

AUDIT AND GOVERNANCE COMMITTEE
Friday 4 November 2022

Present:

Mr G N Cook in the Chair

Councillors P Gibson, Stewart and P Wood together with Mr M Knowles.

In Attendance:

Paul Wilson (Assistant Director of Finance) Paul Davies (Assistant Director of Assurance and Property Services), Paul Dixon (Chief Accountant), Kelly Brown (Audit Manager), Cameron Waddell (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillors Nicholson and Trueman.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 22 July 2022 be confirmed as a correct record.

Risk and Assurance Map 2022/2023

The Assistant Director of Assurance and Property Services submitted a report which asked the Committee to consider: -

- the updated Risk and Assurance Map and supporting Strategic and Corporate Risk Profiles based on assurances gathered from a range of sources;
- work undertaken by the audit, risk and assurance service during the year to date; and
- the performance of Internal Audit.

The Assistant Director of Assurance and Property Services directed Members to the Risk and Assurance Map and in doing so reminded the Committee that the Map and the Strategic and Corporate Risk Profiles had been agreed in April 2022 and the Map had been updated to reflected changes in both profiles. The Strategic Risk Areas summarised the risks to the priorities in the Council's City Plan and the Corporate Risk Areas were those which were due to the Council existing as an organisation. The changes to these were shown in red in appendices 2 and 3. Overall assurance was also provided in relation Council owned companies and the Cumulative Assurance Position was Green or Amber for all Strategic and Corporate Risk Areas.

There were updates to the mitigating actions within the Strategic Risk Profile, one was in relation to R06 'Unable to maximise the opportunities created by the Smart City Infrastructure' which had been updated regarding a funding bid for city centre shuttles. The mitigating action for R13 'Current model of social care cannot be sustained in the future, due to increasing pressures within the social care environment' had been updated to reflect current needs.

There had been some changes to the Corporate Risk Areas as follows: -

- The risk score for R02 'Strategic plans are not adequately communicated on a timely basis to relevant Council officers and external partners responsible for delivering plans' had been reduced from 8 (Amber) to 4 (Green) due to regular communications regarding the Council's priorities to employees and regular contact with Partners.
- The risk score for R40 'The ICT infrastructure is not fit for purpose (i.e. does not meet the needs of Council, not reliable, too expensive)' has reduced from 8 (Amber) to 4 (Green) due to the significant amount of work undertaken by ICT during and since the pandemic, to provide an effective ICT service to the Council.
- The assurance rating from the Business Continuity and Emergency Planning Lead in relation to R45 'Lack of awareness of content of business continuity plans' had changed from Amber to Green. This had resulted in the overall assurance rating for Business Continuity moving from Amber to Green which had been reflected in the Risk and Assurance Map.

Internal Audit opinions shown on the Risk and Assurance Map remained positive and the Assistant Director of Assurance and Property Services provided an update in relation to the eight significant risk recommendations made over three audits in the 2021/2022 Internal Audit Plan. These were summarised as: -

- Corporate Business Continuity Arrangements
This audit focussed specifically on the ability of the Council's business critical services to function in the event of a failure in the ICT provision. Two significant risk recommendations were made to improve the business continuity planning process in relation to identifying actions that would be taken by business critical services should ICT not be available for a significant length of time. Work had been undertaken with all of the business critical services to identify additional

actions to be taken and to be documented in business continuity plans.

- **Cyber Security – Vulnerability Management**
Following an external review by the National Cyber Security Centre and Department of Levelling Up, Housing and Communities a report and cyber treatment plan were issued to and agreed by the Council in January 2022. The report and cyber treatment plan made a number of high priority recommendations and funding had been made available to implement the plan. The Internal Audit report made three significant risk recommendations in relation to implement the cyber treatment plan and the update of policies and procedures as a result of this. Action had been taken in relation to all of the significant risk recommendations and they were expected to be completed by the agreed implementation date. In addition, quarterly updates were being provided to the Department of Levelling Up, Housing and Communities.
- **IT Disaster Recovery**
The cyber treatment plan mentioned in the point above also made recommendations with regard to IT Disaster Recovery. Internal Audit made three significant risk recommendations in relation to these issues which were agreed and were being progressed. Positive progress was being made regarding all of the significant recommendations and plans were in place to complete them.

Performance in relation to targets set for Internal Audit was shown at Appendix 5 with all Key Performance Indicators being on target.

Councillor Stewart referred to the Strategic Risk Profile action for 'More and Better Jobs' and suggested that, given the Bank of England's predictions for a recession, the energy crisis and Covid having less of an impact, the risk description may be revised.

The Assistant Director of Assurance and Property Services stated that those comments would be taken on board for the next review of the Strategic Risk Profile. It was difficult to summarise the cause as there were a large number of contributory factors.

10. RESOLVED that the report be noted.

Audited Statement of Accounts 2021/2022

The Assistant Director of Finance submitted a report providing Members with the Letters of Assurance required by the External Auditor as part of the final accounts process and presenting the Letter of Representation for 2021/2022. The Committee also received the Audit Completion Report from Mazars LLP providing their opinion on both the Council's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money). The audited Statement of Accounts for 2021/2022 was presented for approval by the Committee.

The Chief Accountant highlighted that the statutory audit deadlines had been extended for 2020/2021 and 2021/2022 and the Council had published its draft

accounts on 18 July 2022. The audit process was still going but it was expected that this would be completed by the end of November.

The Chief Accountant stated that it was expected that the outcome of the audit would be unqualified and that it would be concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Chief Accountant thanked the local authority teams and the team at Mazars for their contribution to the completion of the work.

