

## AUDIT AND GOVERNANCE COMMITTEE

### AGENDA

**Meeting to be held in the Civic Centre (Committee Room No. 1) on  
Friday 29 September 2017 at 1.30pm**

ITEM		PAGE
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 21 July 2017</b>  (Copy attached.)	1
4.	<b>Risk and Assurance Map 2017/2018 - Update</b>  Report of the Head of Assurance, Procurement and Performance Management (copy attached).	9
5.	<b>Treasury Management 2017/2018 – First Quarterly Review</b>  Report of the Executive Director of Corporate Services (copy attached).	35
6.	<b>Annual Audit Letter 2016/2017</b>  Report of Mazars LLP (copy attached).	51
7.	<b>External Auditor Progress Report</b>  Report of Mazars LLP (copy attached).	69

ELAINE WAUGH  
Head of Law and Governance

Civic Centre, Sunderland  
20 September 2017

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

**Present:**

Mr G N Cook

Councillors O'Neil, Scullion, Speding and Wood.

**In Attendance:**

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

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Mr Knowles.

**Minutes**

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

**Annual Governance Review 2016/2017**

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

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

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

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

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

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

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

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

Having considered the report, it was: -

2. RESOLVED that: -

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

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

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

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

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

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

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

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

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

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

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

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

Having considered the report, the Committee: -

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

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

The Executive Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2016/2017 and the outcome of this work. The report was intended to demonstrate how the Committee had fulfilled its role and would be presented to the Council following consideration by the Committee.

The report set out the role of the Committee and the matters considered during the year which had included the Corporate Assurance Map, the Ofsted inspection of the Children's Safeguarding service, Information Governance arrangements, the Council's ICT disaster recovery and business continuity arrangements, the updated Strategic Risk Profile and new Corporate Risk Profile, the appointment of the Council's external auditors, Treasury Management and the annual Statement of Accounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. RESOLVED that: -

- (i) the contents of the Letters of Assurance from those charged with governance and those charged with discharging management processes and responsibilities be noted;
- (ii) the contents of the Letter of Representation be noted;
- (iii) the contents of the Audit Completion Report provided by Mazars LLP be noted; and



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

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

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

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

Members were reminded of the basis of the Borrowing Strategy for 2016/2017 and that it had been reviewed in June, September and December 2016. The strategy had agreed a benchmark financing rate of 4.00% for long term borrowing and the Council had taken advantage of low borrowing rate troughs which had occurred during the year and had taken out £20m of new borrowing at rates of 2.55% and 2.15%. Rates had not been sufficiently favourable for debt rescheduling in 2016/2017 but the Treasury Management Team continued to monitor market conditions and would secure early redemption if appropriate opportunities were to arise.

The Authorised Borrowing Limit for External Debt had been set as £541.902m for 2016/2017 and the Operational Boundary for External Debt was set as £458.953m and the authority was well within the tolerances for these.

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

Accordingly the Committee: -

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

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

The Executive Director of Corporate Services presented a report outlining the Treasury Management performance for the first quarter of 2017/2018 and setting out the Lending List Criteria and Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment return to the revenue budget. The Committee were advised that PWLB rates had fluctuated throughout 2016/2017 and

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

The Council's interest rate on borrowing was very low, currently 3.41%, and the authority benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.61% compared with a benchmark of 0.11%.

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

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

7. RESOLVED that: -

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

### **Public Sector Auditor Appointments**

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

(Signed) G N COOK  
Chair

**AUDIT AND GOVERNANCE COMMITTEE**

**29 September 2017**

**RISK AND ASSURANCE MAP UPDATE – 2017/2018**

**Report of the Head of Assurance, Procurement and Performance Management**

**1. Purpose of Report**

- 1.1 To enable the Audit and Governance Committee to consider the updated Strategic Risk Profile and Risk and Assurance Map based on assurances gathered from a range of sources and work undertaken by the audit, risk and assurance service during the year; and the performance of Internal Audit.
- 1.2 For completeness, the report covers Internal Audit's key performance measures. The report also covers work undertaken for the Council and Council owned companies.

**2. Description of Decision**

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

**3. Background/Introduction**

- 3.1 In May 2017 the Committee approved the proposed Risk and Assurance Map for 2017/18 and the plans of work for Internal Audit and Risk & Assurance. These plans of work are directly derived from the Strategic and Corporate Risk Profiles that were approved by the Committee in September and December 2016, respectively.
- 3.2 The Council's Corporate Plan and Corporate Delivery Plan have recently been updated which has resulted in a change to the Priority Themes and some of the risks in the Strategic Risk Profile, the details of which are explained in this report.

**4. Risk and Assurance Map**

- 4.1 The current Risk and Assurance Map is attached at Appendix 1 which has been updated to reflect the new Priority Themes. The Map has been updated to show the current cumulative risk score for each risk area as well as the cumulative assurance position.

### Strategic Risk Areas

- 4.2 The top section of the Map relates to the strategic risks identified in the Strategic Risk Profile. The current risk scores and assurances provided are shown in detail at Appendix 2.
- 4.3 The Strategic Risk Profile has been reviewed and updated in line with the new Corporate Delivery Plan and due to these changes it has been necessary to make a number of changes to the Strategic Risk Profile. These include:
- Developing new risks in consultation with Directorates, as follows:
    - R012: Unable to commission / procure flexible arrangements for the delivery of Place services, that will continue to respond to changing stakeholder requirements and deliver the required efficiency savings;
    - R018: Inability to change the structures (i.e. workforce, technology, processes, customer engagement), service capacity and culture of the company [TFC] to deliver the improved outcomes to vulnerable children;
    - R019: Activity to improve the care options for Adults does not meet the needs of individuals or result in reduced costs to the Council;
    - R020: Agitators use national issues / incidents to heighten tensions in local communities in Sunderland.
  - Revising existing risks and, in some cases, moving them under a new Priority Theme. The three that have been reworded now read as follows:
    - R002: Sunderland is not fully aligned with the approach and aspirations of regional working and is therefore unable to take advantage of the opportunities presented by the growing north east economy to benefit the people of Sunderland.
    - R003: Local workforce does not have the required skills to take advantage of the growing north east economy;
    - R010: Opportunities are not taken to regenerate the coast in a timely manner or development is restricted by a lack of resources.
  - Reviewing the risks which are still relevant and, where appropriate, moving them to a new Priority Theme.
- 4.4 Currently the cumulative risk scores and assurance position are updated on a quarterly basis with the relevant senior officers. The crosses in the assurance columns show where assurance is expected to be received from. Members will see that there is positive assurance regarding actions being taken to manage the risks in relation to a number of the strategic risk areas.

### Corporate Risk Areas

- 4.5 The middle section of the Map shows the cumulative risk scores and the assurance levels relating to the risks identified in the Corporate Risk Profile. The detail is shown in Appendix 3. The risk area of Health and Safety has

been updated with the risks, risk scores and mitigating actions; an audit of the arrangements is included within the Internal Audit Plan for the year. Work is ongoing to develop assurance arrangements for this risk area with the Corporate Health and Safety Team.

- 4.6 The assurance level for Information Governance from Internal Audit remains limited, although developments are continuing through the implementation of the requirements of the General Data Protection Regulations. An audit of this is planned for later in the year.
- 4.7 An audit of the Council's ICT disaster recovery / business continuity arrangements has been included within this year's operational plan. The assurance level will be kept under review as these developments continue.
- 4.8 The red assurance level in relation to Cyber Security is the result of an audit undertaken some time ago. An audit is planned within the current year to re-assess the arrangements now in place

#### Council Owned Companies

- 4.9 The bottom section of the Map shows the Assurance position in relation to Companies that are wholly owned by the Council and are part of the group for the financial statements. The new housing company, Sunderland Homes Ltd., has been added and a programme of audit work is being developed. The first audit of Together for Children Ltd. is almost complete. This is regarding the effectiveness of relationships between services, specifically in relation to children, that were transferred to the Company and those that remained with the Council.

#### Assurance from Internal Audit

- 4.10 The audits to be carried out this year and the detailed results of Internal Audit work are shown at Appendix 4, with the summary outcomes shown on the Map. Appendix 4 shows all of the opinions, including those from previous years, which have been considered in determining the overall assurance level. Those audits shown in grey are those in previous years where it became not appropriate to complete the audit at that time or in that way.
- 4.11 Developments are continuing in relation to Information Governance and preparation for the implementation of the General Data Protection Regulations. A new project Board has been established consisting of senior officers within the Council to monitor the implementation.
- 4.12 The Assurance rating/level provided regarding the overall Council's ICT arrangements remains Amber. Audits covering Cyber Security and ICT Strategy and Infrastructure are planned and an audit of the Disaster Recovery arrangements has started.

#### Assurance from Risk and Assurance Team

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

- Major capital schemes such as the New Wear Crossing and the development stage of the SSTC Phase 3, the International Advanced Manufacturing Park, and existing enterprise zones.
- Development of the governance arrangements for Together for Children Sunderland Ltd.
- The planned upgrade of SAP and its associated procedures.
- Risks in relation ICT business objectives, including disaster recovery/business continuity and implementation of Office 365 (move to the Microsoft cloud).
- Replacement of the SWIFT ICT system (Liquid Logic).
- Information Governance.
- Corporate Health and Safety Arrangements.
- Results of the matching exercise carried out by the National Fraud Initiative.
- Adults Safeguarding Board, and Personal Budgets/Direct Payments.
- Risk management support for events, including the Airshow and Tall Ships.

#### Assurance from others within the Council

4.14 Assurance provided from others within the Council is shown in the Risk and Assurance Map. All assurances remain the same as last reported apart from ICT which has moved to Green from Amber. Developments are ongoing to gather assurance in relation to Together for Children Ltd.

#### Assurance from Management

4.15 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

4.16 The Map includes assurance from relevant external sources. Positive feedback continues to be received from the OFSTED monitoring visits. A full inspection is expected over the next few months.

#### Overall

4.17 The overall assurance levels are either Green or Amber apart from Cyber Security.

- 4.18 The Risk and Assurance Map was considered by the Chief Officer Group on Tuesday 12<sup>th</sup> September 2017 and the issues raised above highlighted.

## **5. Internal Audit Performance**

- 5.1 The performance in relation to targets set for Internal Audit is shown at Appendix 5.

- 5.2 Performance is on target for KPI's apart from:

- The percentage of medium risk recommendations implemented for the Council and Schools is shown below.

Area	Implementation Rate
Council services	89%
Schools	85%

## **6. Conclusions**

- 6.1 This report provides an update on the assurance provided in the Risk and 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 overall opinion that the Council continues to have in place 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 Strategic Risk Profile and Risk and Assurance Map.





## Risk and Assurance Map

Strategic and Corporate Risk Areas		
	Current Risk Score	Cumulative Assurance Position
<b>Strategic Risk Areas</b>		
Growing the Economy		
Promoting Better Living & Working		
Maximising the Cultural Offer		
Leading Place Shaping		
Improving Education and Skills		
Improving Health and Wellbeing		
Protecting Vulnerable Children		
Protecting Vulnerable Adults		
Building Resilient Communities		
<b>Corporate Risk Areas</b>		
Commissioning		
Strategic Planning		
Service/Business Planning		
Service Delivery Arrangements		
Performance Management		
Partnership/Integrated Working		
Procurement		
Relationship/Contract Management		
Legality		
Risk Management		
Performance Reporting		
Strategic Financial Management		
Financial Reporting		
Financial Management		
Income Collection		
Capital Programme Management		
HR Management		
Health and Safety		
ICT Infrastructure		
Cyber Security		
Information Governance/Security		
Business Continuity Management		
Programme and Project Management		
Asset Management		
Anti-Fraud and Corruption		
<b>Council Owned Companies</b>		
Sunderland Care and Support Ltd.		
Together for Children Sunderland Ltd.		
Sunderland Homes Ltd.		

