate the accounts of the component entities;
- seeking to rely on the work of the auditors of the component entities;
- reviewing the consolidation process and ensuring that the group accounts are consistent with the audited accounts of each component.

## Equal pay settlements

### Description of the risk

The Council has lost a number of Employment Tribunals and appeals, and is now looking to settle equal pay cases; the cases are complex, but it is expected that a significant settlement might be reached before the financial year end and payments made. Issues over the accounting treatment of provisions, and the application of capitalisation directions, make this a technically complex area and there is a risk of material misstatement.

### How we will address this risk

We will review the accounting treatment of equal pay settlements in the 2013/14 accounts.

## Key areas of management judgement

### Property, Plant and Equipment – depreciation, revaluations and impairments

#### Description of the area of judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Council's balance sheet and to carry out impairment reviews.

These involve management judgements over the useful lives and valuations of assets.

#### Our planned audit approach

We will evaluate the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the property, plant and equipment system.

In addition, we will undertake a range of substantive procedures including:

- substantive sample testing of depreciation, revaluations and impairments per the disclosure note to the financial statements;
- review and evaluation of the work of the in-house valuer, including the valuer's report; and
- consideration of regional valuation trends.



# 04 Value for Money Conclusion

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We set out below the significant risks that we will address through our work.

## VFM risks

### Description of the risks

The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.

### How we will address these risks

We will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and seek to minimise any adverse impact on services. We will review project plans for a sample of savings proposals and consider the arrangements in place for delivery.

# 05 Your audit team

Below are your audit team and their contact details.

Engagement lead  
(Director)

- Mark Kirkham
- Tel: 0191 383 6300 or 07747 764 529
- Email: mark.kirkham@mazars.co.uk

Engagement Senior  
Manager

- Gavin Barker
- Tel: 0191 561 1917 or 07896 684 771
- Email: gavin.barker@mazars.co.uk

Team Leader (Assistant  
Manager)

- Catherine Eddowes
- Tel: 0191 561 1918 or 07881 283 344
- Email: catherine.eddowes@mazars.co.uk

In addition to the above, for major audits, an independent partner is appointed to provide independent review and challenge to the audit team as part of our quality assurance arrangements.

Independent Partner

- Suresh Patel
- Tel: 0207 063 4609 or 07768 777 043
- Email: suresh.patel@mazars.co.uk

# 06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2013/14 Proposed Fee	2013/14 Scale Fee	2012/13 Actual Fee
Code audit work	£179,562	£179,562	£179,562
Port of Sunderland Accounts, agreed as an addition to the scale fee by the Audit Commission <sup>1</sup>	£0	£0	£3,500
Certification work	£15,600	£15,600	£16,050
<b>Total fee</b>	<b>£195,162</b>	<b>£195,162</b>	<b>£199,112</b>

<sup>1</sup> = This was an addition to the scale fee in the 2012/13 audit. It is as yet unclear whether an audit of Port of Sunderland accounts will also be required in 2013/14.

## Non-audit services

We have carried out a number of non-audit services for the Council, and these are summarised below:

Non-audit services	2013/14 Actual Fee	2012/13 Actual Fee
Review of Fees and Charges	£15,650	£0
Review of Advertising	£14,850	£0
Review of Internal Audit	£3,500	£3,500
Tax advisory services	£1,500	£0
<b>Total fee</b>	<b>£35,500</b>	<b>£3,500</b>

# Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham, Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

The following principal threats to our independence and associated safeguards have been identified:

Issue	Perceived threat	Safeguards and procedures
Provision of tax advisory services.	There is a potential threat (the self review threat) to our independence requiring safeguards.	The tax advice covers areas that could be subject to review during our audit. The safeguards we have in place are that this work is being undertaken by tax experts and is a completely separate engagement to the audit led by a specialist tax partner. This approach is consistent with that suggested in the ethical standards for auditors.

# Appendix B - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and financial statements;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We have set materiality at the planning stage at £7,700,000 with a clearly trivial threshold of £231,000 below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officer remuneration and emoluments, members' allowances and the audit fee as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

# Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points to you.

Relevant points that need to be communicated to you at each stage of the audit are outlined below.

## **Form, timing and content of our communications**

We will present to the Audit and Governance Committee the following reports:

- our Audit Strategy Memorandum;
- our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit and Governance Committee and their comments will be incorporated as appropriate.

## **Key communication points at the planning stage as included in this Audit Strategy Memorandum**

- our responsibilities in relation to the audit of the financial statements;
- the planned scope and timing of the audit;
- significant audit risks and areas of management judgement;
- our independence;
- responsibilities for preventing and detecting errors;
- materiality; and
- fees for audit and other services.

