

AUDIT AND GOVERNANCE COMMITTEE
Friday 30 September 2016

Present:

Mr G N Cook

Councillors O'Neil, Wood, N Wright and Mr M Knowles.

In Attendance:

Barry Scarr (Interim Director of Corporate Services), Alex Hopkins (Director of Children's Services), Sarah Reed (Assistant Chief Executive), Paul Davies (Head of Assurance, Procurement and Projects), Liz St Louis (Head of Customer Service and Development), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), James Magog (Strategic 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 Councillor Speding.

Minutes

9. RESOLVED that the minutes of the meeting of the Committee held on 24 June 2016 be confirmed as a correct record.

Liz St Louis, Head of Customer Service and Development, was in attendance to provide a further update on business continuity and disaster recovery activities.

Liz reported that there had been a major incident in recent weeks and IT systems in the Council had been badly affected but access had been restored to users in accordance with the Business Continuity and Disaster Recovery register.

The Technical Planning Board had agreed the scope of the testing regime and which systems would be included. Four major applications would be tested: telephony/VOIP; Telecare 247; SWIFT; and finance systems. There would be a three

month testing cycle with the exception of Telecare which was to be tested monthly and had been tested successfully the previous night.

The Interim Director of Corporate Services commented that it was positive that the Council was able to recover so quickly from the major incident. There was now an opportunity to review what had been learned from the incident and a lessons learned report would be brought to the Audit and Governance Committee in the New Year.

The Chair thanked Liz for her update and looked forward to receiving the report on the major incident response.

Alex Hopkins, the new Director of Children's Services was welcomed to the Committee and he advised that he intended to outline where the directorate was in terms of improvement, the development of the new company and the key challenges and risks for the future.

Alex stated that there had been a huge amount of work undertaken in the last year and highlighted that when children's services required this level of improvement then it was the whole system which had to be addressed.

Ofsted were carrying out a series of monitoring visits or 'mini- inspections' and these were mainly case-based and were assessing the quality of case work on the ground. Over the summer period Ofsted had looked at the services for care leavers in Sunderland which was a total caseload of 150 young people. The lead for the monitoring visit was also the lead inspector for the original inspection and the outcome of the visit had been very positive and there was real evidence of progress in local authority services for care leavers.

It was found that staff felt more confident and supported and all young people felt safe and supported where they were living and there was a good range of housing options in place. The number of care leavers with a pathway plan had been 69% in November 2015 and this had risen to 89% in June 2016. The care leavers' service had been in touch with 30% of care leavers at the time of the inspection and this had now risen to 82%.

Alex highlighted some of the key areas for further improvement noting that case recording needed to be better, as did the quality of plans. Management oversight and challenge were also to be further developed along with health passports which needed to be managed better by the NHS. Staff had been nervous about the visit before it took place but all had reported it as being a positive experience. The next monitoring visit would take place in November.

The Secretary of State had agreed to the signing of a Memorandum of Understanding between the Council and the Department for Education with regard to the new children's company and there was a possible date for a ministerial visit. The scope and scale of the company and the support services required in order to make the organisation sustainable and independent from the local authority were currently being worked through. The company would exist in shadow form from October 2016 and work would take place in relation to contract development and budget negotiations. The company would go live on 1 April 2017.

Turning to the challenges and risks moving forward, Alex highlighted that recruitment and retention of staff was still an issue with a continued over reliance on agency workers, especially at the front end of child protection work. New members of staff were joining Sunderland from within the region but the process would take time, however it was hoped that recruitment would be influenced by existing social workers spreading the word about the improvements which were being made. A large amount of work had been done around compliance and it was now necessary to look at quality. It was noted that recent IT issues may impact on performance.

Councillor Wright commented that the Scrutiny Coordinating Committee had visited staff from the Next Steps care leavers' service and it had been a very worthwhile visit. She agreed that the staff did seem to be in a better place and elected Members had felt that an open and honest discussion had taken place and the new management approach was more open and accessible.