2017/18										
1st Line	2nd Line								3rd Line	
Management Assurance	Other Internal Assurance Activity								Internal Audit	External Assurance
	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR &OD	Business Continuity	Risk and Assurance		
		X	X	X				X		
				X				X		
				X				X		
				X				X		
			X	X				X	X	
		X	X	X				X		
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X		X		X					X	X

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



STRATEGIC RISK PROFILE 2016-20

Appendix 2

															Assurance															
																	1st Line		2nd Line								3rd Line			
Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Original score (Sept 2016)			Target score			Mitigating Actions	Action Lead	Timescale	Current Score		Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance		
						Impact	Likelihood	Rating	Impact	Likelihood	Rating				Impact	Likelihood													Rating	
Planning City Growth	R001	Councils contribution to the 3,6,9 Vision fails to deliver the required outcomes	Uncertainty following BREXIT leading to greater caution by Investors. Reduction In Public Sector Budgets/Funding leading to a reduction in resources Proposed projects and actions do not deliver sustainable benefits	Delay in regenerating the city and its key themes of Economy, Housing, Connectivity, Culture and Education	Economic Masterplan 3,6,9 Vision Council officers attend ELB	4	3	12	4	2	8	Develop and implement a process to monitor and review progress of the 3,6,9 Vision delivery plan. Key milestones are reflected in the Corporate Plan and monitored through project governance and performance management arrangements.	Executive Director of Place and Economy	Year one actions from the 3 6 9 Plan delivered: March 17	4	3	12	Growing the Economy				X	X				X			
Planning City Growth	R002	Sunderland is not fully aligned with the approach and aspirations of regional working and is therefore unable to take advantage of the opportunities presented by growing the North East Economy,to benefit the people of Sunderland.	Sunderland continues to carry out activities in isolation in areas where there is a regional approach supported by regional funding	Sunderland's ambitions could be at risk due to activity co-ordinated through regional strategies. Missed opportunities for investment and development of skills	Corporate Plan	4	4	16	4	2	8	Officer and Members to be fully aligned with regional opportunities and work proactively to develop the region whilst protecting the interests of Sunderland	Chief Executive / Director of Strategy, Partnerships and Transformation	Realignment of Sunderland position and understanding of the impacts of recent developments  December 2017	4	3	12										X			
Planning City Growth	R003	Local workforce does not have the required skills to take advantage of the growing North East economy.	There is insufficient educational/vocational provision in the city to fulfil the needs of employers	City and individuals will not have the skills to take advantage of economic development	Education and Skills Partnership	4	4	16	4	3	12	Facilitate collaborative working between employers, education/skills providers and students Inform and influence education/skills providers regarding the priorities for employers Identifying the knowledge and skills required by employers	Director of Strategy, Partnerships and Transformation	01 March 2018	4	4	16										X			
Planning City Growth	R004	The Local Plan produced by the Council is not accepted by the Planning Inspectorate	The Planning Inspectorate do not accept that our growth aspirations are supported by appropriate evidence and consultation.	Land is not allocated for the appropriate type of development eg housing development. We are unable to take land out of the greenbelt Loss of New Homes Bonus if plan not agreed by March 17	National Planning Policy Framework DCLG Project Plan, Project Board and governance arrangements Regular Liaison with PINS	3	3	9	3	1	3	Undertake the appropriate research, analysis and consultation to provide the evidence base to the Planning Inspectorate to show that our Plan is sound. Key milestones are reflected in the Corporate Plan and monitored through Project Board and performance management arrangements.	Executive Director of Place and Economy/Head of Planning & Regeneration	Local Plan passes inspection. (date TBD by Gov.)	3	2	6			X				X			X			
Sector Growth	R005	Unable to attract commercial / manufacturing interest to our development sites	Target sectors including automotive, low carbon, and offshore engineering, do not prosper under Brestl ( we are no longer seen as a route into Europe) Supporting infrastructure is not in place to attract business	Fail to grow the local economy, create jobs	Economic Masterplan 3,6,9 Vision	4	3	12	4	2	8	Monitor and review the actions being undertaken to incentivise / support industries to prosper in the city to achieve targets and outcomes. IAMP project and Vaux project (Siglion) have robust project governance arrangements.	Executive Director of Place and Economy	IAMP adoption December 2017 DCO submission late 2017 Enterprise Zone Phases 1B and 2 infrastructure works Construction complete September 2018	4	2	8				X	X	X				X			
Sunderland as a Place to Invest	R006	Failure to provide appropriate conditions to support viable / sustainable investment opportunities in the City, including effective marketing.	Investors requirements are not satisfied in relation to; land, skilled workforce, housing, physical and digital connectivity	Fail to grow the local economy, create jobs and increase business rates.	3,6,9 Vision	4	3	12	4	2	8	Developing the appropriate infrastructure Obtaining external funding to develop infrastructure Effective marketing to encouraging a diverse range of investors	Executive Director of Place and Economy	01 March 2018	4	2	8				X		X				X			
Regenerating the City Centre	R007	Failure to attract investment to support regeneration of the City Centre	Developer uncertainty as to the return they will receive on their investments due to macro economic issues Delays in obtaining planning permission to develop the sites.	Decline of the City Centre and loss of business rates	Siglion business plan City Centre Masterplans Sunderland BID (Business Improvement District)	4	3	12	4	2	8	Masterplanning underway in further areas (Holmeside, Minster Quarter, Sheepfolds, Sunnyside). Continue to engage and consult with developers and other stakeholders at the pre planning application stage to help streamline the process. Siglion projects have robust project governance arrangements. Bid submitted for balance of Station funding. Other capital projects monitored and reported. Funding team horizon scanning and preparing funding bids.	Executive Director of Place and Economy/Head of Planning & Regeneration	Vaux Building 1 handed over to Council Summer 2018 Holmeside Masterplan October 2017 Minster Quarter Masterplan agreed March 2017 Sunderland Station project reinvigorated funding bid Autumn 2016.	4	2	8													

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact Likelihood	Rating	Impact Likelihood	Rating	Mitigating Actions	Action Lead	Timescale	Impact Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance	
Connecting the City	R008	Failure to realise the economic regeneration / benefits, arising from the investment in the SSTC programme.	The land adjoining the transport corridor is in private ownership and the Council has no direct control over investment activity	Local economy is not expanded by new and developing businesses.	SSTC programme MAKE it Sunderland	3	3	9	3	2	6	Engage with landowners and key stakeholders to support development of targeted sites. Robust governance for SSTC2 project. SSTC3 scoping work underway to achieve project within budget. SSTC 485 - funding bid submitted July 2016.	Chief Operating Officer Place/Head of Infrastructure & Transport	Bridge Contract completion date February 2018 SSTC3 Planning application Dec 16 New Road completed Nov 19	3	3	9	X		X	X				X		
More and Better Housing Development	R009	Housing developers are not attracted to Sunderland	Uncertainty following BREXIT leading to greater caution by developers in opening new sites Diverse housing market requirement including student accommodation better care housing and executive homes Reduction in home owners and an increasing rental sector Delays in agreeing a Local Plan which sets out the areas	Fail to improve the housing offer to retain and attract residents to Sunderland	Housing Strategy Siglion business plan	3	3	9	3	2	6	See above re Local Plan. Incentivise developers and put in place enabling infrastructure. Programme activity so that developers are ready to submit planning applications as soon as the Local Plan is adopted. SCC property disposal programme. Siglion housing sites in progress. SCC Housing Delivery Plan in preparation	Executive Director of Place and Economy/Chief Operating Officer Place	Delivery Plan to be produced September 2016 Seaburn planning application determined June 2017. Housing Strategy agreed by Cabinet June 2017	3	2	6	Promoting Better Living and Working									
10) Regenerating the Coast	R010	Opportunities are not taken to regenerate the coast in a timely manner or development is restricted by lack of resources	Failure to obtain Coastal Communities CC4 funding	Unable to increase the housing offer, develop businesses, increase visitors or add to the cultural offer of the City	Seaburn Masterplan	3	2	6		3	1	3	Seaburn phase 1 to deliver apartments and commercial space	Executive Director of Place and Economy/Planning Implementation Technical Manager	December 2019	3	3	9									
11) Developing the Cultural Offer	R011	City's cultural offer does not contribute to the city being an attractive and vibrant place to invest, work, learn, live and visit	The Partnership is not successful in delivering cultural ambitions	Reduced opportunity to attract additional tourism, lack of contribution to the wellbeing of citizens	Cultural strategy Culture Company established with agreed remit and areas of focus Successful fundraising bid for National Portfolio Organisation funding Shortlisted for City of Culture 2021	3	2	6		3	1	3	Further develop the role of the Culture Company in terms of delivering the cultural offer, potentially through the management of cultural venues Submit final bid for City of Culture 2012	Executive Director of People Services	April 2017 January 2017	3	2	6	Maximising the Cultural Offer							X	
High Quality and Sustainable Envir	R012	Unable to commission / procure flexible arrangements for the delivery of Place services, that will continue to respond to changing stakeholder requirements and deliver required efficiency savings.	A restrictive contract may not allow future changes to services whilst continuing to deliver savings Unable to meet all stakeholder expectations including Members and Trade Unions	Fail to deliver good quality and cost effective Place services	Options appraisal Cabinet report	4	2	8		4	1	4	Options appraisal to take into account changing future requirements and budget envelope.	Chief Operating Officer-Place	Dec-17	4	2	8	Leading Place Shaping						PD?		
Ready for School, Ready for Work, Ready for Life	R013	The Council is not able to fulfil its statutory responsibility and/or achieve desired outcomes for Children and young people	Local authorities no longer control, direct or dictate education provision but they still have a statutory duty to "promote fulfilment of potential" There are further challenges and opportunities arising from the creation of Together for Children	Children and young people do not have the skills, attributes, qualifications and experiences to release their full potential	Contract clearly sets out what is to be delivered by together for Children Ltd, managed monthly through the operational Commissioning Group and Performance clinics Member reference group being established to review the position after the first 6 months Provision of nursery places for 3 year olds will be in place for September apart from Barnes which will be completed by	4	4	16	3	2	6	Contract monitoring arrangements with Together for Children to continue to monitor delivery and performance	Executive Director People Services	March 2018	3	3	9	X		X				X	X		
Improving Health and Wellbeing review and transform key public Health outcomes.	R014	Partner's resources and priorities are not aligned to achieving common outcomes of the Health and Wellbeing Board	Financial pressures on public services results in a move away from prevention to short term fixes Effective early interventions are not taking place to reduce long term health problems	Health and wellbeing standards are not raised	Health & Wellbeing Board Priority Delivery Plans Joint Strategic Needs assessment	4	3	12	4	2	8	Undertake a review of the priorities to be delivered by the Health & Wellbeing Board. Meetings to be arranged between the Health and Wellbeing Board and Economic Leadership Board	Director of Public Health	March 2018	4	3	12		X	X				X			
Transform Key Children's Services - Looked After Children, Early Help and Social Care	R015	Safeguarding practice does not substantially improve to make children safer.	There is not a clear understanding of what "Good" looks like. Lack of swift and appropriate decision making	Children are not adequately safeguarded	Ofsted Inspections Scrutiny Improvement Plan Together for Children, Culture and Policies.	4	4	16	4	2	8	Deliver the improvement plan that has been agreed with Ofsted Embed a culture of good performance and quality	Director of Children's Services	March 2018	4	3	12			X						X	
Transform Key Children's Services - Looked After Children, Early Help and Social Care	R016	Timely interventions are not undertaken to deliver early help/support to vulnerable children	Children's needs are not clearly understood and effectively addressed Issues are often complex requiring a multi agency response	Children become increasingly at risk Increased number of Children in care	Ofsted Inspections Performance management Improvement Plan	4	4	16	4	3	12	Children and families in need of help are identified and multi-agency services act together to improve outcomes	Director of Children's Services	March 2018	4	3	12										

