

AUDIT AND GOVERNANCE COMMITTEE
Friday 11 December 2015

Present:

Mr G N Cook

Councillors Farthing, Forbes, O'Neil and Mr M Knowles.

In Attendance:

Paul Davies (Head of Assurance, Procurement and Projects), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Rhiannon Hood (Assistant Head of Law and Governance), Mark Kirkham and Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

Mr Knowles informed the Committee that he had recently been appointed Chair of the Audit and Risk Committee of Northumbria Health Trust.

Apologies for Absence

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

Minutes

17. RESOLVED that the minutes of the meeting of the Committee held on 25 September 2015 be confirmed as a correct record.

Corporate Assurance Map 2015/2016 – Update

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

Members were directed to the map itself and informed that the assurance position with respect to the Strategic Risk Areas remained the same and the Head of Assurance, Procurement and Projects advised that the refresh of the Strategic Risk Profile had begun and was running in parallel to update of the Council's Corporate

Plan. The revised Corporate Assurance Map would be introduced at the beginning of the next financial year.

The Committee were aware of the significant amount of work which was being undertaken by the Risk and Assurance team in relation to Children's Safeguarding and the Interim Director of Children's Services would be invited to attend the next Committee meeting to give further detail on the development of the Improvement Plan and future models of service.

The Committee were advised that performance was on target for all Key Performance Indicators (KPIs) except for two; the percentage of draft audit reports issued within 15 days of the end of the field work which was 88.5% against a target of 90% and the percentage of medium risk recommendations implemented which stood at 83% against a target of 90%. The Head of Assurance, Procurement and Projects advised that he would highlight the failure to meet the target for implementation of recommendations to the Executive Management Team when they next considered the Corporate Assurance Map.

Members had been aware that the Internal Audit opinion for Information Governance had been showing as 'limited' for some time and Rhiannon Hood, Assistant Head of Law and Governance, had been invited to speak to the Committee about the work which was being undertaken to improve the position.

Rhiannon stated that for a significant length of time, the Leader and the Chief Executive of the authority had championed information governance arrangements and there had been a senior information risk owner in each of the directorates. Since February 2015, Sarah Reed, Assistant Chief Executive, had taken the lead on information risk for the authority as a whole.

Each Head of Service had been appointed Information Asset Owner responsible for information assets held within their service area and this longstanding arrangement had been retained. The role of the Caldicott Guardian, who acts as the moral guardian and decision maker for how the Council uses personal information, had been redesignated and Fiona Brown, Chief Operating Officer in People Services was now Caldicott Guardian for the Council.

There had been a number of action plans developed for Heads of Service over the years which were aimed at ensuring that staff were adequately trained and had an understanding of how to perform their role. There was also e-learning in place for all employees, however it was acknowledged that getting assurance that all training requirements had been met had in the past been problematic. Internal Audit had undertaken practical audits, including checks on document security, which had been useful in raising the profile of information governance when feeding back to directorates.

Rhiannon advised that the Council increasingly had a need to share information with health and social care agencies and the authority was working through the NHS information governance toolkit, an information assurance toolkit across the health service. The toolkit had three levels: the first was to have policies and relevant arrangements in place; the second to have operational arrangements in place; and

the third was to demonstrate that these policies and procedures were being applied consistently.

The Council was nearing the completion of the second level, operational arrangements were already in place in support of areas of the toolkit requirements, and in others the authority's approach had been altered and was being addressed through toolkit actions including the revision of the Council's Information Asset Register. The arrangements were to be implemented for health and social care data initially and then rolled out to other areas. Rhiannon highlighted that audit colleagues were assisting with this stage of the process and when they were satisfied that requirements were being met, then the Council would declare compliance and make a submission to the Health and Social Care Information Centre (HSCIC). It was anticipated that this would happen within the next month.

The Chair enquired if level three of the process was related to people working at the front line of services and Rhiannon confirmed that this was the case, but highlighted that staff had already been asked to apply procedures and demonstrate compliance prior to the introduction of the toolkit.

Councillor Farthing asked if compliance was tested through spot checks and enquired if there was a clear desk policy throughout the authority. She went on to ask if the take up of e-learning was monitored and whether screen savers were installed on all pcs. Rhiannon advised that the corporate standard was for all information to be secured within an office and that recently audit had undertaken checks in this regard with a number of issues being reported. Council equipment had an automatic screen saver installed and guidance was issued to all managers and staff regarding the uptake of training, proof of compliance was the next step. Councillor Farthing enquired if cleaners had access to offices and therefore documents within them and Rhiannon confirmed that they did.

