

AUDIT AND GOVERNANCE COMMITTEE
Friday 23 March 2018

Present:

Mr G N Cook

Councillors O'Neil, Scullion, Speding, Walker, Wood, and Mr M Knowles.

In Attendance:

Barry Scarr (Executive Director of Corporate Services), Paul Davies (Head of Assurance, Procurement and Performance Management), Tracy Davis (Assistant Head of Assurance), Liz St Louis (Head of Customer Service, Intelligence and ICT), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer)

Declarations of Interest

Councillor Speding declared an interest in items 4 and 5 as a Director of Sunderland Homes Limited.

Apologies for Absence

There were no apologies for absence.

Minutes

21. RESOLVED that the minutes of the meeting of the Committee held on 2 February 2018 be confirmed as a correct record.

Risk and Assurance Map – Update 2017/2018

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 directed Committee Members to the Risk and Assurance Map and highlighted that the cumulative assurance position for all of the Strategic Risk Areas was showing as green or amber. The report highlighted that there had been a small number of changes to the Strategic Risk Profile and it was particularly noted that the risk score

for R013 'The Council is not able to fulfil its statutory responsibility and/or achieve desired outcomes for children and young people' had been increased to 12 due to the financial position of Together for Children. The assurance rating from the Risk and Assurance Team had moved to amber and assurance from Financial Resources in relation to Together for Children had changed to red on the Risk and Assurance Map.

The Corporate Risk Areas were also showing as having full or moderate assurance (green or amber) with the exception of Health and Safety which was white because there was not a view on the assurance position as yet. The Committee were advised that three risk scores had been amended with regard to business continuity. All of these had moved from red to amber due to improvements which had been made and a successful full test of the ICT Disaster Recovery/Business Continuity arrangements.

There were now three Council companies included within the Risk and Assurance Map; Sunderland Care and Support and Together for Children had a Cumulative Assurance Position rated as amber and Sunderland Homes Limited had no rating at the present time because it was a relatively new addition to the Map.

An audit of Cyber Security had recently been completed and had concluded that significant improvements continued to be made in this area and the assurance level was considered to be amber. The National Audit Office had recently issued guidance for audit committees in relation to the assurances they should receive regarding cyber security arrangements and the report set out the current position in relation to each of these areas.

There were no new red ratings from Internal Audit and external assurance and the existing red issues had all been previously reported and discussed by the Committee. It was noted that one of these was in relation to Personal Budgets and the Chair asked that the Head of Adult Social Care be asked to come back to a future meeting of the Committee to provide an update on this issue.

The performance was on target for all KPIs apart from the percentage of medium risk recommendations implemented which stood at 89% against a target of 90% and 85% in schools.

Turning back to the red rating for Together for Children in relation to Financial Resources, the Executive Director of Corporate Services advised that the company had been formed on 1 April 2017 with a gross budget of £90m. There had always been the potential for teething problems, however the projected overspend had increased each month from September and now stood at £7.4m.

Members were reminded that this was a backwards looking view and that officers were optimistic that the company would be in a better position next year. Work was ongoing to achieve a more stable position for Together for Children and it was hoped that a permanent Chief Executive and Director of Finance would be appointed in the near future. It was also anticipated that Ofsted would return for a full inspection in the next few months and this would help to put the company on a firmer footing. The Council would be having discussions with Together for Children over the next few months to look at the contract amount and whether any extra resource could be provided.

The Committee were introduced to David Blake who was a non-executive director of Together for Children. David said that his day job was as a finance director and he had been helping the company in this area whilst there was no one in post and he stated that he agreed with the Executive Director's assessment of the current situation. He highlighted that interviews for the Chief Executive and finance director were taking place the following week so that issue would be resolved very soon.

David advised that the company had improved the way in which it produced forecasts and a consistent view was starting to come forward to the Council. There was a huge amount of monitoring in place and it was intended to augment the finance team with analytical resources.

Together for Children was a new business and was spending broadly the same amount of resource as the Council's Children's Services had done and it was hoped that the KPIs would show that this was moving in the right direction. Process issues had been addressed however, the company did recognise the challenge which the overspend presented to the Council.

The Chair asked if the £7.4m overspend was to be absorbed by the company and David stated that this was a big ask but there would be plans in place to achieve the projected shortfall going forward. The Executive Director of Corporate Services advised that £5m additional resource had been allocated to Together for Children in March, however the pressure in children's social care was a national and regional issue. In response to a question from Mr Knowles, it was confirmed that the forecasted overspend in December 2017 had been around £4m and the Council had identified additional resource in response to this.