Corporate Plan Priority actions	ID	Strategic Risk Description	Cause	Impact	Current Controls	Impact Likelihood	Rating	Impact Likelihood	Rating	Mitigating Actions	Action Lead	Timescale	Impact Likelihood	Rating	Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance	
Transform Key Children's Services - Looked After Children, Early Help and Social Care	R017	Timely and sustainable solutions are not implemented for looked after children to improve the life chances for the most vulnerable children in the city	Assessments and Care Plan reviews do not provide the right help at the right time	Children remain in care for longer periods than necessary and are at a higher risk of becoming NEET	Ofsted Inspections Adoption Process Scrutiny Performance management Improvement Plan	4	4	16	4	2	8	Looked-after children have access to high quality care planning, review and support. They are supported in stable care placements and have access to and attend good schools	Director of Children's Services	March 2018	4	3	12				X				X		X
Transform Key Children's Services - Looked After Children, Early Help and Social Care	R018	Inability to change the structures (ie workforce, technology, processes, customer engagement), service capacity, and culture of the company to deliver the improved outcomes to vulnerable children.	Lack of capacity, resources, will or expertise to effect change. Lack of adequate planning. Poor management of change	Children remain at risk Children do not realise their full potential Children and families do not receive the support and care they need Council may have to provide further financial resources to support children's services.	Improvement Plan Business Plan for company approved by both Company and Council (commissioner) to ensure aligned to delivery of Council priorities and objectives. Monitoring of performance by Company and Council.	3	3	9	3	2	6	Delivery and close scrutiny of Improvement Plan and act on any areas for improvement identified during each Ofsted monitoring visit.  Delivery and close scrutiny of Business Plan for Company.  Implementation of recruitment & retention strategy.  Directors to manage budgets with appropriate support from Finance. This includes monthly meetings with Budget Holders and formal reporting arrangements to TIC Board, OCG and the Council. A Base Budget review exercise will be completed to inform options available.	Director of Children's Services	March 2018	3	3	9								X		
Choice and Independence in Care	R019	Activity to improve the care options for adults does not meet the needs of individuals or result in reduced costs to the Council	Solutions do not provide for increased independence and therefore require more expensive provision	Unable to provide vulnerable adults with effective choice over their care Savings not achieved Significant additional cost to the Council	Assistive technology delivery plan in place Technology Forum set up to consider ideas for solutions Capital invest to save bid submitted De-registration of homes for adults with physical and mental health problems almost complete Review of more flexible service delivery methods being undertaken	3	2	6	3	1	3	Deliver the assistive technology delivery plan Develop assessment criteria for considering options brought to the technology forum Consider options for providing electronic needs assessments	Executive Director of People Services	December 2017 September 2017  July 2018	3	2	6	Protecting Vulnerable Adults							X		
Community Safety & Cohesion	R020	Agitators use national issues / incidents to heighten tensions in local communities in Sunderland	Terrorist incidents are blamed on specific ethnic / faith groups, raising anxiety in areas where they live in Sunderland	Sections of the community become isolated.Young people become radicalised through fear.	Safer Sunderland Partnership Citywide Prevent Action Plan Monthly cohesion meeting with lead Superintendent from Northumbria Police chaired By Director of Strategy, Partnerships and Transformation. Regular consideration of Community Tension Assessments from Northumbria Police. Significant issues raised weekly with Chief Officer	4	2	8	4	1	4	Support Partners to improve community safety and maintain high levels of feelings of safety for all	Director of Strategy, Partnerships and Transformation	September 2018	4	2	8	Building Resilient Communities							X		
Welfare Reform	R021	Individuals do not maximise their access to welfare benefits	Individuals do not understand the support available following benefit reforms	Increased poverty and homelessness	Health & Wellbeing Board Priority Delivery Plans	4	3	12	4	2	8	Challenge practice and systems at a national level Work with partners to support people to help themselves to minimise impact of welfare reform	Head of Integrated Commissioning	March 2018	4	3	12			6	X				X		



CORPORATE RISK PROFILE

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

4				
3				
2				
1				
	1	2	3	4

Negative Impact

ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Original score (Dec 2016)		Target score		Mitigating Actions	Source of Assurance	Current score		
						Impact Likelihood	Rating	Impact Likelihood	Rating					
R01	Commissioning	Commissioning decisions are not based on appropriate intelligence	Appropriate intelligence is not gathered, e.g. performance data is incomplete, is out of date, or is not appropriately analysed or assessed to determine the needs of the community Do not engage with the appropriate sectors of the community / market	Ineffective use of limited resources. Customers outcomes are not achieved resulting in more expensive interventions being required.	JSNA Community engagement arrangements	4	2	8	4	1	4	4	2	8
R02		Most appropriate and cost effective commissioning option to meet identified needs and achieve commissioning priorities and outcomes is not chosen	Failure to identify and evaluate all the possible commissioning options of delivering services taking into account the resources available. Failure to build or shape capacity in 'market' and cooperative working eg partnerships to enable effective service options to be place to help achieve commissioning priorities and outcomes Inadequate options appraisal process Lack of resource or expertise	Commissioning priorities and objectives are not achieved so community needs not being met. Ineffective use of limited resources.	Procurement and Commissioning Guidance	4	2	8	4	1	4	4	2	8
R03		Commissioning assessment process is not undertaken on a timely or regular basis.	Inadequate resources Insufficient forward planning for contracted services	Changes in need of community are not identified promptly Inappropriate use of limited resources Community's real needs are not met Existing contracts extended where it may not be the optimal solution		4	2	8	3	1	3	4	2	8
R04	Strategic Planning	The priorities set out in the Corporate Plan do not align with the defined needs of the community	Corporate planning process does not adequately reflect the views of the community. Various sections of the community are not engaged	Fail to contribute to the welfare and future prosperity of our communities	COG JLT Corporate Planning Process	4	2	8	4	1	4	4	1	4
R05		Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans	Lack of timetable re corporate / service planning Lack of communication plan	Lack of delivery of plans by those partners/services responsible	COG JLT Corporate Planning Process	4	3	12	4	2	8	4	2	8
R06	Service / Business Planning	The service planning process does not deliver all the actions to achieve the Corporate priorities	Service Planning process does not identify all the actions required to achieve corporate priorities Individuals/service responsibility for delivery of strategic planning actions not identified or communicated Strategic planning process not completed prior to service planning.	Fail to contribute to the welfare and future prosperity of our communities		3	3	9	3	2	6	3	2	6
R07		Service/business plans are not communicated to relevant officer responsible for delivering plan task.	Lack of communication plan	Delay in or lack of delivery of business plan tasks.		4	2	8	4	1	4	4	2	8
R08	Service Delivery Arrangements	The level of services delivered by the council do not meet customer expectations	Lack of financial resources to invest in changing arrangements Lack of benchmarking to identify service development opportunities Lack of management time to consider delivery improvements Capability issues	Required outcomes for customers not achieved Reputational damage Wasted resources	Business Planning Process Performance management arrangements Transformation Programme	4	3	12	4	1	4	4	2	8
R09		Service delivery arrangements are not resilient	Lack of tested business continuity and disaster recovery plans	Required outcomes for customers not achieved Reputational damage Wasted resources	Corporate business continuity arrangements	4	3	12	4	2	8	4	3	12
R10	Performance Management	Performance management arrangements do not identify if all priorities are being achieved	Meaningful performance indicators are not identified in relation to all priorities / outcomes	Unable to establish if outcomes are being achieved	Performance management framework Performance reviews	4	2	8	4	1	4	4	1	4
R11		No or inappropriate performance targets are set to define acceptable performance	Lack of knowledge as to realistic targets	Unable to understand if performance levels are acceptable		3	3	9	3	2	6	3	3	9

Appendix 3

Assurance											
Overall Assurance	1st Line	2nd Line							3rd Line		
	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
Commissioning	X								X	X	
	X		X						X	X	X
	X								X	X	
Strategic Planning	X				X				X	X	
	X				X				X	X	
Service / Business Planning					X					X	X
	X									X	X
Service Delivery Arrangements	X				X				X	X	
	X							X		X	
Performance Management	X				X					X	
	X				X				X	X	

	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating		Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance			
R12		Management fail to take prompt effective action in response to performance results reported or fails to follow up to ensure remedial action is effective	Lack of time to consider performance Performance information not accurate, timely or understood Management not held to account for performance Lack of resource or control to make necessary changes	No or delay in action taken to improve service which may have major impact on customers Poor reputation for Council	Corporate Performance management Performance Clinics	3	3	9	3	1	3	Management review performance on a regular basis and take appropriate action to rectify unacceptable performance	Corporate Performance management arrangements Internal Audit		3	1	3
R13	Partnership / Integrated Working	Partner(s) do not perform their planned tasks as intended to deliver partnership objectives Objectives and priorities of Council and other partner(s) conflict/not aligned	Reducing resources forces partners to concentrate on their own priorities at the expense of partnership priorities Lack of communication of plans between partners Lack of partnership performance monitoring	Unable to achieve City/council priorities and support communities	Partnership Boards Economic Educational, Health & Wellbeing	4	3	12	4	2	8	Performance management arrangements include a review of the achievement of outcomes where partners have some responsibility for delivery	Corporate Performance management Internal Audit		4	3	12
R14		Lack of understanding by each partner as to objectives, and nature of partnership (e.g. responsibilities, if applicable, sharing of profits, costs or losses, dispute resolution, governance, decision making, planning, risk sharing)	Lack of formal comprehensive written partnership agreement	Resources wasted on dispute resolution or clarify arrangements. Delay in delivery of plans and outcomes for community		4	3	12	4	2	8	Partnership agreement in place with each partners setting out the expectations of each party and the required reporting arrangements	Governance questionnaire Internal Audit		4	3	12
R15	Procurement	The product or service procured does not deliver the intended outcomes	Poor specification Lack of understanding what is needed by commissioner Poor communication between commissioner and procurement Inadequate evaluation process	Fail to obtain value for money Objectives/outcomes are not achieved Most appropriate commissioning options are not obtained	Commissioning process Procurement Procedure Rules	3	1	3	3	1	3	The Council's procurement procedures are followed and good procurement practice is undertaken	Internal Audit Governance Questionnaire Risk and Assurance		3	1	3
R16		Procurement breaches legal and Council requirements.	Lack of procurement procedure rules and training Lack of knowledge of legal/Council requirements Failure to adhere to requirements (deliberate, e.g. corruption or accidental)	Legal/finacial penalties Challenge, delays in award Loss of reputation	PPRs in place Procurement have skilled staff CP support council officers	2	1	2	2	1	2	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process	Internal Audit		2	1	2
R17		Value for money not obtained	Lack of competition Corruption Inappropriate specification Poor procurement planning Goods/services used not subject to competitive process	Poor quality of goods/services and customer service Pay higher prices - waste of scarce resources		3	2	6	3	1	3	Commissioners engage with Corporate procurement in enough time to undertake an appropriate and legal procurement process	Internal Audit		3	2	6
R18	Relationship / Contract Management	Contracts do not deliver the required objectives/outcomes	Lack of clear contract/specification provisions in place to allow effective management of the contract Lack of appreciation of importance of contract management during the procurement process Lack of clarity of clear measures and standards required by commissioner in specification to allow for contract management post award	Fail to obtain value for money, i.e. pay too much or poor service obtained Objectives are not achieved Excessive resources used on dispute resolution	Contract management framework Corporate Procurement support to officers	4	3	12	4	2	8	The new Head of Contractual Relationships will improve the skills in this area and will ensure that appropriate contract management arrangements are in place for all key procurements undertaken by the Council	Governance questionnaire Internal Audit		4	3	12
R19	Legality	Council fails to act within its statutory powers	Lack of Constitution, Procedure rules and / or delegation scheme etc. Constitution, procedure rules, delegation scheme are not communicated or understood by officers Decision makers have lack of access to legal expertise Lack of awareness of officers as to their legal responsibilities Changes in law are not recognised and implemented	Councils actions are found to be ultra vires Financial penalties Legal challenge Loss of reputation Delay in delivery of outcomes	Constitution and Procedure Rules	3	1	3	3	1	3	Review of key decisions by Law and Governance	Law and Governance Governance questionnaire Internal Audit		3	1	3
R20	Risk Management	Fail to identify and manage the major risks and opportunities to delivering priorities and plans	Risk Management process is not aligned with delivering priorities Management do not have resources for, or do not appreciate the importance of risk and opportunity management Risk appetite of the Council is not identified and communicated	Priorities are not achieved Loss of reputation Potential financial penalties	Risk management policy and strategy	3	2	6	3	1	3	The Council's strategic and corporate risks are identified, assessed and managed through EMT and the Audit and Governance Committee Service Planning process to identify key risks	Risk and Assurance Team Audit and Governance Committee		3	2	6
R21	Performance Reporting	Performance reporting fails to give a full and accurate picture of the progress in achieving corporate priorities and outcomes	Performance reporting does not address all priority issues Performance measures are inappropriate Performance targets not set to aid evaluation of performance Performance data reported is inaccurate, out of date, difficult to understand or incomplete Performance reporting not timely	Reporting does not identify if achievement of all priorities are on track or if interventions are required Appropriate remedial actions are delayed.	Corporate Performance Reporting Framework	3	1	3	3	1	3	Further developments to the reporting of performance in relation to the achievement of outcomes and priorities, including the use of an appropriate ICT solution.	Corporate performance management Internal Audit		3	1	3
R22	Strategic Financial Planning / MTFS	Strategic financial plans do not align to Council priorities, objectives and direction as set out as part of the corporate plan	Corporate and financial planning processes are not coordinated to allow plans to be aligned. Financial planning process does not involve consultation with key decision makers in Council both councillors and officers.	Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched.		4	2	8	4	1	4	The Corporate Plan Delivery Plan will need to be refreshed / updated in line with the agreed budget	Head of Transformation Financial Resources		4	1	4
R23		Strategic financial plans fail to take into account all critical factors likely to affect the Council's finances moving forward, e.g. changes in government funding streams, changes in amounts of funding, inflation, pay awards, potential liabilities, demand for services, current financial performance, level of financial reserves needed, planned projects etc.	Poor intelligence gathering or horizon scanning Lack of resources Lack of consultation/communication with senior officers	Decisions made with inaccurate information Plans made which are not adequately resourced Failure to achieve plans and outcomes for community Council financial resources overstretched		3	1	3	3	1	3	Appropriate consultation and intelligence gathering is undertaken in assessing the Council's short to medium term financial position	Financial Resources External Audit		3	1	3
R24	Financial Reporting	Financial reporting fails to reflect on how financial changes in one area impacts on other areas of the council	Financial savings in one area may have a more than proportionate increase in other service areas	Efficiencies are not achieved	Financial Reporting Procedures	3	1	3	3	1	3	The Council's financial position is regularly reported to the Executive Management Team and Members	Financial Resources		3	1	3

Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
	X				X					X	
Partnership / Integrated Working									X	X	X
	X									X	
Procurement	X								X	X	
									X	X	
										X	
Relationship / Contract Management	X				X				X	X	
Legality	X	X							X	X	
Risk Management	X								X	X	
Performance Reporting					X					X	
Strategic Financial Planning / MTFS			X	X						X	
			X							X	X
Financial Reporting			X							X	



ID	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact Likelihood	Rating	Impact Likelihood	Rating	Mitigating Actions	Source of Assurance			
R25		Financial reporting fails to give a full and accurate picture of the progress to achieving corporate financial priorities and targets	Financial reporting does not address all priority issues Financial performance measures are inappropriate Financial targets not set to aid evaluation of performance Financial performance data reported is inaccurate, out of date, difficult to understand or incomplete Financial performance reporting not timely	Financial reporting does not identify if achievement of all priorities are on track or if interventions are required Appropriate remedial actions are delayed.	Corporate Performance Reporting	3	1	3	3	Financial performance reporting is aligned to performance reporting to identify any potential inaccuracies on inconsistencies	Financial Resources Corporate Performance Management	3	1	3
R26	Financial Management	Management fail to manage financial performance or take appropriate prompt effective action in response to poor financial performance results reported.	Lack of time to consider performance Performance information not accurate or understood Management not held to account for performance Lack of resource or control to make necessary changes	No or delay in action taken to improve finances Poor reputation for Council	Financial management framework	3	1	3	3	The financial management framework ensures that managers are regularly review their financial performance and are taking appropriate remedial action where necessary.	Financial Resources	3	1	3
R27		The Council fails to pay its employees (and those of other clients) on time	Lack of resources to process the changes to the payroll Lack of a clear timetable for the submission of information Lack or payroll staff with the required training	Delay in making salary payments Claims from employees for costs incurred for late payment of bills Loss of reputation as a payroll provider	Policies and procedures in place for operating the payroll system	3	1	3	3	Controls in place to ensure that the payroll runs are complete and accurate operate efficiently	Internal Audit	3	1	3
R28		The Council fails to make payments to its suppliers and clients on time	Lack of resources to process the required payments Lack of controls in place to ensure payments are processed per the required timescales	Loss of reputation with suppliers Claims for interest for late payments	Procedures in place within the Purchase to Pay system	3	1	3	3	Procedures required for making payments on time are up to date and fully understood by staff within the payments service	Internal Audit	3	1	3
R29		The Council fails to process payments for housing benefit accurately or on time	Poor assessment procedures Lack of timetable for assessing claims Delay in the processing of claims	Customers do not receive the correct amount of benefit resulting in financial hardship Customers receive their payments late causing unnecessary debt	Assessment procedures and performance indicators in place	4	1	4	4	Established procedures are in place and followed by adequately trained staff for the assessment and processing of benefit claims	Internal Audit	4	1	4
R30	Income Collection (including CT/NNDR)	Council fails to bill and or promptly collect the income that is due to it	Lack of resources Inadequate procedures for raising accurate bills Inappropriate methods to allow customers to pay bills Over generous credit terms Economic conditions increase the number of bad debtors Procedures fail to identify non payments Ineffective enforcement of credit control arrangements	Financial loss. Unable to balance the budget	Financial procedure rules	3	1	3	3	Regular monitoring that the income received is in line with that expected as per the Council's budget	Financial Resources Internal Audit	3	1	3
R31		Prosperity within the City fails to grow resulting in the expected level of income being uncollectable	Number of businesses in the City reduces or does not grow Increased number of families suffering financial hardship Debts increase and become harder to recover	Financial loss Negative impact on cashflow Inability to achieve financial targets	Economic regeneration activity	4	3	12	4	Clear performance measures and regular monitoring of the debtor position	Financial Resources Internal Audit	4	3	12
R32	Capital Programme Management	Capital projects do not support the delivery of strategic priorities and desired outcomes	Capital projects are based on available funding and not linked to priorities. Inadequate business cases for projects	Priorities are not delivered City does not have the required infrastructure Poor integration of city developments	Capital Programme Board	3	1	3	3	The Capital Programme is directly aligned to the Council's Corporate Plan and strategic priorities	Financial Resources Internal Audit	3	1	3
R33		The intended benefits of external funding for capital projects are not maximised	Lack of awareness of funding conditions Poor planning Poor monitoring of projects Unforeseen delays in projects	Loss of funding Council resources used to fill funding gaps Other planned projects postponed	Capital Programme Board	3	3	9	3	Corporate approach to planning and monitoring of the delivery of the wider benefits of the Capital Programme	Financial Resources Internal Audit	3	3	9
R34	HR Management	The council does not have the required skills and capacity to deliver the City's priorities	Shrinking workforce leading to a reduction in capacity and skills Rapid loss of key/senior officers and associated expertise Lack of effective workforce planning to ensure Council has workforce to meet needs of Council going forward Insufficient resources to maintain effective HR management resource and arrangements Insufficient training and development	Delay or increased costs in delivering priorities	Monthly performance management arrangements for KPIs	3	3	9	3	Workforce planning strategy in place that is appropriately monitored to ensure it is effectively implemented	Head of HR and OD Internal Audit	3	3	9
R35		Reduction in productivity and morale of workforce	Increasing workloads Instability due to ongoing changes Job insecurity Impact of Workforce Transformation, i.e. pay protection ending	High absence/sickness rates Stress related absence Lower standards of service delivery Increased costs	Monthly performance management arrangements for KPIs	4	3	12	4	Recognition of reduced capacity Employees feeling valued and supported	Governance questionnaire Head of HR and OD Internal Audit	4	3	12
R36		The Council fails to protect the health and safety of its employees, customers and visitors to its buildings	Lack of an assessment of the health and safety risks Failure to take action to minimise the risks Lack of awareness of employees on the actions to take to keep people safe	Death or injury to an employee, customer or visitor Resultant financial claims Loss of reputation	Health and safety policies and procedures and regular reporting of H&S Pis.	4	2	8	4	Manager understand the requirements of undertaking health and safety risk assessments in line with corporate guidelines and are capable of appropriately assessing the risks and taking corrective action	Head of HR and OD Internal Audit	4	2	8

Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
			X		X					X	
Financial Management	X		X						X	X	X
										X	X
										X	X
										X	X
										X	X
Income Collection (including CT/NNDR)			X							X	X
			X						X		
Capital Programme Management			X						X	X	
									X	X	
HR Management	X						X		X		
	X						X			X	
	X						X				

	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance				Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance		
R37	Health and Safety	Council officers do not fully understand H&S roles and responsibilities	1) Roles and responsibilities not clearly documented and/or communicated effectively 2) Loss of knowledge from organisational change and staff churn. 3) Ineffective training and awareness programme 4) Lack of easy access to relevant documents on the Hub	1) Lack of ownership and accountability for H&S 2) Inconsistent approach to the management of H&S issues across directorates, divisions and teams. 3) Reduced compliance with quality standards and best practice. 4) Inability to adequately prevent incidents occurring. 5) Inadequate documentation and controls leading to injury and death.	1) Corporate Health and Safety Team	4	3	12	3	2	6	1) H&S Strategy/Policy to be reviewed/revised to include: - Clear description of the council's legal responsibilities - Roles and Responsibilities of Corp. H&S Team, CoG, Directorates, HoS, Managers, Premises Mgrs., officers. - Responsibilities for compliance and reporting requirements. - How awareness will be raised and maintained. - How the Policy will be implemented 2) Review/develop arrangements to effectively coordinate and oversee H&S Training programme across the council 3) H&S responsibilities to be included in leaver handover arrangements	Head of HR and OD Internal Audit	4	3	12	Health and Safety								X		X	X		
R38		The council's key H&S risks are not identified, understood or agreed	1) Lack of effective coordinated corporate approach to the identification of H&S risks. 2) Lack of awareness or prioritisation of H&S across Chief officers, managers and operational colleagues. 3) Lack of clear responsibilities of premises managers, landlords and leaseholders	1) Key H&S risks not effectively managed leading to injury or death of the public, staff, suppliers or partners. 2) H&S legal duties not fulfilled and/or demonstrated 3) Reduced oversight and accountability at strategic and operational levels across the council leading to uninformed decision making. 4) None compliance with quality standards. 5) Litigation and adverse PR.	1) Corporate Health and Safety Team	4	3	12	3	2	6	1) Establish corporate approach for the effective identification of key corporate H&S risks across the council 2) H&S risk register to developed and communicated across senior officers together with clear roles and responsibilities for the ongoing management and delivery of agreed actions.	Head of HR and OD Internal Audit	4	3	12											X			
R39		Appropriate action plans are not developed and agreed to manage the council's key H&S risks	1) Lack of joined up corporate approach to the management of H&S risks 2) Lack of effective process to develop clear and robust action plans to establish relevant controls and officer ownership.	1) Effective controls not established and/or operated appropriately. 2) Inconsistent and disjointed approach across the council to the management of shared risks leading to confusion and mismanagement of control systems.	1) Corporate Health and Safety Team 2) Health and Safety Audits	4	3	12	3	2	6	1) Review effectiveness of H&S Management System and agree any areas for development. 2) Establish corporate governance arrangements to develop and agree risk action plans, and oversee the H&S agenda, including (but not limited to): - Maintenance of H&S Policy - Maintenance programme - Testing plan - Building security - Employee protection - Monitoring and reporting of delivery of action plans and effectiveness of existing controls - H&S Training delivery	Head of HR and OD Internal Audit	4	3	12												X		
R40		Strategic approach to incident management does not adequately inform decision making	1) Lack of understanding of responsibilities and accountability for incident response. 2) Non-compliance with incident reporting arrangements 3) Limited trend analysis and learning lessons from incidents 4) Availability of quality data/information to inform effective reporting to CoG	1) Ineffective decision making. 2) Implementation of inappropriate controls. 3) Existing controls not reviewed and revised in response to learning from incidents becoming out-of-date and ineffective. 4) Avoidable repetition of incidents.	1) Corporate Health and Safety Team 2) Annual Health and Safety Report	3	3	9	3	1	3	1) Monitor compliance with incident reporting arrangements and address any areas for development. 2) Establish arrangements to provide assurance that controls have been reviewed following organisational/staffing changes or incidents. 3) Arrangements to be developed to ensure lessons are learned from incidents. 4) Trend analysis to be complete to inform regular reporting to CoG.	Head of HR and OD Internal Audit	3	3	9											X			
R41	ICT Infrastructure	The ICT infrastructure is not fit for purpose (i.e. not meet needs of Council, not reliable, too expensive)	Reducing resources impacts upon the ability to maintain a stable infrastructure Lack of funds to maintain/upgrade infrastructure Lack of understanding of importance of role of ICT in delivering more efficient and effective services Lack of understanding of extent of reliance on ICT Lack of expertise and time to understand Council IT needs and to design and implement appropriate solution Lack of planning Fragmented and numerous IT systems used by Council historically Lack of communication between management and ICT of Council needs and how ICT support	Disruption to service provision impacting on delivery of priorities Waste of financial resources due to excessive cost Less efficient and effective service delivery Loss of productivity	ICT development plan	4	2	8	4	1	4	The ICT strategy is clearly aligned to the priorities of the Council and the direction of travel for the provision of Council Services	ICT Internal Audit Business continuity officer	3	2	6	ICT Infrastructure	X					X		X	X	X			

	Risk Areas	Risk Description	Cause	Impact	Current Controls	Impact	Likelihood	Rating	Impact	Likelihood	Rating	Mitigating Actions	Source of Assurance				Overall Assurance	Management Assurance	Law and Governance	Financial Resources	Programmes and Projects	Performance	ICT	HR and OD	Business Continuity	Risk and Assurance	Internal audit	External Assurance
R42		ICT infrastructure is not resilient to 'disasters'	Lack of planning for disasters (prevent or respond to) No adequate business continuity/disaster recovery ICT infrastructure in place Lack of business continuity/disaster recovery plan which hss been tested Key employees not briefed as to their disaster recovery responsibilities	Disruption to service provision impacting on delivery of priorities Loss of productivity Waste of financial resources due to excessive cost Less efficient and effective service delivery Loss of productivity		4	3	12	3	2	6	Disaster recovery plans clearly linked to the provision of critical services, regularly tested and the recovery timescales reflected in the business continuity plans for critical services	ICT Internal Audit Business continuity officer	4	2	8		X					X		X	X	X	
R43	Cyber Security	The Council unnecessarily exposes itself to vulnerabilities & threats, both internal & external, (e.g. hacking, phishing, denial of service attack) as a result of its connection to the internet resulting in an increased exposure to the confidentiality, integrity & availability of systems & information	Lack of appreciation by management of threat/risks of cybercrime to Council's operations Low priority given to cybersecurity Lack of cybercrime prevention culture created (lack of cybersecurity policies and procedures (prevention and response), lack of ongoing employee training/awareness) Lack of monitoring of alerts/warnings, e.g. no Security & Incident & Event Management (SIEM) solution in place Lack of investment in existing infrastructure increases level of vulnerability PCIDSS vulnerability test results not actioned in suitable time scales Lack of resources Lack of understanding of what valuable data the Council holds	Loss of public trust, customer confidence, finance and reputational damage Fines / compensation Loss of systems or data loss Major business disruption.	Strategic Information Governance Group Operational Information Governance Group	4	3	12	4	2	8	A Cyber security Strategy is in place, including threat assessment, development plan and response plan	ICT Internal Audit	4	3	12	Cyber Security						X			X	X	
R44	Information Governance / Security	Council's data is not accurately protected	Information and data can be lost, stolen, exposed or corrupted through inadvertent human error and inherent weaknesses in existing information and data security arrangements. The Council is not aware of the data it holds or ensures that it is complete and accurate. Protection arrangements do not prevent unauthorised access and use of data.	Loss of public trust and reputational damage Fines / compensation	Strategic Information Governance Group Operational Information Governance Group	3	3	9	3	2	6	Council has appropriate information governance and security arrangenets in place which are complied with throughout the organisation	Law and Governance Governance questionnaire Internal Audit	3	3	9	Information Governance / Security	X	X							X	X	X
R45	Business Continuity Management	The Council's business critical services cannot function in the event of an incident	Business Continuity Plans not up to date, reviewed or revised to reflect organisational, procedural and staff changes Business continuity plans are not tested appropriately	Services are unable to respond in adverse conditions	Corporate Business Continuity Group Business Continuity plans	4	3	12	4	2	8	Business continuity plans are reviewed and tested on a regular basis	Business Continuity Officer Internal Audit	4	3	12	Business Continuity Management	X							X	X	X	
R46		Lack of awareness of content of business continuity plans	Lack of effective communicatoin strategy Lack of testing	Services are unable or slow to respond appropriately to disasters when occur affecting services to community, safety of individuals Loss of reputation		4	3	12	4	2	8	Relevant staff are made aware of the content of the business continuity plans and understand theor role in implementing them	Business Continuity Officer Internal Audit Governance questionnaire	4	3	12		X							X		X	
R47	Programme / Project Management	Programmes and projects fail to deliver the desired benefits and outcomes	Lack of agreed Project Management Standards Lack of Project Plans and Governance Lack of monitoring of achievement	Fail to obtain value for money. Programme and Project objectives are not achieved	Corporate Project /Programme management arrangements	3	2	6	3	1	3	The expected benefits of programmes and projects are clearly set out at the start and their achievement monitored throughout	Prohect Office Risk and Assurance Internal Audit	3	2	6	Programme / Project Management	X				X				X	X	X
R48	Asset Management	Opportunities are not taken to maximise the use of assets (land and property). Assets are not fully utilised	Council does not "sweat" its assets to obtain the maximum returns Fail to maintain property Changes in size and direction of Council and services it provides Lack of asset management planning Changes in how services delivered Changes in technology Assets become uneconomic to run Lack of investment in asset management planning Council unaware of assets it owns	Fail to increase council income. Fail to decrease costs	Asset Management plan	3	3	9	3	2	6	The use of Council assets are monitored on an ongoing basis, particularly in response to changing staffing levels and changing service delivery models	Internal Audit	3	3	9	Asset Management					X				X	X	
R49		Lack of appropriate maintenance of physical assets	Lack of resources Lack of planning Lack of monitoring or conditions of assets	Assets unable to be used so poor service to customers Waste of financial resources Lack of safety to the public or employees		4	3	12	4	2	8	Condition of assets to be monitored on an appropriate basis and maintenance scheduled as required	Internal Audit	4	3	12		X									X	
R50	Anti Fraud and Corruption	Council fails to prevent, detect and investigate acts of fraud and corruption	Relaxation of controls due to a reduction of resources Lack of antifraud culture created Lack of anti fraud and corruption procedures embedded into processes	Financial loss and loss of resources that could have spent on achieving priorities	Anti fraud and corruption policy	2	2	4	2	2	4	Managers are aware of the fraud risks within their area and maintaine appropriate controls baring in mnd changes to service delivery and staffing levels	Governance questionnaire Internal Audit	2	2	4	Anti Fraud and Corruption	X									X	



## Internal Audit coverage

Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions		Scope of 2017/18 Audit	Overall Opinion
Commissioning	Commissioning	L			Commissioning		Audit of commissioning decisions not managed through transformation programme, could also include procurement and contract management activity - People Directorate	
Strategic Planning			Corporate Service Planning Arrangements	S	Service/Business Planning		Audit of compliance, including service/business planning for 2017/18	
Service/Business Planning	Community and Family Wellbeing		Transformational Change Programme	M	Service/Business Planning		Audit of compliance, including service/business planning for 2017/18	
	Adoption Service		Corporate Service Planning Arrangements	S				
	Multi Agency Safeguarding Hub		Ethos					
	Commissioning	L						
	Corporate Service Planning Arrangements	S						
Service Delivery Arrangements	Community and Family Wellbeing		Better Care Fund	M	Corporate Performance Management	S	Compliance with corporate performance arrangements to be audited in 2017/18	
	Adoption Service		Transformational Change Programme	M				
	Multi Agency Safeguarding Hub		Leaving Care Grants	L				
	Safeguarding and Quality Assurance Unit		Ethos					
	Commissioning	L	Business Continuity Planning					
	Personal Budgets	S	Bereavement Services	S				
	Accounting/General Ledger	S						
Performance Management	Multi Agency Safeguarding Hub		Corporate Performance Management Arrangements	S	Corporate Performance Management	S	Compliance with corporate performance arrangements to be audited in 2017/18	
	Community and Family Wellbeing		Adult Services Performance Management					
	Capital Programme Funding and Monitoring Benefits Realisation	S L						

Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions		Scope of 2017/18 Audit	Overall Opinion
	Safeguarding and Quality Assurance Unit							
Partnership /Integrated Working	Follow Up of 2014/15 audit		Partnerships	S	Corporate Partnership Arrangements		A review of the level of compliance with the new Partnerships Code of Practice	
			North East Local Enterprise Payment of Loans and Grants (including repayment of loans)	S				
Procurement	Commissioning	L	Agency Workers - Off contract spend	L	Commissioning		Audit of commissioning decisions not managed through transformation programme, could also include procurement and contract management activity - People Directorate	
	Revenue Procurement	M			Revenue Procurement		Audit of procurement process for a sample of low value spends in 2017/18	
					Homecare Payments		To look at process for making payments to homecare providers	
Relationsip/Contract Monitoring	Commissioning	L	Leisure Services Management	S	Contract Management - Public Health School Nursing Service		Audit of the contract management arrangements in place for Public Health School Nursing Service contract	
	Contract Management - Sunderland Care and Support	M	LABV Client Arrangements	M	Commissioning		Audit of commissioning decisions not managed through transformation programme, could also include procurement and contract management activity - People Directorate	
	LABV	L	Highways Contract Monitoring	M	Together for Children Contract Monitoring		Audit of contract management arrangements for Together for Children in 2017/18 in line with the new corporate arrangements	
	Capital Programme Funding and Monitoring Benefits Realisation	S L						
Legality	Constitution	M	Employment Clearances	L				
Risk Management								
Performance Reporting			Corporate Performance Management Arrangements	S	Corporate Performance Management	S	Compliance with corporate performance arrangements to be audited in 2017/18	
			Adult Services Performance Management					
Strategic Financial Planning/MFTS	Coporate Service Planning Arrangements	S			Provision for significant financial liabilities	S	To look at the process followed for estimating the Council's outstanding liabilities for equal pay claims and the value and type of funds set aside	
Financial Reporting	Accounting/General Ledger	S	Better Care Fund	M	Budget Setting and Management		To look at the arrangements in place for budget setting and management/monitoring	
			Transformational Change Programme	M				

Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions		Scope of 2017/18 Audit	Overall Opinion
Financial Management	EFA/SFA Funding	S	Leaving Care Grants	L	Budget Setting and Management		To look at the arrangements in place for budget setting and management/monitoring	
	Local Transport Capital and Integrated Transport Grants	S	Bereavement Services	M	Payroll compliance testing		To include testing of loss of protection end of March 2017	
	Troubled Families Performance Reward Funding	S	North East Local Enterprise Partnership Payment of Loans and Grants (including repayment of loans)	S	BACS Compliance testing	S	Transaction testing on a sample of BACS transactions	
	Personal Budgets	L	Agency Workers - Off contract spend	L	Housing Benefit Assessment		Audit work to review the changed arrangements and ensure that they are working as intended and not leading to increased risk of fraud and error.	
	Financial Verification of Leavers from the Direct Payments Scheme	S	EFA/SFA Funding	S	Sport for Life Grant		Grant review	
	Commissioning	L	Local Transport Capital and Integrated Transport Grants	S	EFA Funding		Grant review	
	Personnel Administration Arrangements		Troubled Families Performance Reward Funding	S	Local Transport Capital Settlement	S	Grant review	
	LABV	S	City Deal (which replaces Big Coastal Communities Grant for which there is no audit requirement)	S	Local Transport Integrated Transport	S	Grant review	
	Accounting/General Ledger	S	Disabled Facilities and Social Care Capital Grants (replaces Sunderland a City by the Sea grants for which there is no audit requirement)	S	Nexus (Combined Authority)	S	Grant review	
	BACS Processing	S	Sport for Life Grant		Pothole Action Fund	S	Grant review	
	Accounts Payable	M	SSTC2	S	City Centre Cycle Permeability Scheme		Grant review	
	Benefits Administration	S	Adult Social Care Contributions					
	Payroll	M	Port Fuel System	L				
	Autism Innovation Grant	S	Payroll	S				
	Agency Workers (Unplanned)	N	Asset Register/Capital Accounting	S				
	Go Smarter to Work Grant	S	Accounts Payable	M				
			Pension Arrangements	S				

Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions		Scope of 2017/18 Audit	Overall Opinion
Income Collection (including CR/NNDR)	Port Income	M	Income	S	Cash Receipting, collection of Council Tax, NNDR, AR and PI	S	Audit of Cash Receipting process	
	Cash Receipting	S			Business Rate Recovery		Audit of Business Rates Recovery	
	Accounts Receivable	S			Council Tax Recovery		Compliance Testing	
	Periodic Income	S			AR Recovery		Compliance Testing	
	Business Rates Liability	S						
	Business Rates Revised Billing	S						
	Enforcement Section	S						
Capital Programme Management	Capital Programme Funding and Monitoring	S						
	Benefits Realisation	L						
HR Management	SAP Organisation Structures	M	Employment Clearances	L	Workforce Planning and Apprenticeship Scheme		Audit of workforce planning to determine how well the Council is managing the changes to its staffing profile, including within the HR service. Review of the arrangements to comply with the apprenticeship levy	
	Induction Procedures	M	Ethos					
	Code of Conduct/Whistleblowing	M	Agency Workers - Off Contract	L				
	Personnel Administration Arrangements		Payroll	S				
	Agency Workers (Unplanned)	N	SAP Organisation Structures	S				
			Personnel Administration Arrangements	M				
			Pension Arrangements	S				
Health and Safety					Corporate Health and Safety Arrangements		Audit of Corporate Health and Safety Arrangements for 2017/18	
ICT Infrastructure			ICT Technology Allocation Process	M	ICT Strategy and Infrastructure		Undertake an audit of the arrangements to monitor the performance and integrity of the Council's new infrastructure	
					Disaster Recovery/Business Continuity Arrangements			
Cyber Security	Cyber Security	L			Cyber Security Arrangements		an audit of the Council's arrangements for protecting itself against cyber attacks	
Information Governance/Security	Corporate Information Governance Arrangements	L	Corporate Information Governance Arrangements	L	Building Access Security Sites - Remote Sites	M	To undertake out of hours security checks and remote sites.	



Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions	Scope of 2017/18 Audit	Overall Opinion
	Multi Agency Safeguarding Hub		Use of Email	M	General Data Protection Regulations	To look at the Council's approach and preparation for the introduction of GDPR in May 2018	
	Use of Email	M					
Business Continuity Management	Emergency Planning	S	Business Continuity Planning		Corporate Business Continuity Arrangements	Audit of Corporate business continuity arrangements to ensure the most up to date plans are held by relevant officers and that service plans have been updated, including the reliance of ICT infrastructure.	
Programme/Project Management	Corporate Service Planning Arrangements	S	Transformational Change Programme	M	SAP Procedure Update	Audit of the introduction of the changes to SAP systems to ensure they are being complied with.	
	Capital Programme Funding and Monitoring Benefits Realisation	S L					
Asset Management	LABV	L	LABV Client Arrangements	M	Corporate Asset Management	Undertake and audit of the arrangements to make use of the Council's assets, including maintenance and occupancy.	
	Corporate Asset Mangement	M	Asset Register/Capital Accounting	S			
			ICT Technology Allocation Process	M			
Anti Fraud and Corruption	Financial Verification of Leavers from the Direct Payments Scheme	S	Port Fuel System	L	Revenue Procurement	Audit of procurement process for a sample of low value spends in 2017/18	
	BACS Processing	S			Homecare Payments	To look at process for making payments to homecare providers	
	Cash Receipting	S			Payroll compliance Testing	To include testing of loss of protection end of March 2017	
	Accounts Payable	M			BACS compliance testing	S Transaction testing on a sample of BACS transactions	
	Accounts Receivable	S			Cash Receipting	S Audit of Cash Receipting process	
	Periodic Income	S			Business Rate Recovery	Audit of Business Rates Recovery	
	Benefits Administration	S			Council Tax Recovery	Compliance Testing	
	Business Rates - Liability	S			AR Recovery	Compliance Testing	
	Enforcement Section	M					

Key Risk Area	2015/16 Audits / Opinions		2016/17 Audits / Opinions		2017/18 Audits / Opinions		Scope of 2017/18 Audit	Overall Opinion
	Payroll	M						
	Revenue Procurement	M						
	Agency Workers (Unplanned)	N						
Schools	18 schools in the plan, 15 completed to date. 13 Substantial, 2 Moderate	S	31 schools in the plan, 30 completed to date. 25 Substantial, 5 Moderate	S	27 schools in the plan, 9 completed to date. 6 Substantial, 3 Moderate	S		
Sunderland Care and Support	Community Equipment Store	M	Establishment Visits/Supported Living	M	Establishment Visits/Supported Living	M	Compliance with the financial procedures in place	
	Grace House Partnersip	M			Unit Costing		To look at Unit costing model in place and ascertain it is appropriate and includes all necessary costs. Then also test its application and whether being used correctly	
	Reablement	M			Procurement/Transaction Testing		To look at process for bringing ordering directly into the company and whether separation of duties is maintained	
	Governance Arrangements	M			Governance/Audit Committee		To look at set up and operation fo the Audit Committee	
Together for Children					Governance Arrangements		Review of the operation of the governance arrangements to determine if they ae being effective	
					Effectiveness of SLA Relationships		Review the effectiveness of the arrangements between Children's services being delivered by TFC and the Council	
					Financial Procedures - bank account/income		To look at processes in place for the operation of the bank account and recording income	
					Information Governance/GDPR		To look at arrangements in place ready for introduction of GDPR	

**Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2017/18**

<b>Efficiency and Effectiveness</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
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) 4) Cost per £m Turnover	1) All key risk areas covered over a 3 year period 2) 90% 3) 82% 4) Lower than average within CIPFA Benchmarking Club	1) On target 2) Ahead of target -- 94% 3) Ahead of target – 100% 4) On target - £388 v £527 average
<b>Quality</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</b>
1) To maintain an effective system of Quality Assurance	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure actions agreed by the service are implemented	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	2) 100% for high and significant 90% for medium risk	2) Significant – on target – 100% Medium – behind target 89% (excluding schools)
<b>Client Satisfaction</b>			
<b>Objectives</b>	<b>KPI's</b>	<b>Targets</b>	<b>Actual Performance</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 (1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported	1) On target – 1.1 to date 2) None undertaken 3) 5 compliments 0 complaints



**AUDIT AND GOVERNANCE COMMITTEE**

**29 September 2017**

**TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2017/2018**

**Report of the Executive Director of Corporate Services**

**1. Purpose of Report**

- 1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2017/2018.

**2. Description of Decision (Recommendations)**

- 2.1 The Committee is requested to:

- Note the positive Treasury Management performance during Quarter 2 of 2017/2018.
- Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

**3. Introduction**

- 3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2017/2018, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

**4. Summary of Treasury Management Performance for 2017/2018 – Quarter 2**

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates fluctuated throughout 2016/2017 and continue to be volatile, in part linked to uncertainty over the outcome of Brexit negotiations. Consequently no new borrowing has been taken out to date during 2017/2018 but the position continues to be monitored closely.
- 4.2 One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2017/2018 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.40%, and as such the Council benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Performance continues to see the

Council's rate of borrowing in the lowest quartile as compared to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £577.553m for 2017/2018. The Council's maximum external debt during the financial year to 31<sup>st</sup> August 2017 was £350.089m and is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.
- 4.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.5 As at 31<sup>st</sup> August 2017, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.53% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.11%. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.

The rate of return on investments has remained at the very low levels seen in previous years and reflects the current Bank of England base rate of 0.25% set on 4<sup>th</sup> August 2016. There is little prospect of a significant upturn until the Bank of England begins to increase the Base Rate which may not happen until after Brexit negotiations have concluded in 2019. Special tranche investment rates (which offer better than market average returns) have also followed the downward trend since base rates were reduced. Interest rates are continuously monitored so that the Council can take advantage of any increase in rates when they do occur.

- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

## **5. Recommendation**

- 5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2017/2018.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

## Detailed Treasury Management Performance – Quarter 2 2017/2018

### A1 Borrowing Strategy and Performance – 2017/18

- A1.1 The Borrowing Strategy for 2017/2018 was reported to Cabinet on 8<sup>th</sup> February 2017 and approved by full Council on 1<sup>st</sup> March 2017.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2017, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.25% until the second quarter of 2019, after Brexit negotiations have concluded, and then rise to 0.75% by December 2019. PWLB borrowing rates were expected to remain flat or with only minor increases during 2017/2018 across all periods.

Following the EU Referendum on 23<sup>rd</sup> June 2016 and the vote to leave the EU, the Bank of England (BoE) cut the Bank Base Rate on 4<sup>th</sup> August 2016 for the first time since March 2009 to an all-time low of 0.25%. During the two-year period 2017 to 2019, when the UK is negotiating the terms for withdrawal from the EU, it is more likely that the BoE Monetary Policy Committee will do nothing to dampen growth prospects through raising the Base Rate. Accordingly, Capita Asset Services, the Council's treasury advisors, do not forecast a rise in the Bank Rate until the second quarter of 2019, after Brexit negotiations have been concluded, although they do not rule out an earlier rise if inflationary pressures were to emerge.

The BoE August 2017 Inflation Report now predicts growth to be down to 1.7% in 2017, 1.6% in 2018 and 1.8% in 2019. The outcome of the General Election has added to the considerable uncertainty in the markets over what form of Brexit will emerge on conclusion of negotiations and how difficult the EU could be in setting terms. These forecast levels of GDP factor in ongoing political uncertainty due to Brexit but with the assumption that the process will see the UK achieve a smooth adjustment to a new trading relationship with the EU from March 2019, one without material disruptions to trading conditions or to financial stability.

CPI inflation reduced to 2.6% in June 2017 (from 2.7% in May 2017) mainly due to falling prices for motor fuels. The latest BoE projections are that inflation will peak around 3.0% in October 2017 and will remain around 2.75% until early next year before gradually falling to around 2.2% by the end of 2019. This is above the 2.0% target level for inflation but the Monetary Policy Committee's (MPC) remit specifies that, in exceptional circumstances, the Committee must balance any trade-off between the speed at which it intends to return inflation sustainably to the target and the support that monetary policy provides to jobs and activity.

Capita Asset Services predict a gradual rise in PWLB rates is likely with rates reaching 1.60%, 2.30%, 2.90% and 2.70% for 5, 10, 25 and 50 year durations by 31<sup>st</sup> March 2018. High levels of volatility in PWLB rates and bond yields are expected to continue during 2017. The volatility is highly correlated to geo-political events and sovereign debt crisis developments and continued uncertainty over the outcome of Brexit negotiations.

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

<b>2017/2018</b>	<b>Qtr 1* (Apr - June) %</b>	<b>Qtr 2* (Jul – 4<sup>th</sup> Sept) %</b>
7 days' notice	0.11	0.11
1 year	0.87*	0.99*
5 year	1.23*	1.34*
10 year	1.89*	1.99*
25 year	2.60*	2.69*
50 year	2.34*	2.44*

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

A1.2 The strategy for 2017/2018 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 3.50% for long-term borrowing was set for 2017/2018 in light of the views prevalent at the time the Treasury Management policy was set in March 2017. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 31<sup>st</sup> August 2017, but this will be kept under review.

A1.3 The Borrowing Strategy for 2017/2018 made provision for debt rescheduling but due to the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2017/2018 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities should arise.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1<sup>st</sup> November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31<sup>st</sup> October 2017.

A1.4 The Council's treasury portfolio position at 31<sup>st</sup> August 2017 is set out below:

		<b>Principal (£m)</b>	<b>Total (£m)</b>	<b>Average Rate (%)</b>
<b>Borrowing</b>				
Fixed Rate Funding	PWLB	197.8		
	Market	39.6		
	Other	<u>2.4</u>	239.8	3.74
Variable Rate Funding	Temporary / Other		27.6	0.41
<b>Total Borrowing</b>			<b>267.4</b>	<b>3.40</b>



## A2 Treasury Management Prudential Indicators – 2017/2018

A2.1 All external borrowing and investments undertaken in 2017/2018 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2017/2018 as follows:

	£m
Borrowing	493.192
Other Long-Term Liabilities	<u>84.361</u>
<b>Total</b>	<b><u>577.553</u></b>

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

	£m
Borrowing	414.599
Other Long Term Liabilities	<u>84.361</u>
<b>Total</b>	<b><u>498.960</u></b>

The Council's maximum external debt in respect of 2017/2018 (to 31<sup>st</sup> August 2017) was £350.089m and is well within the limits set by both of these key indicators.

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

Prudential Indicators		2017/2018 (to 31/08/17)	
		Limit £'000	Actual £'000
<b>P10</b>	<b>Upper limit for fixed interest rate exposure</b>		
	Net principal re fixed rate borrowing / investments	340,000	174,287
<b>P11</b>	<b>Upper limit for variable rate exposure</b>		
	Net principal re variable rate borrowing / investments	58,000	5,526
<b>P12</b>	<b>Maturity Pattern</b>	Upper Limit	
	Under 12 months	50%	11.97%
	12 months and within 24 months	60%	2.07%
	24 months and within 5 years	80%	5.83%
	5 years plus	100%	80.31%
	A lower limit of 0% for all periods		
<b>P13</b>	<b>Upper limit for total principal sums invested for over 364 days</b>	75,000	0

### A3 Investment Strategy – 2017/2018

A3.1 The Investment Strategy for 2017/2018 was approved by Council on 1<sup>st</sup> March 2017. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

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

A3.2 As at 31<sup>st</sup> August 2017, the funds managed by the Council's in-house team amounted to £150.071 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of all other external organisations. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	<b>2017/2018 Actual to 31/08/17 %</b>	<b>2017/2018 Benchmark to 31/08/17 %</b>
Return on investments	0.53	0.11

A3.3 Investments placed in 2017/2018 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at very low levels, reflecting the current Bank of England Base Rate of 0.25% announced on 4<sup>th</sup> August 2016.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions to shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List is shown in Appendix C.

**Counterparty Criteria**

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

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

<b>Fitch / S&amp;P's Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P's Short Term Rating</b>	<b>Moody's Long Term Rating</b>	<b>Moody's Short Term Rating</b>	<b><u>Maximum Deposit</u> £m</b>	<b><u>Maximum Duration</u></b>
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					350	2 years
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
<b>Local Authority controlled companies</b> (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

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

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

### Country Limit

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

It is also proposed to set a total limit of £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non-UK	100

### Sector Limit

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

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

### Group Limit

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

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

Proposed group limits are set out in Appendix C.