The Committee were informed that the auditors had identified a small number of misstatements and one area had been highlighted as resulting in material adjustments to the Accounts. This was the Net Defined Benefit Liability (Pensions) with amendments being required as the result of an updated assets assessment recently provided by the Actuary which reported an improved fund position. These misstatements did not impact on the outturn position reported to Cabinet in June 2022.

The report highlighted significant items of audit work which were still to be finalised which included a national audit issue in relation to infrastructure assets, the valuation of Property, Plant and Equipment and the receipt of the required assurance from the Tyne and Wear Pension Fund auditors on the 2021/2022 Pension Fund accounts.

Cameron Waddell was in attendance from Mazars to present the Audit Completion Report and he confirmed that the auditors were a long way through the testing process with some areas of work still to be completed. The majority of significant risk work was complete, as was the pensions element, and it was anticipated that assurance on this would be received by the end of the month.

Cameron advised that Mazars would issue their Auditor's Annual Report in due course in relation to Value for Money but currently there were no identified weaknesses or required recommendations and it was highly unlikely that any would be identified between now and the end of the audit. Cameron also highlighted that, in the same way as in 2021, the Whole of Government Accounts could not be concluded until instructions were issued.

It had previously been highlighted to the Committee that infrastructure balances held by highway authorities was outstanding issue at a national level which was being given ongoing consideration but as yet there had been no firm decisions on the matter. Cameron indicated that there were two possible solutions to the problem, either to rewrite the accounting Code of Practice or for the Secretary of State to issue a statutory override.

The underlying issue was longstanding and related to record keeping and the values of infrastructure assets not being amended when there had been refurbishment or repair. Mr Knowles asked if this meant that assets were overstated and Cameron said that it was possible, but it may also transpire that some assets had been undervalued or had not been included at all.

The Chair thanked the Chief Accountant and his team and colleagues at Mazars for their work and commended them on their efficiency in relation to the production of the Financial Statements.

Having considered the report, the Committee: -

11. RESOLVED that: -

- (i) the contents of the Letter of Assurance from those charged with governance (Appendix A) and the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix B) be noted;
- (ii) the contents of the Letter of Representation (Appendix C) be noted;
- (iii) the contents of the Audit Completion Report (Appendix D) provided by Mazars LLP be noted;
- (iv) the revised Audited Statement of Accounts for the financial year ended 31 March 2022 (Appendix E) be approved; and
- (v) it be agreed that, should any amendments to the Statement of Accounts be required after the meeting of the Audit and Governance Committee, these be agreed by the Assistant Director of Finance in conjunction with the Chair. Members of the Audit and Governance Committee would be notified of any agreed changes.

Treasury Management Second Quarterly Review 2022/2023

The Assistant Director of Finance submitted a report presenting the Treasury Management performance to date for the second quarter of 2022/2023 and setting out the Lending List Criteria, Approved Lending List and Risk Management Review of Treasury Management.

The Chief Accountant highlighted that since Members last received an update in July 2022, there had been significant turbulence in the economy with the CPI reaching 10.1% and the Bank of England interest rates rising to 3.0%.

The Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates had continued to be volatile, however in line with discussions with the Council's treasury advisors, the Council had taken out £50 million of new borrowing during August to support the financing of the Capital Programme. The interest rate of 2.79% for a 48-year term was considered opportune at the time and would benefit the revenue budget over the longer term when compared with the current equivalent long-term rate of 4.27%,

The Council's interest rate on borrowing was low, currently 2.54%, and the authority had benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 1.88% compared with a benchmark of 1.22%.

The Treasury Management Prudential Indicators were regularly reviewed and the Council was well within the limits set for all of these. Further detail on the indicators was set out in Appendix A to the report. 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.

It was currently forecast that the Bank of England Base Rate would peak at 5.00% in March 2023 and then gradually fall back to 2.50% by the end of the forecast timeframe in September 2025. It was expected that PWLB rates would have a gradual upward movement with a peak at 4.90% in March 2023 before returning to 3.3% in March 2025. The Chancellor's Statement taking place on 17 November 2022 would also have an impact on the financial markets

The Chief Accountant directed the Committee to paragraph 3.2, Appendix A which summarised the investment position at the end of September 2022 and noted that the rate of 1.23% achieved in February was very good at the time, however 5.1% had been achieved just seven months later in September 2022. The scale of movement was unprecedented and would generate a return to the Council's revenue budget.

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. There had been no changes to the Lending List Criteria which were set out at Appendix B.

Mr Knowles observed that the market volatility led to a lot of risks but he was pleased to receive assurance that the investments made had been good. Councillor Wood noted that current rates of inflation were making managing finances more difficult.

The Assistant Director of Finance commented that the Council was waiting for the Statement on 17 November and then the Local Government Financial Settlement; both of these would be critical to understand the position for the Council for the next financial year. There were challenges and the Council did have some general and earmarked reserves but a lot would hinge on the settlement which was unlikely to be uplifted in line with inflation.

Councillor Stewart noted that a number of investments were due to mature before the end of December and he presumed that a better return would be achieved on this money going forward. The Assistant Director of Finance acknowledged that this was the plus side of the current situation.

Consideration having been given to the report, it was: -

12. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 1 of 2022/2023 (Appendix A) be noted; and

- (ii) 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 be noted.

Other Business – Public Sector Audit Appointments

The Assistant Director of Finance reported that the procurement exercise conducted by Public Sector Audit Appointments (PSAA) for auditors for 2023/2024 to 2027/2028 had been concluded and Mazars had been proposed as the Council's auditors for the next five financial years.

Cameron stated that Mazars were pleased to be continuing their relationship with Sunderland City Council and the Financial Reporting Council had recently issued a report on the quality of Mazars' work which would provide assurance to the Committee about the standards they could expect.

13. RESOLVED that the update be noted.

(Signed) G N COOK
Chair