Mr Knowles noted that the Committee had to be assured that there was an adequate level of control to ensure that the overspend did not increase further or happen again. David advised that financial control had not been the issue, it was forecasting which was not as robust as the company would have liked. Some of these issues had been ironed out and it was hoped that the scope for any increase in overspend had diminished. The Executive Director of Corporate Services agreed that the key to stability moving forward was the forecasting regime and the best time for the Committee to receive a report on this would be September.

The Chair thanked David for his attendance and he left the meeting.

Liz St Louis, Head of Customer Service, Intelligence and ICT, was in attendance to provide an update on the full test of the ICT Disaster Recovery/Business Continuity arrangements undertaken in February 2018.

Liz advised the following the major outage in September 2016 the ICT estate had been operated from Jack Crawford House and was moved back to Moorside in February 2017. A major test had taken place in February 2018 where the entire infrastructure had been taken from Moorside to Jack Crawford House, tests done to prove that everything worked and then the infrastructure was moved back to Moorside. The test had been completed in the set timescale with no disruption but there were some lessons to be learned from the exercise.

It was found that the internet link could not be switched due to issues caused by some obsolete hardware. This element would be built into future annual tests. It was also found that there was not the capacity available at Jack Crawford House to back up 100% of each day's work in the same way as was done at Moorside and this had now been addressed.

Councillor Walker referred to R046 and the term 'business critical services' and queried what would be classed as 'business critical'. The Head of Assurance, Procurement and Performance Management advised that managers were expected to set out what was business critical in their plans and he would be able to send out a written response providing further information. The Executive Director of Corporate Services commented that this was quite a difficult task as managers had to look at each function which they were responsible for and take a view which would then be challenged by other managers.

Councillor O'Neil asked if the ICT estate had been upgraded sufficiently for the future and Liz St Louis stated that it had and sizing was checked regularly at both Moorside and Jack Crawford House.

The Executive Director of Corporate Services paid tribute to ICT team and the effort which they had put in to ensure that the full test was carried out with minimal disruption.

Having considered the report, the Committee: -

22. RESOLVED that the updated Risk and Assurance Map 2017/2018 be noted.

Risk and Assurance Map 2018/2019

The Head of Assurance, Procurement and Performance Management submitted a report requesting the Committee to consider: -

- The proposed Risk and Assurance Map and the supporting plans of work for the Internal Audit and Risk and Assurance teams for 2018/2019;
- An updated Internal Audit Strategy; and
- Internal Audit's key performance measures and targets for 2018/2019.

The Internal Audit Strategy was set out at Appendix 3 to the report and this outlined how the service would be provided and the appropriate professional standards which would be adhered to. The strategy also detailed the role of Internal Audit and the Quality Manual which reflected in detail how the service would plan its work and ensure that it had the appropriate skills to do this.

The Internal Audit Strategy was similar to previous charters but had been updated in relation to staff numbers and language.

Members were directed to the Risk and Assurance Map for 2018/2019 and the Head of Assurance, Procurement and Performance Management highlighted that the Internal Audit and Risk and Assurance teams would be focusing on the areas of greatest risk and the full detail of this was set out in Appendix 2 of the report. It was

also noted that there was planned work in four areas in relation to Sunderland Homes Limited.

Councillor Speding commented that there was a wealth of detail covered in the report and the Council was subject to enquires about due diligence and asked if there was anything that could be done to summarise and clarify these assurances. The Head of Assurance, Procurement and Project Management said that he would consider how this might be done including use of plain English.

Councillor Walker queried the planned work on Liquid Logic and asked if there would be sufficient time for this to have bedded in before audit work was undertaken. The Assistant Head of Assurance advised that this had been in place for longer for a greater length of time for Children's Services and would be audited around six months after it had been introduced. This would form part of the overall reporting on the new system and any specific issues would be highlighted.

Following consideration of the report, it was: -

23. RESOLVED that the proposed Risk and Assurance Map and the supporting plans of work for the Internal Audit and Risk and Assurance teams for 2018/2019 be approved.

Proposed Forward Plan of Reports for 2018/2019

The Executive Director of Corporate Services submitted a report presenting the proposed Forward Plan of reports for 2018/2019 for the consideration of the Committee.

There would be four quarterly meetings during the year and an additional meeting was scheduled for February in order to consider the Treasury Management Policy and Strategy for the following financial year.

Having considered the report, it was: -

24. RESOLVED that proposed Forward Plan of reports for 2018/2019 be agreed.

Member Training and Development

The Executive Director of Corporate Services submitted a report providing Members of the Committee with the opportunity to identify areas for which they required any further training, refresher or awareness sessions to be arranged.