The Scrutiny Coordinating Committee had noted that there was a potential opportunity regarding Together for Children moving forward. There had been substantial investment in the service and a fall in caseloads but administrative work did serve to divert staff from their caseload. It was strongly felt that the IT system was not fit for purpose and it was hoped that this would change during the next year. There was also a benefit in moving the service from Sandhill to the city centre as this was more accessible for young people.

With regard to accommodation choices for care leavers, Councillor Wright commented that this had definitely improved but there was a concern about emergency situations. It was noted that the bed and breakfast accommodation had been used in the past and this was no longer the case. Whilst Members were aware that bed and breakfast accommodation was not ideal, they felt it would be better to have this available than having nothing.

Alex Hopkins stated that the Liquid Logic IT system which was coming on stream would lead to big changes in case management and the new location for the leaving care service meant that the door was always open for young people. He added that standards and expectations were being re-set in relation to emergency placements and emergency provision was currently being developed. It was not acceptable to place young people in a bed and breakfast except in extreme circumstances.

The Chair thanked Alex for his comprehensive report.

Update on Key Issues

Sarah Reed, Assistant Chief Executive, delivered a presentation to the Committee on the key issues facing the Council.

The Council was managing a difficult budget situation and managing demand for services. As the Council contracted in size, it would have a greater focus on commissioning services. Joint arrangements would still exist and the Council would have a role as an influencer and shaper. The Council itself was changing shape and

there would be a restructure of senior management and a review of governance arrangements around decision making and partnerships.

External considerations included growing the business base of the city, focusing on education and skills, house building and employment levels. The Council also had to champion local concerns in the environment of the Combined Authority, devolution, Brexit and other public sector reform. Developments in the public sector included NHS Sustainability and Transformation plans, the 16-24 education review and blue light services.

The Council was currently pulling together its Corporate Plan and three key priorities had been identified through which the Council was most able to positively influence outcomes for Sunderland, its residents, communities and businesses. These were: Regenerating the city; Safeguarding our residents; and Future Council. Using an evidence based approach and strong performance management it would be assessed how the key issues fitted into the key priorities. The Corporate Plan would be underpinned with operating plans which set out clearly the responsibilities of officers and members.

Having thanked Sarah for her presentation, it was: -

10. RESOLVED that the update be noted.

Corporate Assurance Map 2016/2017 – Update

The Head of Assurance, Procurement and Projects presented the updated Corporate 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.

Members were directed to the map itself and it highlighted that the assurance position for the Strategic Risk Areas had not changed but on this occasion there was no detailed appendix for this as the new Strategic Risk Profile would be considered elsewhere on the agenda.

The Head of Assurance, Procurement and Projects drew attention to the Internal Audit opinion in relation to legality, highlighting that this had changed from green to amber. This was due to limited assurance being provided on arrangements for ensuring staff had clearances from the Disclosure and Barring Service and that social workers' practising certificates were kept up to date. This matter had been discussed at the Executive Management Team and would be followed up in the next quarter and if progress was not made then the relevant senior officers would be invited to attend the Committee.

Internal Audit had also recorded limited assurance in relation to Information Governance and the Committee were advised that recommendations regarding a small number of emails being sent to outside organisations containing confidential information without being adequately protected had been followed up by the team and it had been found that the majority had not been effectively implemented. This

had also been discussed at the Executive Management Team and would continue to be monitored.

All other areas which were marked in red had been so on previous iterations of the map and were related to the findings of the Ofsted review of Children's Services, the ICT plan and business continuity.

The work of the Risk and Assurance Team was set out within the report and it was highlighted that the team was involved in all areas of major change within the Council. With regard to Key Performance Indicators, these were on target with the exception of the percentage of significant risk recommendations implemented by the due date which stood at 91% against a target of 100% and medium risk recommendations which were 87% for Council services and 79% for schools against a target of 90%.

Having considered the report, it was: -

11. RESOLVED that the updated Corporate Assurance Map 2016/2017 be noted.

Strategic Risk Profile

The Interim Director of Corporate Services submitted a report setting out the process for developing a new Strategic Risk Profile for the Council and seeking Members' agreement for the new profile.