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
<b>UK</b>	AA	-	Aa1	-	AA	-	350	2 years
<b>Lloyds Banking Group</b>							<b>Group Limit 65</b>	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	65	364 days
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	65	364 days
<b>Royal Bank of Scotland Group</b> (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Baa3	P-3	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A2	P-1	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A2	P-1	BBB+	A-2	80	2 years
<b>Santander Group</b>							<b>Group Limit 65</b>	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A1	P-1	A-	A-2	50	364 days
Clydesdale Bank *	BBB+	F2	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B-	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A+	F1	Aa3	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	<b>A3</b>	<b>P-2</b>	-	-	50	364 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	<b>Baa2</b>	<b>P-2</b>	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
<b>Money Market Funds</b>							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
<b>Australia</b>	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
<b>Canada</b>	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	A1	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	A1	P-1	AA-	A-1+	70	364 days
Toronto Dominion Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
<b>Finland</b>	AA+		Aa1		AA+		100	2 years
OP Corporate Bank plc	-	-	Aa3	P-1	AA-	A-1+	75	2 years
<b>Germany</b>	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
<b>Netherlands</b>	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
<b>Singapore</b>	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
<b>Sweden</b>	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
<b>USA</b>	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JP Morgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

## Notes

### Note 1

#### Nationalised / Part Nationalised

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

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

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

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





## Risk Management Review of Treasury Management

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

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

## **Risk**

### **3. Exchange Rate Risk**

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

### **4. Inflation Risk**

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

### **5. Counterparty Risk**

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

## **Controls**

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

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

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

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

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

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

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

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

## Risk

## Controls

### 6. Capital Financing and Refinancing Risk

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

informed, using the latest available information.

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

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

### 7. Statutory and Regulatory Risk

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

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

### 8. Treasury Management Arrangements Risk

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

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

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



# Annual Audit Letter

Sunderland City Council



For the year ended 31 March 2017



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

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

# Executive summary

## Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Sunderland City Council ('the Council') for the year ended 31 March 2017. Although this letter is addressed to the Council, it is designed to be read by a wider audience including the public and other external stakeholders.

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

Area of work	Summary
Financial statements opinion	On 31 July 2017 we issued our opinion that: <ul style="list-style-type: none"><li>the financial statements give a true and fair view of the Council and the Group's financial position as at 31 March 2017 and of its financial performance for the year then ended.</li></ul>
Opinions on other matters	On 31 July 2017 we issued our opinion that: <ul style="list-style-type: none"><li>the Narrative Report published with the financial statements, is consistent with those financial statements.</li></ul>
Value for Money conclusion	On 31 July 2017 we issued our conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, 'except for' children's safeguarding services which were assessed as inadequate by Ofsted in July 2015.
Whole of Government Accounts	In line with instructions issued by the NAO, we issued our assurance certificate on 15 September 2017 which reported that the Council's consolidation pack was consistent with the audited financial statements.
Matters that we report by exception	We have not identified any matters to report in relation to: <ul style="list-style-type: none"><li>whether the Annual Governance Statement is in line with our understanding of the Council and the requirements of the Delivering Good Governance in Local Government Framework 2016;</li><li>reports in the public interest or written recommendations made under s24 of the 2014 Act;</li><li>exercise of other powers under the 2014 Act.</li></ul>

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 15 September 2017.

# Audit of the financial statements

## Financial statements opinion

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and the Group and whether they give a true and fair view of the Council and the Group's financial position as at 31 March 2017 and of the financial performance for the year then ended.

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

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

### Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£9.95m (Group materiality £10m)
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none"><li>• officers remuneration;</li><li>• Members allowances; and</li><li>• termination payments.</li></ul>
Trivial threshold	£298k



## Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council and the Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions. One new risk has been recorded since we issued our Audit Strategy Memorandum, in relation to the presumption of a risk of fraud in relation to revenue recognition.

Significant risk	How we addressed the risk	Audit conclusion
<p><b>Management override of control</b></p> <p>In all entities, 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work on:</p> <ul style="list-style-type: none"> <li>• consideration and review of accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration and review of any unusual or significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work on the financial statements did not identify any manipulation of the financial position, and we did not identify any evidence of management override of controls.</p>
<p><b>Pension Entries</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed 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 also:</p> <ul style="list-style-type: none"> <li>• evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary; and</li> <li>• considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.</li> </ul>	<p>Our work confirmed that reasonable assumptions had been used by the actuary. The pension entries have been correctly reflected in the financial statements.</p>

**Additional significant risk in relation to the presumption of a risk of fraud in relation to revenue recognition**

Our previous decision to rebut the presumption of the risk of fraud in relation to revenue recognition has been challenged internally through our EQCR (External Quality Control Review) processes, and we have revisited our assessment as set out below.

Significant risk	How we addressed the risk	Audit conclusion
<p><b>Revenue recognition</b></p> <p>There is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p> <p>We have reviewed the Council's income sources, and determined that a significant risk exists in relation to one category of income, namely fees and charges.</p>	<p>We evaluated 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:</p> <ul style="list-style-type: none"><li>• testing a sample of income items throughout the financial year;</li><li>• testing receipts in March, April and May 2017 to ensure that they had been recognised in the correct year; 'cut off' testing;</li><li>• testing adjustment journals; and</li><li>• obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.</li></ul> <p>To address the significant risk in relation to income from fees and charges we have applied a higher risk factor leading to higher sample sizes for this category of income. In addition, we applied an enhanced risk factor to 'cut off' testing which also resulted in higher sample sizes than would otherwise have been the case.</p>	<p>Our work on the financial statements provided us with the assurance we sought and there are no matters to bring to your attention.</p>

### Key areas of management judgement

In addition, we also identified accounting for Property, Plant and Equipment as a key area of management judgement which we focused on during our audit.

Key areas of management judgement	How we addressed the risk	Audit conclusion
<p><b>Property, Plant and Equipment (PPE)</b></p> <p>PPE values and related accounting entries are based on valuations provided by your in-house valuer. This includes key judgements in relation to:</p> <ul style="list-style-type: none"><li>• asset classifications;</li><li>• identifying an appropriate valuation basis for each class of assets;</li><li>• determining appropriate asset values;</li><li>• assessments of the estimated useful lives of assets;</li><li>• recognition of impairments or other significant changes in asset values; and</li><li>• making the correct distinction between revenue and capital expenditure.</li></ul>	<p>We reviewed the arrangements in place for:</p> <ul style="list-style-type: none"><li>• instructing the valuer and relying on their work;</li><li>• maintaining an accurate fixed asset register;</li><li>• establishing estimates of asset lives; and</li><li>• identifying impairments.</li></ul> <p>We also carried out tests of detail on capital transactions, balances and disclosures in the accounts.</p>	<p>Our work confirmed that appropriate arrangements were in place for the work of the valuer and that the outcome of this work was properly reflected in the financial statements.</p> <p>Our wider testing of capital transactions, balances and disclosures in the accounts relating to PPE did not identify any significant issues that required reporting.</p>

### Internal control recommendations

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

# Value for Money conclusion

## Value for Money conclusion

**'Except for' qualification in relation to children's safeguarding services**

### Summary of our work

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

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

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

The following table provides commentary of our findings in respect of each of the sub-criteria and our judgement as to whether we have seen sufficient evidence that proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
<b>Informed decision making</b> Acting in the public interest, through demonstrating and applying the principles and values of sound governance. Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities.	<p>The Council operates a Cabinet with a Leader model, and this is governed by a Constitution that includes the expected features for a governance framework in local government.</p> <p>The Council has a comprehensive Corporate Plan that sets out its priorities, including regenerating the city, safeguarding its residents and developing new models of working for the Council. The Council has made decisions in the context of public sector austerity and significant reductions in available resources.</p> <p>The Council has enhanced performance management arrangements for both delivering new initiatives and delivering day-to-day operational activity.</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
<p><b>Informed decision making (continued)</b></p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p> <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>A key priority is to improve children's safeguarding services, following an Ofsted inspection in July 2015, and work on this has been ongoing and a new children's company, Together for Children Sunderland Limited, went live from 1 April 2017.</p> <p>The Council is leading on the delivery of a number of major infrastructure and regeneration projects, including the creation of an International Advanced Manufacturing Park, a new Wear bridge and other transport improvements and development in the City Centre including the Vaux site.</p> <p>New decisions are supported by reports that outline appropriate options and relevant considerations, including references to financial, legal and performance issues where appropriate.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas. In addition, regular financial reporting takes place, with formal reporting quarterly to the Cabinet.</p> <p>The Council's system of internal control is subject to Internal Audit using an in-house function, and for 2016/17, your internal auditors have given an opinion that there continues to be an adequate system of internal control.</p> <p>The assurance framework delivers assurance work that goes beyond traditional internal audit retrospective review of systems and includes a proactive ongoing assurance input as major initiatives and projects are being delivered.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework, including risk management and internal audit, and approval of the Council's financial statements.</p> <p>We attend all Audit and Governance Committee meetings and have observed some good examples of challenge and oversight, including holding officers to account in relation to improvements in children's safeguarding services, information assurance and IT issues.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p><b>Sustainable resource deployment</b></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities.</p> <p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>The Council has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p>In 2016/17, significant additional savings were delivered and there was a small underspend against budget.</p> <p>In the 2017/18 budget round the Council recorded its plans to deliver savings over the three year period 2017/18 to 2019/20. The budget identified a savings requirement of £74.4m over this period as a result of government grant reductions and financial pressures. Savings plans were put in place for the full three year period and at the time the budget was set there was a gap of £3.6m between savings required and measures identified.</p> <p>The focus is now on the delivery of the savings identified and bridging the relatively small budget gap.</p> <p>A major part of the Council's asset management strategy involved transferring its commercial property portfolio to its joint venture local asset-backed vehicle, Siglion LLP, with the aim of accelerating regeneration schemes, including initially the Vaux site, Chapelgarth and Seaburn.</p> <p>Workforce planning arrangements have been focused in recent years on implementing a new pay and grading structure, and on managing the downsizing of the workforce, particularly as the Council has implemented alternative models of service delivery, such as the establishment of the children's company.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p><b>Working with partners and other third parties</b></p> <p>Working with third parties effectively to deliver strategic priorities.</p> <p>Commissioning services effectively to support the delivery of strategic priorities.</p> <p>Procuring supplies and services effectively to support the delivery of strategic priorities.</p>	<p>One of the most important partnerships in terms of immediate budgetary pressures is with health bodies, for example, working with Sunderland Clinical Commissioning Group to reduce emergency admissions to hospital and provide as much support as possible in a social care setting.</p> <p>The Corporate Plan identifies key partnerships for the Council, which are managed through the following boards:</p> <ul style="list-style-type: none"> <li>• Economic leadership board;</li> <li>• Education leadership board;</li> <li>• Health and wellbeing board; and the</li> <li>• Cultural and Safer Sunderland partnership boards.</li> </ul> <p>During 2016/17 the Council carried out a review of governance and partnership arrangements, and agreed an action plan for further improvement.</p> <p>Commissioning and procurement are closely aligned. The Council has a corporate procurement function, with a range of commissioning activity in directorates. The Council's commissioning role has grown as it has extended its use of alternative models of service delivery.</p> <p>Procurement procedures are in place and the Council maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. The Council has a corporate team to oversee procurement.</p> <p>As part of our work on the VFM conclusion we consider the information in VFM profiles, which provides comparative data with other similar authorities on costs and other measures.</p> <p>Although there are variations in the costs within and between services, overall, the Council compares favourably with the authorities in its comparator group.</p>	<p>Yes</p>

### Significant Value for Money risks

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

### Responding to financial pressures

Value for Money conclusion risk	Work undertaken	Conclusion
The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including transformation activity, working with partners and use of alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.	We reviewed budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and to minimise any adverse impact on service delivery. We also considered those areas such as social care where there are particular financial pressures. We reviewed the plans that are being developed to deliver future savings and improvements.	<p>The Council has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. The level of savings is, however, challenging and there have been effects on the range and level of services that can be delivered.</p> <p>In 2016/17, significant additional savings were delivered by the Council and there was a small underspend against budget.</p> <p>In the 2017/18 budget round the Council recorded its plans to deliver savings over the three year period 2017/18 to 2019/20. The budget identified a savings requirement of £74.4m over this period as a result of government grant reductions and financial pressures. Savings plans were put in place for the full three year period and at the time the budget was set there was a gap of £3.6m between savings required and measures identified.</p> <p>The focus is now on the delivery of the savings identified and bridging the relatively small budget gap.</p>



### **OFSTED's assessment of children's safeguarding services**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators.

In July 2015, Ofsted reported the results of an inspection of services for children in need of help and protection, children looked after, care leavers and adoption performance. Ofsted concluded that these services and their leadership, management and governance were inadequate. Ofsted also concluded that the arrangements in place to evaluate the effectiveness of what is done by the Council and its partners to safeguard and promote the welfare of children, through the Sunderland Safeguarding Children Board, were inadequate.