Mr Knowles commented that there were huge amounts of data being shared between organisations and referred to recent breaches of security at large companies such as Talk Talk. He queried when the Council would achieve reasonable assurance.

Rhiannon stated that the Council was ISO assured in relation to ICT security and was accredited to share information through GCSX accounts. It was also a prerequisite for staff to undertake training before they were issued with a GCSX account. With regard to Level 3 of the toolkit, there was a piece of work to be undertaken to provide assurance that staff were complying with the requirements and logically this would be an annual rolling programme.

Mr Knowles noted that if the assurance position continued to be shown as red on the Corporate Assurance Map and an incident was to occur, then the Committee would be asked about its role in monitoring the situation. The Chair thanked Rhiannon for a very useful overview of the position and suggested that she might provide a further update at a future committee meeting. He asked that the Assistant Chief Executive be made aware of the Committee's concerns and that they would like to see this matter moved forward so that managers were able to say that their staff were complying with the information governance requirements.

Following full consideration of the report, it was: -

18. RESOLVED that the updated Corporate Assurance Map 2015/2016 be noted.

Corporate Assurance Map – Consultation for 2016/2017

The Head of Assurance, Procurement and Projects submitted a report consulting the Committee on the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year and providing the opportunity for Members to raise any issues which they feel should be considered.

Members were advised that the allocation of resources would continue to be flexible given the level of changes occurring across the Council but a number of areas were expected to be a priority for 2016/2017, including the management of risk associated with developing alternative service delivery models, arrangements for managing the delivery of the transformation programme, Children's safeguarding arrangements and commissioning and contract management.

Councillor Farthing highlighted that in the light of diminishing resources, there was an imperative to ensure that some work was done on a voluntary basis, and she suggested that the effectiveness of the governance of children's centres and the volunteer scheme for hospital discharges could be looked at.

Councillor Farthing went on to say that two area committees were funding these volunteer arrangements. The Head of Assurance, Procurement and Projects advised that the teams would be doing work in relation to performance management and part of this would be to look at whether area committee arrangements were achieving what they set out to, and assessing the benefits realisation of the area committee work programmes.

19. RESOLVED that the comments of the Committee on the development of the Internal Audit and Risk and Assurance Plans for the forthcoming year be noted.

Public Sector Auditor Appointments – Update

The Director of Finance submitted a report summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/2018 audits.

The current contract with Mazars would come to an end on 31 March 2018 and the Council would then be able to move to a local appointment of the external auditor. The Council had until December 2017 to appoint its external auditors, although in reality this would mean deciding on a process and implementing it by spring 2017. Under the Local Audit and Accountability Act 2015 the Council had the following options: -

- Option 1** Make a stand alone appointment
Option 2 Joint Auditor Panel/local joint procurement arrangements
Option 3 Opt-in to a sector led body

The Local Government Association (LGA) had asked the Council for an indication of its preferred approach in order that it could invest resources in providing appropriate support to Councils. The Head of Assurance, Procurement and Projects stated that the Council had not had any conversations with other North East local authorities as yet and highlighted that the preferred approach would have to be approved at a full Council meeting.

The Chair expressed the view that the second and third option would be his preference but he would like to know what other local authorities were considering. The Head of Assurance, Procurement and Projects said that he would seek views from neighbouring authorities and report back to the Committee. He added that the specification for the external auditor was set out nationally and the procurement exercise would need to follow this.

20. **RESOLVED** that: -

- (i) the options for the appointment of external auditors from April 2018 be noted; and
- (ii) it be noted that a report would be taken to the Council on the preferred approach.

Treasury Management – Third Quarterly Review 2015/2016

The Director of Finance presented a report outlining the Treasury Management performance for the third quarter of 2015/2016. The report also set out the revised Lending List Criteria and the Approved Lending List.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget. The Assistant Head of Financial Resources advised that PWLB rates had fluctuated since the beginning of 2015/2016 and consequently no new borrowing had been taken out.

The Committee were advised that the Council's interest rate on borrowing was very low, at 3.51% and the Council benefitted from this and the ongoing savings from past debt rescheduling exercises. Sunderland's rate of borrowing was in the lowest quartile compared to other authorities.