## **Key communication points at the completion stage to be included in our Audit Completion Report**

- significant deficiencies in internal control;
- significant findings from the audit;
- significant matters discussed with management;
- our conclusions on the significant audit risks and areas of management judgement;
- unadjusted misstatements;
- management representation letter;
- our proposed draft audit report; and
- independence.

# Appendix D – Forthcoming accounting and other issues

The 2013/14 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. Officers from the Council's finance function attended workshops that provided full details of the changes in the 2013/14 Code, as well as a forward look to potential future accounting changes that may be of relevance to the Council. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

## Forthcoming accounting issues

PFI/PPP arrangements	How this may affect the Council
The 2013/14 Code includes augmented provisions on service concession (PFI/PPP) arrangements. This clarifies that accounting requirements in respect of PFI assets under construction.	Potential for the recognition point for PFI assets (and associated liabilities) to be earlier than in previous years where the recognition criteria in section 4.1 of the Code have been met.
Employee benefits	How this may affect the Council
The Code includes changes as a result of the adoption of the amended IAS 19 Employee Benefits.	<p>The main potential impacts of the changes are:</p> <ul style="list-style-type: none"> <li>• changes in terminology used for some entries in the Council's Comprehensive Income and Expenditure Statement and disclosure notes;</li> <li>• minor changes to the recognition point for termination benefits that may either delay or bring forward the recognition of expenses such as redundancy payments;</li> <li>• significant changes to the format and content of relevant disclosure notes; and</li> <li>• changes to the classification, recognition and measurement of post-employment benefits.</li> </ul> <p>Where these changes have a material impact on the financial statements, it is likely the Council will need to restate their 2012/13 comparative entries.</p>
Business rates appeals	How this may affect the Council
As a result of the introduction of the business rates retention scheme from 1 April 2013, local authorities are now responsible for meeting a proportion of the costs of successful rating appeals from local businesses.	It is likely that the Council will recognise a provision in its financial statements to recognise the cost of funding future successful rating appeals by local businesses.





**AUDIT AND GOVERNANCE COMMITTEE**

**28 March 2014**

**EXTERNAL AUDITOR - AUDIT PROGRESS REPORT**

**Report of the Head of Financial Resources**

**1. Purpose of Report**

- 1.1 To enable the Committee to consider and comment upon the external auditors' (Mazars) regular Audit Progress Report covering the period up to March 2014.
- 1.2 The report will be presented by Gavin Barker, the Council's Senior Engagement Manager.
- 1.3 The reports are a regular feature on this agenda and are aimed at providing updates of the progress made by our external auditor in meeting and fulfilling their role and responsibilities to the Council.
- 1.4 Members will be aware from the earlier item on the agenda that the Audit Strategy Memorandum 2013/2014 has been finalised which sets out the main risks identified by the auditor for both the Council's Statement of Accounts and Value for Money opinion for 2013/2014. These risks are however considered reasonable for an authority of our type and size.
- 1.5 The report also highlights emerging issues and developments that may be relevant and of interest to members in their role on the Audit and Governance Committee. These are detailed in pages 5 to 7 of their report.

**2. Recommendations**

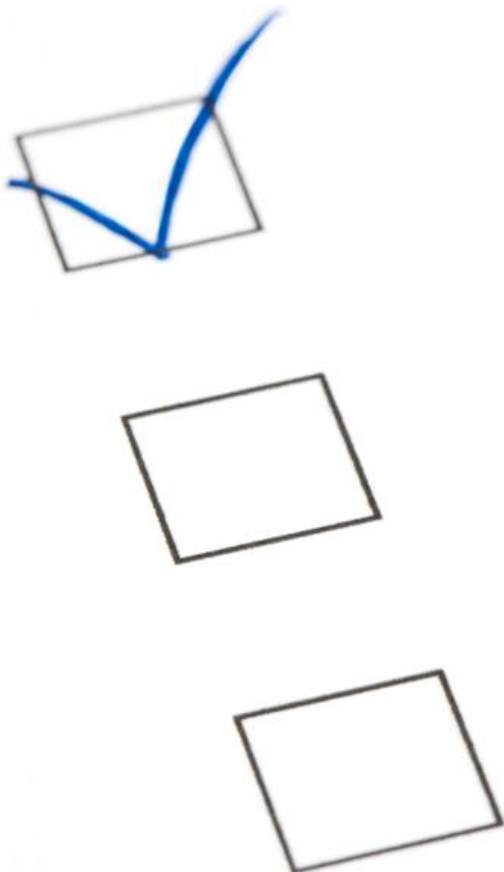
- 2.1 Members are asked to note the attached report.