Our response to the conclusions reached by Ofsted, was to incorporate an 'except for' qualification into our 2014/15 and 2015/16 VFM Conclusions. In effect, based on the required scope of our work, our conclusion was that the Council, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015 'except for' the areas that were highlighted as inadequate in the Ofsted report.

We have noted that since the Ofsted report in July 2015, the Council has continued to tackle the issues raised in the Ofsted inspection and has:

- worked with a Government-appointed Commissioner for Children's Services who has advised on improvements and kept ministers informed about progress;
- implemented an action plan and made improvements although it is acknowledged that there is still work to do; and
- established an alternative service delivery model for children's services and a children's company (Together for Children Sunderland Limited) became fully operational on 1 April 2017.

Ofsted has carried out three monitoring visits (two in 2016 and one to date in 2017), and confirmed that progress is being made, but has not yet carried out a full reassessment of children's safeguarding services.

The Ofsted assessment remained a significant risk that was relevant to our value for money conclusion, and the risk, our consideration of it and our conclusions are summarised below.

Value for Money conclusion risk	Work undertaken	Conclusion
The risk that Council does not make the required improvements to children's services, following Ofsted's assessment of services as 'inadequate' in July 2015, or does not make the improvements rapidly enough.	We considered the progress made by the Council in relation to children's services, including the establishment of a children's company, Together for Children, from 1 April 2017, and the results of the three monitoring visits since the July 2015 report. Ultimately, the conclusion in this area requires an expert judgment and we will only be able to revise our assessment that an 'except for' qualification is not needed when Ofsted fully update their assessment and services are no longer assessed as inadequate. Ofsted have not yet updated their full assessment.	Ofsted has not yet updated their full assessment of children's safeguarding services and consequently, we will again include an 'except for' qualification to our VFM conclusion.

#### **Our overall Value for Money conclusion**

On the basis of our work, with the exception of the matter reported below, we are satisfied that in all significant respects Sunderland City Council put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The exception to this are the areas of children's safeguarding services that were identified as inadequate in Ofsted's report to the Council in July 2015, and the consideration of which were set out above in this report.

# Other reporting responsibilities

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Annual Governance Statement</b>	<b>No matters to report</b>
<b>Whole of Government Accounts consistency with the financial statements</b>	<b>Consistent</b>
<b>Other information published alongside the financial statements</b>	<b>Consistent</b>

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

## **Matters which we report by exception**

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Council. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Council, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Council.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Council in relation to the Annual Governance Statement.

## **Reporting to the NAO in respect of Whole of Government Accounts**

The NAO requires us to report to them whether consolidation data that the Council has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

## **Other information published alongside the financial statements**

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

# Our fees

## Fees for work as the Council's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Governance Committee in May 2017.

Having completed our code audit work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£135,774	£135,774
Certification of Housing Benefit Subsidy Claim	£7,725	£7,725
Other non-Code work	£0	£6,300

Please note that our work on the Housing Benefit Subsidy Claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

We confirm that the fees are in line with the scale fees set by Public Sector Audit Appointments Ltd.

With regard to other non-Code work, we were commissioned by the Council to carry out work in relation to its Skills Funding Agency grant claim which was completed in May 2017 (£3,550). In addition, we have been commissioned to carry out work in relation to the Teachers' Pensions Return by the end of November 2017 (£2,750).

## Sunderland Care and Support Ltd

In the interests of transparency, Mazars LLP is also the auditor of Sunderland Care and Support Ltd, one of the Council's trading companies. In addition, the firm provides accounts preparation and corporation tax services to the company. The total fees relating to audit, accounts preparation and tax work were £23,889 plus VAT for the 2016/17 financial year.

# Future challenges

## **Financial outlook**

The Council has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.

In 2016/17, significant additional savings were delivered and there was a small underspend against budget.

In the 2017/18 budget round the Council recorded its plans to deliver savings over the three year period 2017/18 to 2019/20. The budget identified a savings requirement of £74.4m over this period as a result of government grant reductions and financial pressures. Savings plans were put in place for the full three year period and at the time the budget was set there was a gap of £3.6m between savings required and measures identified.

## **Operational challenges**

The key challenges for the future include:

- the delivery of the savings identified in the 2017/18 budget round and bridging the relatively small budget gap;
- improving children's safeguarding services, following an Ofsted inspection in July 2015, and the establishment of the new children's company, Together for Children Sunderland Limited;
- completing of a number of major infrastructure and regeneration projects, including the creation of an International Advanced Manufacturing Park, a new Wear bridge and other transport improvements and development in the City Centre including the Vaux site;
- working with the Sunderland Clinical Commissioning Group to reduce emergency admissions to hospital and provide as much support as possible in a social care setting through the Better Care Fund;
- positioning the City to achieve economic growth and prosperity; and
- delivering change and improvement through the initiatives identified above and others, whilst maintaining sound delivery of day-to-day services, which the Council is seeking to manage through its enhanced performance management framework.

## How we will work with the Council

We will focus our 2017/18 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

We have worked successfully with your officers to bring forward the accounts and audit timetable ahead of the statutory requirement to do so. We will reflect on the experience this year and seek to make improvements so that the process is further improved for the 2017/18 financial year.

### Our added value offer

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

Insight	Expertise	Support for continuous improvement
<p>Analysis of emerging issues shared regularly with you through our Audit Progress Reports to the Audit and Governance Committee.</p> <p>Sharing knowledge from our membership of a range of professional networks including those hosted by the ICAEW and NAO.</p> <p>Regular updates from our public services advisory team on lessons learned from its work across the UK public sector.</p> <p>Access to our public sector governance forum allowing free and open discussion of governance issues. The Chair of the Audit and Governance Committee, other Members and officers have attended our events.</p>	<p>Specialist public sector financial reporting advisory service, providing expert analysis of emerging accounting issues.</p> <p>A dedicated IT audit and advisory team, with expertise and experience of providing services across the public sector.</p> <p>Provision of annual accounting workshops attended by your finance team. These events have been attended by your officers.</p>	<p>Clear and open communication, allowing for a sensible basis of resolving emerging issues.</p> <p>Internal control recommendations and follow-up work in conjunction with internal audit. We work closely with your Internal Audit service, and report to you through the Audit and Governance Committee.</p>

# Audit Progress Report

**Sunderland City Council**



**September 2017**



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited’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, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



# Audit progress

## **Purpose of this report**

The purpose of this paper is to provide the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit and Governance Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Finally, please note our website address ([www.mazars.co.uk](http://www.mazars.co.uk)) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

## **2016/17 Audit**

The 2016/17 audit was completed early this year, ahead of the statutory requirement to bring the timetable forward from next year.

Our audit opinion and VFM conclusion were issued on 31 July 2017.

We issued the audit certificate, formally closing the audit, when our work on the Council's Whole of Government Accounts (WGA) return was completed. This year our assurance statement that the WGA return was consistent with the Council's statutory accounts was finalised on 15 September 2017.

We have now issued our Annual Audit Letter and this is a separate agenda item at this Committee meeting.

The only work remaining to be completed is the certification of claims work in relation to housing benefits. The deadline for the completion of our housing benefits work is 30 November 2017. This work is progressing and we fully expect to meet the deadline.

## **2017/18 Audit**

In the next quarter, we will begin our planning work in relation to the 2017/18 audit.

We will discuss with officers the lessons learned from experience of bringing the accounts and audit timetable forward this year, and discuss ways in which we can make further improvements to streamline the process. This will include identifying ways of carrying out audit work earlier to reduce the pressure of work in the period between the preparation of your financial statements (by 31 May) and the audit deadline (31 July).

We will also discuss with officers the current risks in relation to our audit opinion and the VFM conclusion, and this will begin to shape our Audit Strategy Memorandum for the 2017/18 audit.

# National publications and other updates

## National publications and other updates

1. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017
2. Reality check: next steps in developing sustainability and transformation plans, CIPFA, April 2017
3. The levy, apprenticeships and the public sector, CIPFA, May 2017
4. Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017
5. Procurement of audit services delivers outstanding results, Public Sector Audit Appointments Ltd, June 2017
6. Online Fraud, NAO, June 2017
7. Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017
8. Cyber security and information risk guidance for Audit Committees, NAO, September 2017
9. Homelessness, NAO, September 2017

## **1. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017**

PSAA has published the work programme and scales of fees for 2017/18 audits of principal local government and police bodies. There are no changes to the overall work programme for 2017/18. Scale fees for 2017/18 have therefore been set at the same level as the fees applicable for 2016/17. This is the final year for which PSSA will set fees under the transitional arrangements made by DCLG.

<http://www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

## **2. Reality check: next steps in developing sustainability and transformation plans, CIPFA, April 2017**

CIPFA summarises this ‘think piece’ as follows:

The NHS planning guidance set out the notion of sustainability and transformation plans (STPs) in 2015. The plans aimed to bring together local leaders in health, local government and patient representation to plan how services would become sustainable between 2016 and 2021.

The STPs would facilitate health service providers and local authorities working together to ensure that services are delivered across the whole of the local health and care economy and not lead by any particular organisation’s priorities. Forty four local areas were established and initial plans were to be submitted in February 2017.

The 44 STPs which form the basis for NHS planning in the coming years, and explicitly link it to social care, are all now public in their draft forms. What conditions are likely to be critical to success, and do the STPs suggest that those conditions are in place?

This Insight analyses the 44 STPs for the answer.

<http://www.cipfa.org/policy-and-guidance/reports/reality-check-next-steps-in-developing-sustainability-and-transformation-plans>

### **3. The levy, apprenticeships and the public sector, CIPFA, May 2017**

CIPFA summarises this 'think piece' as follows:

The arrival of the apprenticeship levy has been heralded with a mixture of eager anticipation, dread and a lot of discussion. It is likely to be a while before we see the levy running smoothly and guidance will inevitably need to be regularly updated as the system becomes embedded.

The introduction of the apprenticeships levy sees both opportunities and risks for the public sector and only time will tell how successful the system proves to be. There will be winners and losers and the targets to be achieved may prove a challenge, but the levy certainly can't be overlooked. Employers need to be aware of the options and ways to use the levy to develop a flexible and skilled workforce. CIPFA sees the levy as a further opportunity for widening access to the finance profession and providing a much needed platform to improve productivity in the economy.

This Insight provides background and introduction to what apprenticeships mean for the public sector.

<http://www.cipfa.org/policy-and-guidance/reports/the-levy-apprenticeships-and-the-public-sector>

### **4. Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017**

CIPFA summarises this 'think piece' as follows:

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as the great hope across all political parties.

However, local health and social care providers don't yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund, devolution initiatives and pilots linked to the five-year forward plan for the NHS will be dissipated. This CIPFA Briefing looks at the conditions needed for integration to be successful.

<http://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities>

## **5. Procurement of audit services delivers outstanding results, June 2017**

In June 2017, Public Sector Audit Appointments Limited (PSAA) reported the outcome of its national procurement of audit contracts for local government and related bodies that will run for five years from the 2018/19 audits, with an option to extend by a further two years. The procurement applied to those bodies which opted to be part of it, which included Sunderland City Council.

As part of the procurement, Mazars increased its national market share of this work from approximately 6% to 18%.

The other firms that were successful in winning market shares were Grant Thornton, EY, BDO and Deloitte.

The five current firms providing this work are Mazars, Grant Thornton, EY, BDO and KPMG.

PSAA estimated that the procurement pointed to a possible scale fee reduction of the order of 18% from 2018/19 audits. PSAA is currently consulting bodies on individual auditor appointments.

<http://www.psaa.co.uk/archive/press-release-procurement-of-audit-services-delivers-outstanding-results/>

## **6. Online Fraud, NAO, June 2017**

Online fraud is now the most commonly experienced crime in England and Wales, but has been overlooked by government, law enforcement and industry.

<https://www.nao.org.uk/report/online-fraud/>

## **7. Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017**

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2016/17 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work. The review included assessing compliance with the HB COUNT guidance;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;

- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2015/16 work.

The report concludes the following in respect of Mazars LLP:

*"Mazars is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2016/17, Mazars' combined audit quality and regulatory compliance rating was green. The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor. Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2016/17 indicators scored as green".*

**Figure 1: 2017 Comparative performance for audit quality and regulatory compliance**

	BDO	EY	Deloitte	PwC	Grant Thornton	KPMG	Mazars
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

For comparison, we have added in the previous years to the figure above taken from the report.

<http://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

## **8. Cyber security and information risk guidance for Audit Committees, NAO, September 2017**

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

## **9. Homelessness, NAO, September 2017**

Homelessness has increased across all measures since 2010, with many local authorities now seeing it as a risk to their financial sustainability.

<https://www.nao.org.uk/report/homelessness/>

# Contact details

Please let us know if you would like further information on any items in this report.

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