

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 25 November 2011**

**Present: -**

Mr G N Cook in the Chair

Councillors Forbes, Rolph, Tate and Mr J P Paterson.

**Declarations of Interest**

The following Councillors declared personal interests in the reports listed below for the reasons indicated: -

Item 7 – Oversight of Financial Management in Local Authority Maintained Schools	Councillor Forbes Councillor Rolph Councillor Tate	School Governor in Local Authority Maintained Schools
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**Apologies for Absence**

Apologies for absence were received from Councillors Speding and T Wright.

**Minutes**

29. RESOLVED that the minutes of the meeting of the Committee held on 30 September 2011 be confirmed and signed as a correct record.

With regard to the query raised by Councillor Tate at the last meeting relating to the provision of IT services to the BSF schools, the Director of Commercial and Corporate services agreed to ensure a response was provided to Councillor Tate by Tom Baker, Head of ICT.

**Internal Audit Progress Report**

The Head of Audit, Risk and Procurement submitted a report outlining the progress of Internal Audit up to 4<sup>th</sup> November 2011, the areas of work undertaken and the

internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

Members' attention was drawn to Appendix 1 which showed the performance to date against the Key Performance Indicators (KPIs). All of the KPIs had been achieved or were on target with two exceptions. The percentage of recommendations implemented stood at 79% (excluding schools) against a target of 90%. This primarily related to Health, Housing and Adult Services however the recent direction of travel was positive and this would be kept under review. The other area related to the number of audits completed by the target date, which stood at 75% against a target of 80% due to the availability of staff as a result of the level of change occurring at this time. This was not of concern.

The overall audit opinion in all key risk areas was good or satisfactory, whilst noting that the opinions for some specific audits were unsatisfactory. Those audits being Adoption Allowances, Management of Employees in SWITCH, Access to IT systems and Asset Management – ICT equipment. These areas would be followed up and amended opinions reported as appropriate.

The Head of Audit, Risk and Procurement updated the Committee with regard to the Safeguarding Module which went live in October as planned. The relevant staff had received training in the revised procedures. The current ongoing review by the Directorate would fundamentally change the safeguarding model and new procedures would result from this. Once the new model was finalised the new procedures would be developed and implemented and staff trained accordingly. Progress in this area would continue to be kept under review and any matters of concern would be brought back to the Committee.

The Chairman enquired what the three unplanned audits that were ongoing related to and the Head of Audit, Risk and Procurement confirmed they related to the following:

- Use of the internet by employees for personal use. This was being undertaken to assess the impact of a policy change in this area;
- TechnoForge asset management ICT package; and
- Audit certificate in relation to Future Jobs Fund

Councillor Rolph queried whether the percentage of audits completed by the target date would be impacted by the increase in flexible working. The Head of Audit, Risk and Procurement advised that he was not concerned that the indicator was slightly off target. He explained that the process for carrying out audits was planned in advance and as such did not consider that the increase in flexible working would create difficulties.

In response to a question from Councillor Rolph regarding why the Management of Employees in SWITCH was currently unsatisfactory, the Head of Audit, Risk and Procurement clarified that the scope of this work was wide and covered the arrangements in place to minimise the cost of SWITCH. The key issues relating to the opinion included:

- the level of reduction in the use of agency staff was not as quick as had been expected;
- more action was needed to promote early retirement;
- at the time of the audit people in SWITCH were not being prioritised for vacant posts – this was now the case;
- a lack of readily available information regarding vacant posts due to the HR system not been promptly maintained; and
- a small number of secondments to another organisation had occurred but no agreement had been put in place and no financial recovery had taken place.

The Head of Audit, Risk and Procurement advised that SWITCH was a new innovative initiative and as such it was not surprising that it needed to continue to develop. The work had been done some months ago and the arrangements were being reviewed, developed and improved on an ongoing basis.

Councillor Rolph summed this up by referring to them as “teething problems”.

Councillor Forbes asked about why unsatisfactory opinions had been given for the two areas relating to IT. The Head of Audit, Risk and Procurement stated that most of the issues could be linked to the many changes occurring within the council at this time. As staff were moving around the organisation their access to IT systems and data was not always being amended promptly. The arrangements for tracking equipment as it moved around the council also needed to be improved.

Councillor Forbes asked if there had been a reduction in the number of staff allocated to identify fraud. The Head of Audit, Risk and Procurement informed the committee that there were currently approximately 20 members of staff in Internal Audit and Risk Management; and the proposals currently being developed would reduce these. There was a separate team to investigate benefit fraud which currently stood at 7.66 investigators. This would be reduced to approximately six. He explained that resource levels in Sunderland when compared to the region were in the mid range (per 1,000 caseload).

The Head of Audit, Risk and Procurement was confident that through improving the way in which the team worked performance could be maintained, or even improved, after the planned reductions. To illustrate why he was confident, he advised the Committee that the amount of resource within the team this year was approximately 0.5 posts less from last year, however through improvements already made the number of sanctions and overpayments had already increased.