# Sunderland City Council

## Audit Progress Report

March 2014



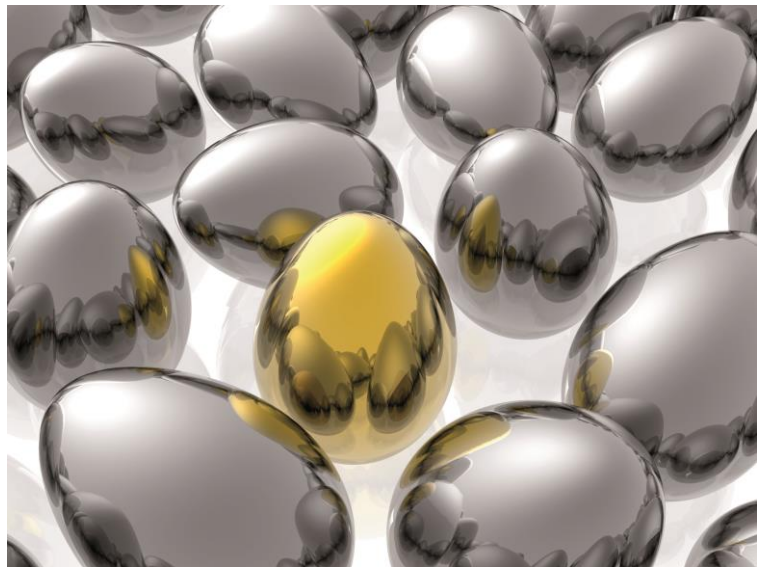
# Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Emerging issues and developments
- 04 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority 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, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

# 01



## Purpose of this paper

This paper updates the Audit and Governance Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

# 02

## Summary of audit progress



In February 2014, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2013/14 statement of accounts. These workshops were well attended and well received by our clients. The Council's officers were represented at the workshop.

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

We are now starting our detailed work.

# 03

## Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments:

- Future of Local Audit: Consultation on Secondary Legislation, DCLG – Responses to the Consultation
- The Local Audit and Accountability Act 2014

# Emerging issues and developments

Issue / development	Implications
<p><b>Future of Local Audit: Consultation on Secondary Legislation, DCLG – Responses to the Consultation</b></p> <p>As discussed at the February 2014 Committee meeting, this consultation included whether the local authority accounts production timetable should be brought forward.</p> <p>The results of the consultation have now been published and the responses in relation to the accounts timetable are reproduced below.</p>	<p>If the accounts timetable is brought forward this would impact on the Authority’s accounts production processes.</p> <p>The responses to the consultation can be found at:  <a href="https://www.gov.uk/government/consultations/future-of-local-audit-consultation-on-secondary-legislation">https://www.gov.uk/government/consultations/future-of-local-audit-consultation-on-secondary-legislation</a></p>

5.12 Question 16 sought views on whether to bring forward the local government accounts timetable and what practical issues this change might raise. Many respondents provided detailed replies, and we are particularly grateful for the information on the practical implications of implementing such a change. A small

number of local authorities and accounting organisations either simply supported an advance of the timetable, or agreed in principle that it was desirable. But most respondents were opposed to a change, or argued that now was not an appropriate time. In many cases opposition was based on a view that the additional work involved in earlier publication could not be justified when public interest in the accounts was so limited and authorities were under financial pressure. Another concern raised was that earlier publication would be achieved at the expense of accuracy, unless additional resources could be devoted to the task.

5.13 A number of more specific practical issues were raised. Many respondents drew attention to the phasing of external audit work that is now possible, with NHS audits undertaken first and then local authority audits. An advance of the local government timetable would compress the auditors’ work programme, resulting in extra costs that might be passed on in higher audit fees. Some respondents made a link with the issue of simplification of the accounts raised in responses to question 15 which might assist an advance in the timetable. Reference was also made to some significant accounting developments in prospect in the next few years, such as changes in the valuation of transport infrastructure assets, which would be difficult to achieve when an authority was adjusting to a tighter timetable. Respondents supported the proposal to give notice of a change at least 12 months before the beginning of the year, in some cases recommending a longer period.

Source: DCLG, Consultation on secondary legislation, summary of responses, 10 March 2014



# Emerging issues and developments

Issue / development	Implications
<p><b>The Local Audit and Accountability Act 2014</b> On 30 January 2014 the Local Audit and Accountability Act 2014 (the Act) received Royal Assent.</p> <p>The Act sets out fundamental reforms to the local audit regime. The Audit Commission will close on 31 March 2015 and a residuary body will oversee the audit contracts let by the Commission until they expire.</p>	<p>A summary guide for Audit and Governance Committee members is attached on the next two pages.</p>

# The Local Audit and Accountability Act 2014

## *A summary guide for Audit Committee members*

### Introduction

On 30<sup>th</sup> January 2014 the Local Audit and Accountability Act 2014 (the Act) received Royal Assent.