The Head of Assurance, Procurement and Performance Management advised the Committee that a briefing session would be arranged for Members on the unaudited Statement of Accounts so they could be made aware of key issues prior to the consideration of the audited accounts at the July meeting. It was also proposed that an update on the changes and developments taking place within the Council be provided at the next committee meeting.

Accordingly it was therefore: -

25. RESOLVED that: -

- (i) a report be received at the next Committee meeting on significant changes taking place or being proposed;
- (ii) a briefing be received regarding the 2017/2018 Statement of Accounts; and
- (iii) suggestions for further areas for training/awareness sessions be forwarded to the Executive Director of Corporate Services.

Audit Strategy Memorandum

Mazars, the Council's external auditors had submitted their Audit Strategy Memorandum for the year ending 31 March 2018.

The document was Mazars' audit plan for the 2017/2018 Accounts and the Memorandum summarised the responsibilities of the auditors in providing an audit opinion, reporting to the National Audit Office, providing a Value for Money Conclusion and enabling the rights of electors to question the accounting records of the Council.

The Committee were made aware of the Audit Engagement Team for the authority and it was highlighted that an engagement quality control reviewer had been appointed for this engagement. The report set out the audit scope, approach and timeline for the audit and detail about the preparation of group accounts was set out in the report including the intention to carry out a full scope audit of Together for Children Limited. Mazars were involved with the audit process for Together for Children and were liaising with the company's auditors Robson Laidler and reviewing a sample of their work.

The nature of the group had changed quite significantly with Together for Children being one of six additional entities, the others being Sunderland Care and Support Limited, Sunderland Homes Limited, Siglion LLP, Sunderland Lifestyle Partnership Limited and the IAMP LLP. Mazars would liaise with the other company auditors and it was noted that Sunderland Homes Limited would be applying for an audit exemption for 2017/2018. Group materiality had been set at £13.5m and the level of triviality was £405,000.

The significant risk for the group had been identified as management override of controls, revenue recognition, property, plant and equipment valuations and defined benefit liability valuation. Other key areas of management judgement were group accounts consolidation and business rates appeals. There were two significant risks in relation to Value for Money work which were responding to financial pressures and children's safeguarding. The Value for Money Conclusion would remain qualified until there was a full Ofsted review of the Children's Safeguarding service.

The audit fee for 2017/2018 had remained the same as 2016/2017, however the scale fee for housing benefit subsidy certification work had increased from £7,725 to £9,309.

The Committee were advised that the auditors were required to issue an extended auditor's report as the Council had been identified as a 'Public Interest Entity' because it had a small amount of historical debt listed on the stock exchange.

Having considered the report, the Committee duly: -

26. RESOLVED that the Audit Strategy Memorandum be noted.

External Auditor – Audit Progress Report

Mazars, the Council's external auditors, had submitted their regular Audit Progress Report covering the period up to March 2018.

Gavin Barker advised that the 2017/2018 audit planning was now complete, as documented in the Audit Strategy Memorandum, and arrangements had been made to bring forward the accounts and audit timetable.

One issue which had been identified through the audit planning work which was in relation to parameters in the business rate system. A recommendation had been made for the annual check of parameters being uploaded to the system was documented in future. Officers had agreed this recommendation.

The Committee were informed that from 2018/2019, the Council had to make its own arrangements for housing benefits work as this would no longer be covered by the PSAA contract. Guidance was being issued by the Department for Work and Pensions on this and it was likely to be a short timescale for the councils to identify their reporting accountant for housing benefits.

The report highlighted the publication of the following documents: -

- Financial difficulties experienced by Northamptonshire County Council
- Local authorities encouraged to consider local public accounts committee, APSE, February 2018
- Sustainability and Transformation in the NHS, National Audit Office, January 2018
- Preparing for full GDPR implementation by 25 May 2018

Accordingly the Committee: -

27. RESOLVED that the Audit Progress Report be noted.

Local Government (Access to Information) (Variation Order) 2006

28. RESOLVED that in accordance with the Local Government (Access to Information) (Variation) Order 2006 the public be excluded during consideration of the remaining business as it was considered to involve a likely disclosure of information relating to the financial or business affairs of any particular person (including the Authority holding that information) (Local Government Act 1972, Schedule 12A, Part I, Paragraph 3).

(Signed) G N COOK
Chair

Note:

The above minutes comprise those relating to items of business during which the meeting was open to the public.

Additional minutes in respect of other items are included in Part II.