The current Strategic Risk Profile had been developed in 2012 and based on the Corporate Plan which was in place at the time. The Council had developed a new Corporate Plan over recent months which set out its priorities and key actions for their improvement and the new Strategic Risk Profile had therefore been developed in line with the new Corporate Plan.

The Head of Assurance, Procurement and Projects advised that meetings had been held with each Chief Officer to identify risks, causes and impacts, evaluate the risks and develop mitigating actions. These were then subject to a quality assurance review by the Interim Director of Corporate Services and the Assistant Chief Executive.

The Strategic Risk Profile referred only to risks in the Corporate Plan, day to day operational risks would be reflected in the Corporate Risk Profile which was also being developed and would be brought to the next Committee meeting. Following the completion of the profiles, the Corporate Assurance Map would be updated to reflect the new risk areas.

The Head of Assurance, Procurement and Projects guided Members through the revised profile highlighting that the priority actions from the Corporate Plan were listed on the left hand side of the profile and the description of the strategic risk was how the relevant Executive Director viewed the risk and the cause and impact if the risk materialised. The target risk score showed where the Council wanted to get to and the mitigating actions were the means by which this would be achieved.

Progress against the targets would be included within the appendix to the Corporate Assurance Map and changes would be reflected over time.

The Chair commented that he found the Strategic Risk Profile to be very straightforward and an improvement on the previous version. He also noted that the Committee needed to monitor the final column which set out the timescales and welcomed that the profile would be a living document and updated every time it was brought to the Committee.

Mr Knowles stated that he was particularly pleased to see that improving health and wellbeing was one of the Corporate Plan priorities and noted that the Vanguard was vitally important and needed to be monitored.

Following consideration of the new profile, it was: -

12. RESOLVED that the Strategic Risk Profile be approved.

Public Sector Auditor Appointments

The Interim Director of Corporate Services submitted a report setting out the options for appointing external auditors and seeking approval for the Interim Executive Director, in consultation with the Chair of the Committee, to make a recommendation to the Council in this regard.

The Committee had considered a report at its meeting in December 2015 which set out the options for the Council to appoint its external auditors from 1 April 2018. The three options were as follows: -

- Make a stand alone appointment
- Establish a joint Auditor Panel/local joint procurement arrangements
- Opt into a sector led body arrangement

There were positives and negatives with each option but at this stage the preferred approach was to opt into the national sector led body, Public Sector Audit Appointment Limited, who would procure and manage the relationship with auditors on behalf of local authorities. Since the report had been written a number of other local authorities in the region had expressed a preference for this option.

The decision on the preferred option had to be made by the full Council before the end of 2016 and due to the timescales involved the Committee was asked to agree that the Interim Director of Corporate Services make a recommendation to Council having taken account of the regional position.

It was therefore: -

13. RESOLVED that the Director of Corporate Services, in consultation with the Chair of the Committee, make a recommendation to the Council on the appointment of external auditors with effect from 1 April 2018.

Audited Statement of Accounts 2015/2016

The Interim Director of Corporate Services submitted a report presenting the Letter of Representation for 2015/2016, the Audit Completion Report from Mazars LLP and providing an audited Statement of Accounts for 2015/2016. 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 Section 151 Officer 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 advised that they had found that the Council had good arrangements in place and there was a low error rate within the accounts document. In relation to the Value for Money conclusion, the auditors would issue a qualified opinion due to the inadequate judgement from Ofsted on the Council's Children's Services. This was the same position as the previous financial year and Mazars would be unable to issue an unqualified audit opinion until Ofsted provided the Council with a positive inspection report.

Gavin Barker directed Members to the findings of the audit and 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 detailed testing had been carried out to address the risk and had provided the assurance which the auditor had sought.

The other significant risk had been in relation to pension entries and significant procedures had been undertaken with regard to this highly technical and complex area. Assurance had now been received from the auditors of the Tyne and Wear Pension Fund and there were no issues highlighted to bring to Members' attention.