The Act sets out fundamental reforms to the local audit regime. The Audit Commission will close on 31 March 2015 and a residuary body will oversee the audit contracts let by the Commission until they expire.

The new responsibility of local public bodies to appoint their own auditor will come into effect on the expiry of the existing Audit Commission contracts, and those contracts currently out to tender. It has yet to be determined whether these new contracts will be for 2 or 5 years, so the new arrangements will take effect from either the 2017/18 accounts or the 2020/21 accounts.

Although the Act provides an overall framework for the new local audit regime, much of the detail underpinning these fundamental changes will not be provided until the Secretary of State makes regulations to specify certain provisions.

In addition to changes affecting audit, the Act enables the Secretary of State to direct bodies to comply with the code of practice on local authority publicity, something bodies were previously required to have regard to. It also extends the council tax referendum provisions introduced in the Localism Act. This leaflet focuses on the audit changes.

The purpose of this briefing is to provide members with a summary of the principal provisions of the Act and to give an initial view of the impact that the Act may have on the audit of local government bodies.

### What are the key provisions?

#### Audit appointments

The Act sets out a new framework which requires local public bodies to appoint their own auditors. Appointments for any given financial year will have to be made by 31 December of the preceding financial year.

Bodies will be required to appoint their auditors at least once every 5 years and will be required to publish information about the appointment within 28 days of making the appointment.

#### Independent Audit Panels

With the exception of chief constables, relevant authorities are required to establish an 'Independent Audit Panel'. It will be the responsibility of the Panel to advise the body on the selection and appointment of an auditor. The Panel will also be required to monitor and maintain the independence of the auditor.

At some point in the future, the Secretary of State may make regulations that provide additional guidance on the role of the Panel or impose further requirements that are not contained within the Act itself.

The Act stipulates that Panels must:

- consist of a majority of independent members (or wholly of independent members); and
- be chaired by an independent member.

The Act provides further details on the criteria of an independent member. You are unlikely to qualify as an independent member if you have:

- been a recent member or officer of the body;
- been a recent member or officer of an entity connected with the body; or
- a relative who is a member or officer of the body.

## Collective Procurement

The Act allows bodies to procure audit services collectively by enabling the Secretary of State to make provision for the appointment of an auditor by an 'appointing person'. This is in response to the view that collective procurement may be more cost effective and efficient for bodies.

## Auditor eligibility

Schedule 5 to the Act provides details on who can act as a local auditor. It states that individuals or firms that were qualified to act as appointed auditors under the Audit Commission Act 1998 will continue to hold the relevant qualifications required to carry out local audits under the Act.

The Secretary of State will have the ability to make regulations that change who can be considered eligible as a local auditor.

## Auditor responsibility

The primary functions of the auditor will be largely unchanged, i.e. provision of:

- an opinion on the accounts (i.e. the accounts present a true and fair view and have been produced in accordance with proper practice); and
- a conclusion that the body has arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## Joint audits

The Act allows bodies to appoint joint auditors however it does not explain how this will work in practice. It may be possible, for example, for one auditor to carry out the value for money conclusion work and another auditor complete the audit of the statement of accounts.

## Role of the National Audit Office (NAO) and other bodies

The Act outlines how Audit Commission functions will be transferred to other bodies:

- the NAO will maintain a Code of Audit Practice and supporting guidance for auditors;
- the NAO will also carry out thematic value for money examinations; and
- the Cabinet Office will be responsible for data matching including the National Fraud Initiative.

## Rights of electors

The Act adopts the majority of the provisions of the Audit Commission Act 1998 in respect of the rights of the public to:

- inspect the statement of accounts;
- inspect documents and records which relate to the year of audit; and
- make an objection to the local auditor.

## Mazars and local audit

Mazars is committed to the provision of high-quality, specialised local audit and advisory services to local authorities, pension funds, blue-light organisations and health bodies. Our aim is to be the auditor of choice for public service bodies.

## Please get in touch

This briefing provides a summary of the impact of the Local Audit and Accountability Act. If you would like further information on how the Act is likely to affect your body and how we can support you in your transition to the new arrangements for public audit, please contact one of the team.

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Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registration number OC308299. A list of partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katherine's Way, London E1W 1DD. Registered by The Institute of Chartered Accountants in England and Wales to carry out company audit work.

# 04

## Contact details



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