The Executive Director of Commercial and Corporate Services highlighted that due to the severe financial cuts faced by the Council he had asked all service managers to review their services with the aim of maintaining or improving performance whilst reducing cost / resources. He confirmed that the approach that the Head of Audit, Risk and Procurement had taken was robust.

Councillor Forbes enquired whether the likelihood of an increase in benefit claimants had been taken into consideration when reviewing staff numbers. The Head of Audit, Risk and Procurement advised that the number of claimants had increased over the past few years from approximately 36,000 to just over 40,000, and that the

team had coped well. It was likely that the number of claimants had largely peaked, although this would be kept under review.

Having thanked the Head of Audit, Risk and Procurement for his report the Committee: -

30. RESOLVED that;

- i) the information be noted; and
- ii) an extraordinary meeting of the Committee is convened on 20 January 2012 to consider the proposals with regard to future arrangements for providing assurance.

### **Annual Audit Letter**

The Audit Commission submitted a report to consider the details of the Audit Commission's (AC) Annual Audit Letter (AAL) covering the year 2010/2011.

The AAL summarised the findings of the 2010/11 audit, which comprised two elements:

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

The AAL also provided an update on the position relating to the objections to the Accounts for 2007/08, 2008/09 and 2009/10.

The AAL was extremely positive overall providing a strong endorsement of the financial management and planning and governance arrangements in place across the Council.

The report provided an unqualified opinion on the financial statements and an unqualified VFM conclusion. The report confirmed that the Council:

- Has robust arrangements in place to ensure its financial resilience.
- Has a history of good financial management, robust systems of corporate governance and internal control and a strong record in the delivery of budgets.
- Had prepared for the economic challenges facing public services through the Sunderland Way of Working.
- Is committed to improvements in service delivery and outcomes, and has also identified significant savings.

The District Auditor commented that *"the financial statements presented for audit were of good quality, they complied with the new requirements of International Financial Reporting Standards (IFRS) and officers have once again been helpful in dealing with the audit and with our queries. This is a considerable achievement, as*

*compliance with IFRS created significant problems across the country and some authorities were unable to meet the statutory deadlines.”*

Following the conclusion of legal issues the DA has determined that no further action is required in response to the objections raised to the 2007/08 and 2008/09 accounts. As a result, he issued final certificates on 30 September 2011 to formally close the audits for 2007/08, 2008/09 and 2009/10, as well as that for 2010/11.

The District Auditor commented that the key challenges for the Council were to:

- Closely monitor the 2011/12 budget and take early action if budget savings are not being delivered
- Monitor service delivery and governance arrangements to ensure that standards are maintained during a period of significant change

The Chairman on behalf of the Committee endorsed how proud it was of the excellent financial health of the council and offered congratulations to the members of staff and Cabinet members involved.

31. RESOLVED that :-

- i) the contents of the report be received and noted; and
- ii) the report is referred to Cabinet and Council for their consideration along with the comments of the Committee.

### **Local Public Audit – Update on Procurement Process**

The Executive Director of Commercial and Corporate Services submitted a report to provide an update on the procurement process regarding the provision of local public audit over the next three to five years.

The Head of Audit, Risk and Procurement reminded Members that they were given an update at the last committee on the arrangements being put in place to provide local public audit in the future. The update explained that interim arrangements would be put in place whereby the Audit Commission would procure and appoint external auditors for public sector bodies for the next three or five years. Following this period public sector bodies would be free to procure their own external auditors.

The Committee were provided with a table which detailed the key milestones currently planned for the key stages of the procurement. This was intended as a guide and while the Commission did not intend to depart from the timetable it reserves the right to do so at any stage.

Having considered the information, it was:-

32. RESOLVED that the report be noted.

## **Oversight of Financial Management in Local Authority Maintained Schools**

The Executive Director of Commercial and Corporate Services submitted a report to provide an update on a report issued by the National Audit Office (NAO) with regard to the Department for Education's (the Department) oversight of financial management in Local Authority maintained schools.

The overall conclusion of the report was as follows:

*The Department is accountable to Parliament and the public for the proper management of the money given to schools. In the current financial environment, more schools are having to manage with reduced funding. Strong financial management in schools is more important than ever. The Department has set standards for financial management in maintained schools, and has a framework in place for gaining assurance which relies on local authority oversight of schools. The Department needs to know that this framework is meeting the intended objectives, and is capable of alerting it to systemic issues with schools' financial management that require action or intervention as they emerge.*

Following the review, the NAO made a number of recommendations to the Department which are designed to help meet the challenges of assuring effective financial management in the schools' system and these were set out in the report.

The Head of Audit, Risk and Procurement highlighted that internal audit work was still undertaken in schools on a 3 year cycle, as well as some work at the centre, and the current opinion relating to schools was 'good'.

The Council would monitor developments in this area and respond accordingly.

33. RESOLVED that the report be noted.

(Signed) G N COOK  
Chairman