The Council had made an adjustment to the group accounts in relation to the leisure joint venture to recognise the Council's share of the net asset value of the leisure joint venture company and Mazars were satisfied with this outcome.

There had been no internal control recommendations and there were a number of misstatements identified for adjustment, however this was a minimal number given the complexity of the accounts and reflected the Council's comprehensive approach. Gavin highlighted that the external auditors had an excellent working relationship with Council officers and were able to ask questions at all stages of the process.

The Committee were advised that there had been new criteria and a new approach this year for the value for money assessment and two significant risks had been identified in relation to this; responding to financial pressures and children's safeguarding services.

Gavin commented that the Council had a good record of delivering in difficult circumstances but it was acknowledged that this would be getting more and more difficult and would become more noticeable in service delivery, however the Council continued to manage the risks well. The Council's Corporate Plan was a good document, setting out key priorities and demonstrating that the authority was trying to look at things differently under austerity. The restructure proposals provide much needed clarity, together with the Corporate Plan and the refresh of the performance management framework. There were a large number of key challenges for the future and it was easy to see how these fitted in with the priorities outlined in the Corporate Plan.

Gavin concluded by saying that the auditors intended to issue an unqualified audit opinion and would issue an audit certificate once the Whole of Government Accounts return was completed and this was expected to happen sometime during the next week.

Councillor Wright endorsed the report and complimented the Council staff for their work in this period of unprecedented funding cuts. She made reference to the Procurement Strategy which was currently being refreshed and asked how long this process would take and queried how many equal pay claims remained outstanding and likely timescale for them to be resolved.

The Head of Assurance, Procurement and Projects stated that the initial draft Procurement Strategy had been reviewed and would be considered by the Interim Executive Director in the next few weeks with a view to it being finalised by the end of the year.

The Interim Executive Director advised that where equal pay claims had already been launched then these would be settled, however there was an open liability for those who could claim but had not done so as yet.

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

14. RESOLVED that: -

- (i) the contents of the Letter of Representation be noted;
- (ii) the contents of the Audit Completion Report provided by Mazars LLP be noted; and
- (iii) the Amended Audited Statement of Accounts for the financial year ended 31 March 2016 be approved.

Treasury Management – Second Quarterly Review 2016/2017

The Director of Corporate Services presented a report outlining the Treasury Management performance for the second quarter of 2016/2017 and setting out the Lending List Criteria and Approved Lending List.

The Assistant Head of Financial Resources highlighted that the Treasury Management performance continued to be positive despite the current uncertainty in financial markets. 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 2015/2016 and continued to be volatile. It was forecast that the impact of the Brexit vote and low levels of economic growth would mean that PWLB rates would remain low into the medium term. It had been decided to take advantage of these low rates to borrow £20m to support the Council's Capital Programme requirements with £10m being taken out at a rate of 2.55% prior to Brexit and another £10m at 2.15% afterwards.

The Council's interest rate on borrowing was very low, currently 3.34% and was the lowest rate in the country. The rate of return on investments was 0.83% compared with a benchmark of 0.32% and the Assistant Head of Financial Resources advised that this rate had dropped and was likely to continue on a downward trend following the Bank of England's decision to cut the base rate and as a consequence of Brexit. The Interim Director of Corporate Services advised that the authority was likely to maximise internal borrowing during the next year.

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 an appendix to the report for information. The Committee were informed that credit rating agencies Fitch and Standard and Poor's had reduced the UK's credit rating and this had led to a change in the Lending List Criteria for Government backed institutions.

15. RESOLVED that: -

- (i) the Treasury Management performance for the second quarter of 2016/2017 be noted; and
- (ii) the changes to the Lending List Criteria set out at Appendix B be approved;
- (iii) the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

Retirement of Dennis Napier, Assistant Head of Financial Resources

The Chair took the opportunity to thank Dennis Napier on behalf of the Committee for his contribution and valued support over the years and wished him well for the future and in his retirement.

(Signed)

G N COOK
Chair