The Council's Treasury Management Team had achieved a rate of return on its investments of 0.92% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. The investment policy was 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 Treasury Management Prudential Indicators were regularly reviewed and the Council was well within its limits for all of these.

The Council continued to operate a careful and prudent Treasury Management Strategy and further detail on the Treasury Management performance was included in Appendix A to the report. The Assistant Head of Financial Resources stated that there had been indications that the USA was planning to increase its interest rate the following week and it was anticipated that the UK may follow suit in the second quarter of 2016. The situation was developing from an investment point of view but there was no major impetus to take out any additional borrowing.

Mr Knowles observed that it seemed the USA and Europe were going in different directions and that there had been low interest rates for a long period. The Assistant Head of Financial Resources agreed and commented that the whole Treasury Management environment had changed and markets reflected these changes (i.e. the US economy was recovering much faster than the EU zone) but he agreed that it was extremely unlikely that interest rates would increase beyond 5% in the foreseeable future.

The regular updating of the Council's authorised lending list was required to take into account mergers of financial institutions and changes in institutions' credit ratings since the last report and the updated Approved Lending List was shown at Appendix C to the report.

Upon consideration of the report, the Committee: -

21. RESOLVED that: -

- (i) the Treasury Management performance for the third quarter of 2015/2016 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Annual Audit Letter 2014/2015

The Interim Head of Paid Service and Director of Finance submitted a report presenting the Annual Audit Letter covering the year 2014/2015 from Mazars, the Council's external auditors.

Mark Kirkham, Mazars, was in attendance to present the Annual Audit Letter and advised that the letter presented a retrospective view of their work over the last year and summarised the findings of the 2014/2015 audit which had been reported to the Committee on 25 September 2015.

The Annual Audit Letter was positive overall and provided a strong endorsement of the financial management and governance arrangements in place across the Council. The future challenges facing the Council were also highlighted and Mazars had

acknowledged the increasing demands on the authority and its reduced spending power.

Mark highlighted that the audit fees were now confirmed as £208,202 for 2014/2015 with the final fee being slightly higher than the previously reported figure of £199,287 due to additional non-audit work which had been carried out by Mazars.

Having thanked Mazars for their report, it was: -

22. RESOLVED that the contents of the report be noted.

External Auditor – Audit Progress Report

The Director of Finance submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to December 2015.

Gavin Barker reported that the Annual Audit Letter had been finalised by the deadline of 30 October 2015 and this had marked the formal conclusion of the 2014/2015 audit. As part of the audit, Mazars' IT specialists had carried out a review of IT general controls and the detailed findings of this work were presented as part of the progress report. The audit had concluded that the significant IT risks were being mitigated by the control environment in place and had not identified any significant weaknesses which could significantly threaten IT reliability in respect of the production of financial information in the financial statements for 2014/2015.

Work on the 2014/2015 Housing Benefit Subsidy Claim and the Teachers' Pension Return for 2014/2015 was complete and there were no issues arising from this work. Mazars had also been commissioned to carry out certification work on the Skills Funding Agency return for an agreed fee of £3,550 plus VAT and this would be recorded as non-audit work as part of the 2014/2015 audit and added to the reported audit fee.

Gavin stated that planning was now beginning for the 2015/2016 audit and the detailed Audit Strategy Memorandum setting out planned work and assessments in more detail would be presented to the Committee at its meeting on 18 March 2016.

The Committee were informed that Public Sector Audit Appointments Limited (PSAA) monitored the performance of all its audit firms and had found that Mazars was meeting all of its standards for overall audit quality and regulatory compliance requirements and had received the highest available rating of 'green'.

PSAA had published its consultation on the 2016/2017 proposed work programme and scales of fees and this proposed the same level of fees as the scale fees for 2015/2016 previously set by the Audit Commission. The Government had taken the decision to extend local authority audit contracts by one year to cover the 2017/2018 audit with the individual councils being required to locally appoint their auditors for 2018/2019 by 31 December 2017.

With reference to the IT Audit, Councillor Farthing expressed surprise that not all Council pcs had a screensaver and that generic accounts still existed. She felt that these were basic security issues which should be addressed.

Gavin stated that Mazars' work had been mainly focused on financial systems but during the course of the work, it had been found that there were a small number of generic accounts still in operation. The Head of Assurance, Procurement and Projects commented that having policies for IT use was the easy part but the issue was principally about compliance. He highlighted that non-compliance arose from attitudes, behaviour and culture within the organisation and this needed to be taken more seriously by officers.

23. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair