

AUDIT AND GOVERNANCE COMMITTEE
Friday 26 July 2019

Present:

Mr G N Cook

Councillors Crosby, Lawson, Scullion, and Stewart together with Mr M Knowles.

In Attendance:

Jon Ritchie (Executive Director of Corporate Services), Paul Davies (Assistant Director of Business and Property Services), Paul Wilson (Assistant Director of Finance), Tracy Davis (Senior Manager Assurance), James Magog (Chief Accountant), Lisa Armstrong (Finance Manager), Rhiannon Hood (Data Protection Officer), Stuart Cuthbertson (Senior Policy Officer), Cameron Waddell and Diane Harold (Mazars) and Kate Kirton (Principal Governance Services Officer)

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

There were no apologies for absence.

Minutes

1. RESOLVED that the minutes of the meeting of the Committee held on 26 April 2019 be confirmed as a correct record subject to an amendment to the final paragraph of the item on the 'Review of Internal Audit' to read: "Diane Harold commented that the External Auditor had been assured about the risk mapping approach within the service".

Update on the City Plan

Stuart Cuthbertson, Policy Manager, was in attendance to provide an update to the Committee on Sunderland's City Plan.

The City Plan was to be the Council's overarching strategic plan and had been in development since August last year. The plan sets out six challenges for the city: -

- Migration
- City centre does not act as an economic motor for the city
- Good at inward investment; less good at growing Sunderland businesses
- Residents; do not have the skills and qualifications that local industry is looking for
- Health remains poor and health behaviours have not changed sufficiently
- High levels of children in need and care

The Plan set out three themes of Dynamic, Healthy and Vibrant City and each had five commitments in addition to a vision and values. The timeline of activities within the Plan showed the key activity which would happen between now and 2030. Activities were firm in the early years due to certainty about what was happening over that period but this was less certain in later years and the list became more illustrative. The timeline would be updated and would be an iterative process.

Performance would be measured and performance management arrangements would cover priorities, delivery actions, milestones and targets. The progress against the plan would be overseen through the monthly performance clinics and quarterly reporting to the Scrutiny Committee and Cabinet.

The draft City Plan had been shared with key partners and council staff and would primarily be published electronically on the Council's website and The Hub. There was previously a statutory requirement to produce a strategic plan but this was removed in 2010 by the Coalition Government. Sunderland City Council had continued its robust approach to strategic planning through the Corporate Plan since that time, however in the future this would take the form of the City Plan.

Having thanked Stuart for the update, it was: -

2. RESOLVED that the information be noted.

Risk and Assurance Map 2019/2020

The Assistant Head of Business and Property Services presented 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; and
- the performance of Internal Audit.

Members were directed to the Risk and Assurance Map and reminded that the Strategic and Corporate Risk Areas, together with the Cumulative Assurance Position were set out on the left hand side of the Map and the right hand side showed the sources of assurance. The first line was Management Assurance collected from Assistant Directors and the second line was from corporate functions and was collected on a quarterly basis. The third line of assurance was from Internal

Audit and External Assurance. The Strategic Risk Profile and Corporate Risk Profile were fully set out in Appendices 2 and 3.

The Council owned companies of Sunderland Care and Support, Together for Children and Sunderland Homes Limited were included within the Risk and Assurance Map. Members were advised that the assurance in relation to Financial Resources for Together for Children had changed from red to amber. Quarterly updates had shown an improving trend in this area, although the overall rating for the company remained at red/limited.

The risk rating for Strategic Financial Management had moved from green to amber due to the uncertainty of the future financial and funding position for Local Government and also the impact which Brexit may have on funding sources and levels. All other areas of risk had remained the same, however the Strategic and Corporate Risk Profiles would be updated in line with the new City Plan.

The work of the Risk and Assurance team over the last quarter had included major capital schemes such as the SSTC Phase 3, the IAMP, enterprise zones; corporate projects such as the introduction of Office 365 and the move to Cloud Technology and the new Civic Centre; risks in relation to Brexit; and arrangements in relation to anti-money laundering.

Appendix 4 showed the detailed results of completed Internal Audit work carried out so far this year and the performance in relation to targets was set out at Appendix 5. Performance was on target for all KPIs except for the implementation rate for agreed actions in relation to schools which stood at 86% against a target of 90%.

Mr Knowles commented that it was positive to see improvements in relation to Together for Children and accordingly, the Committee: -

3. RESOLVED that the report be noted.

Annual Report on the Work of the Committee 2018-2019

The Assistant Director of Business and Property Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2018/2019 and the outcome of the work. The report demonstrated how the Committee had fulfilled its role and would be presented to 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 Risk and Assurance Maps, the improvement of the Children's Safeguarding Service as part of Together for Children Limited, the systems for Adult Social Care Personal Budgets, the Council's Corporate Asset Management arrangements, external auditor progress reports, treasury management arrangements, the Annual Governance Review and the 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.

Having noted the positive report, it was: -

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

Audited Statement of Accounts 2018/2019

The Executive Director of Corporate Services submitted a report providing members with the Letters of Assurance required by the external auditor as part of the final accounts process and the Letter of Representation for 2018/2019. The report also presented the Audit Completion Report from Mazars LLP concerning the financial statements for 2018/2019 and provided an audited Statement of Accounts for 2018/2019.

The Committee were informed that the draft accounts were circulated and published online by 31 May 2019, meeting the statutory deadline and a Letter of Representation had to be prepared by the Section 151 Officer setting out the principles used in preparing the accounts and providing the external auditor with the necessary assurances required by regulation.

The Chief Accountant highlighted that the Statement of Accounts was positive overall and that Mazars proposed to issue an unqualified opinion on the financial statements. They also anticipated concluding that the Council has proper arrangements in place for securing Value for Money, except for those areas which had been assessed as inadequate by Ofsted in the report Children's services in July 2018. This 'except for' conclusion had been in place since the original assessment in 2015.

The production of the accounts was a team effort and the Chief Accountant thanked colleagues and Mazars for their assistance throughout the process.

The Statement of Accounts was set out at Appendix E to the report and the Audit Completion Report was at Appendix D. Members' attention was drawn to section 5 of the report which referred to the misstatements adjusted by the Council and set out some further detail on the on the main changes in the accounts. These were around Guaranteed Minimum Pensions (GMP) liabilities and the McCloud judgement, Siglion Fair Value and Airport Fair Value. Although these were complicated issues, the local authority had worked with Mazars to ensure a positive resolution and none of the misstatements had any bottom line impact on the Council in 2018/2019.

The Committee were advised that, should any subsequent amendments of note to the audited accounts be required, then these would be agreed by the Executive Director of Corporate Services in conjunction with the Chair. Changes would then be communicated to the Committee through an update to Mazars' Audit Completion Report

Mazars LLP had audited the financial statements of the Council in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the

National Audit Office and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

Cameron Waddell presented Mazars' Audit Completion Report which set out their opinion and Value for Money conclusion for 2018/2019.

The Committee were advised that given the tight timescales between the publication of the draft financial statements and the final date for issuing the audit report, work would continue right up to the point of signing off the accounts. The audit work was broadly complete but work needed to be finalised in relation to Pensions, Property, Plant and Equipment, group accounts and closing procedures.

Mazars were required to report on Key Audit Matters which were Property, Plant and Equipment and Defined Benefit Liability Valuation and there were no issues identified with either of these beyond the matters already identified in relation to McCloud judgement.

Work had been completed with regard to Management Override of Controls and Revenue Recognition and no significant issues had been found. The Council was required to make judgements in respect of the fair value measurements of unquoted equity investments it holds including those in Newcastle Airport and several joint ventures. Following the audit, the Council decided to change the basis of measurement of its investment in Siglion from fair value to cost and amendments to the financial statements were required to reflect this and the changes to the valuation of the Airport shares. Mazars had obtained the assurance sought and there were no significant issues to highlight to the Committee. There were also no matters to report in relation to impairment of debtor's allowance.

It was queried whether the Airport and Siglion shares had been revalued downwards and it was noted that the reduction in Airport shares value presented in the draft accounts had been corrected and reversed in the audited accounts. Siglion was now a fully owned subsidiary of the Council, with the shareholding reflecting this ownership.

Councillor Stewart asked about the leisure centre which had been omitted from the Group balance sheet adjustment for the leisure joint venture. The Assistant Director of Finance confirmed that this was the Raich Carter Centre; an up to date valuation was obtained and the centre was included within the adjustment and the external auditors were satisfied with this.

Turning to the Value for Money Conclusion, Cameron Waddell advised that the National Audit Office set an overall criterion 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" with the following sub-criteria: -

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

The external auditors were satisfied that in all significant respects, Sunderland City Council had proper arrangements in place to ensure that it takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people. The exception to this was the areas of Children's Services which had been judged to be 'inadequate' in Ofsted's report to the Council in July 2018. This judgement immediately resulted in a qualification to the Value for Money conclusion and would remain an issue until the inadequate rating improved.

Diane Harold commented that it had been her first audit for the authority and she wished to record her thanks to officers for their help, support and commitment to quality.

Having thanked the external auditors for their report, the Committee: -

5. RESOLVED that: -

- (i) the contents of the Letter of Assurance from those charged with governance and the Letter of Assurance from 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;
- (iv) the Amended Audited Statement of Accounts for the financial year ended 31 March 2019 be approved; and
- (v) it be agreed that should any amendments to the Statement of Accounts be required after the meeting of the Committee but prior to the sign off on 31 July 2019, these be agreed by the Executive Director of Corporate Services in conjunction with the Chair.

Treasury Management Review of Performance 2018/2019

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2018/2019 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 7 March 2018.

The Treasury Management function continued to contribute financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.04% was low and this compared favourably with other local authorities as did the 0.93% rate of return achieved on investments.

Members were reminded of the basis for the agreed Borrowing Strategy for 2018/2019 and that it had been reviewed in June, September and December 2018. During the year, the Bank of England had increased the base rate to 0.75%, and this had remained unchanged ahead of the original Brexit deadline of 29 March 2019, which had now been delayed until 31 October 2019. PWLB rates reflected continued

market volatility and, having set a benchmark financing rate of 3.5%, the Council had taken advantage of low borrowing rates troughs which had occurred and had taken out £60m of new borrowing during the financial year to support the agreed capital programme. Rates had not been sufficiently favourable for debt rescheduling in 2018/2019 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 at £584.123m for 2018/2019 and the Operational Boundary for External Debt was set at £459.123m and the authority was well within the tolerances for these.

The Investment Strategy for 2018/2019 was also approved by the Council on 7 March 2018 and had a general policy objective of the prudent investment of its treasury balances. The investment policy was regularly monitored and reviewed to ensure it had the flexibility to take full advantage of any changes in market conditions to the benefit of the Council. The rate of return on investments, as reported during the year, had remained at very low levels compared to previous years, although there had been some upward movement since the increase in the base rate to 0.75% announced in August 2018.

Following consideration of the report, the Committee: -

6. RESOLVED that the positive Treasury Management performance for 2018/2019 be noted.

Treasury Management 2019/2020 – First Quarterly Review

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the first quarter of 2019/2020 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 continued to be volatile, therefore no new borrowing had been taken out to date in 2018/2019 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 3.02%, 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 0.98% compared with a benchmark of 0.57%.

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. Appendix A provided further insight around the borrowing and investment strategy and the

current economic climate. There remained a caveat on all economic data in respect of the final outcome of Brexit discussions.

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.

7. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2019/2020 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Data Protection Annual Report 2018/2019

The Director of People, Communications and Partnerships and the Data Protection Officer submitted a joint report providing the Committee with information about the work and findings of the Council's Data Protection Office during the past year.

The Council was required to appoint a Data Protection Officer to advise on its data protection responsibilities and act as its point of contact with the Information Commissioner's Office (ICO). The Data Protection Office also provided a service under service level agreements to connected organisations, including the Council's wholly owned companies, NECA and those schools and academies which subscribed to the service.

The new data protection laws were underpinned by the two key principles of transparency and accountability and one of the central data subject rights under GDPR and the Data Protection Act 2018 was to have access to records containing their personal information. A small team of four officers handled these requests and 172 cases were closed during the year with 147 of these being within the timescale of one calendar month. Of the 25 cases which exceeded the timescale, one was from the Council and 24 were for Together for Children. It had historically proved challenging to respond within time limits where a case involved multiple files and family members. Health and other professionals are also required to be asked for their view on the release of records originating from them and this could incur delay.

A dedicated reporting address had been established for incidents and concerns about data protection compliance and the authority required the reporting of all incidents, however low level these were. High level incidents were reported to the Information Commissioner and seven breaches had been reported during the course of the year. Four had been reported by the Council and three by members of the public. There had been no formal enforcement action taken in relation to the Council's or its connected organisations' compliance with their data protection responsibilities, however the ICO had made practice recommendations in relation to cases reported to their office and these had been accepted and implemented.

The Data Protection Office also had oversight of the Council's use of covert surveillance with effect from April 2019 and there had been no use of Regulation of Investigatory Powers Act (RIPA) authorisation since that date.

Moving forward it was recommended that the Council and its connected organisations continued to work with the Data Protection Office to refine arrangements in the light of the first year's operation of GDPR. In preparation for the Council's move to City Hall and adopting a digital by default approach to record keeping, a programme was underway to identify and destroy or relocate paper records.

It was queried how long data would be retained under the new Office 365 system and the Data Protection Officer advised that there were a wide range of retention periods. If it was a formal record then it would be saved but it was temporary then there was no necessity to retain this.

Councillor Stewart asked about the threshold with regard to judging breaches as being amber or red. The Data Protection Officer said that a triage system had been adopted where green indicated that there had been no impact as a result of the breach. Amber would be used to score breaches such as a misdirected letter and red where an incident had a potential impact on the individual concerned.

Having considered the report, the Committee: -

8. RESOLVED that the Data Protection arrangements in place, performance against the Data Protection standards in the 2018-2019 year and the information provided in the report be noted.

(Signed) G N COOK
Chair

