

AUDIT AND GOVERNANCE COMMITTEE
Friday 5 February 2021

Present:

Councillors Crosby, Lawson, N MacKnight, Stewart and Wood together with Mr M Knowles.

In Attendance:

Jon Ritchie (Executive Director of Corporate Services), Paul Davies (Assistant Director of Business and Property Services, Tracy Davis (Senior Manager - Assurance), Paul Dixon (Chief Accountant), Cameron Waddell and Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

Councillor Stewart declared an interest in item 5 'Risk and Assurance Map – Consultation for 2021/2022' as a Board Member of Siglion LLP.

Apologies for Absence

Apologies for absence were received from Mr Cook.

Minutes

16. RESOLVED that the minutes of the meeting of the Committee held on 16 October 2020 be confirmed as a correct record.

Risk and Assurance Map Update 2020/2021

The Assistant Director of Business 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 Committee had previously agreed the Risk and Assurance Map in July 2020 and the Strategic and Corporate Risk Profiles and Map had been updated following consultation with Chief Officers and relevant key officers.

Members were directed to the Risk and Assurance Map and it was highlighted that the Strategic Risk Areas reflected the current City Plan. The cumulative assurance position was substantial or moderate for all of these areas apart from one which was limited due to the Ofsted judgement in relation to Children's Safeguarding. The City Plan had been refreshed and once agreed would be reflected in the Strategic Risk Areas. The full Strategic Risk Profile was shown at Appendix 2 and changes were shown in red text.

There had been an update to R02 'Sunderland is very good at attracting inward investment but is less successful at growing Sunderland businesses and local start ups' and it was now described as 'The city, its residents and businesses do not emerge from the Covid-19 pandemic in a strong and competitive position.' The risk score had been increased from 9 to 16 and remained Red.

The risk score for R06 'Unable to maximise the opportunities to advance wired and wireless connectivity' had been reduced from 9 (Red) to 6 (Amber) due to recent activity and had resulted in the current risk score for 'A lower carbon City with greater digital connectivity for all' moving from Red to Amber in the Risk and Assurance Map.

There had been no changes to the Corporate Risk Profile and this remained a fairly positive picture. In relation to Council owned companies, there was a range of work planned for Siglion LLP and the work which had been planned for Sunderland Homes Limited had been moved into the Council's audit plan.

The Risk and Assurance Map set out where assurance would be obtained from management assurance, corporate functions and Risk and Assurance. The Risk and Assurance team supported a number of areas of work including risk management work in relation to the Covid-19 pandemic, the potential impacts of Brexit, major capital schemes and the move to the new City Hall.

The Internal Audit Plan was set out at Appendix 4 of the report and the Assistant Director of Business and Property Services explained that a number of areas of the Council had been required to divert resources during the pandemic and this had included Internal Audit. Not all staff were back in the team and this had had an impact of around 500 days of work, meaning that half of the audit plan would not be delivered.

CIPFA had acknowledged that this was an issue for Internal Audit and they were issuing a guidance note on whether heads of internal audit could continue to give an opinion. It had been recognised that councils with assurance mapping in place were in a better position and the Council felt that with the range of assurance in place, it would still be possible to give an opinion at the year end. There had been no issues highlighted during the year which affected the overall opinion and the Council continued to have in place an adequate system of internal control.

Councillor Crosby queried the status of Everyone Active as it was not listed on the Risk and Assurance Map and would certainly have been affected by the pandemic.

The Assistant Director of Business and Property Services advised that an opinion was provided on wholly owned Council companies and as a joint venture, Everyone Active would be audited through contract management arrangements. The Executive Director of Corporate Services explained that this had been picked up in the recent Revenue Budget Third Quarter Review which had been presented to Cabinet in January. There had been a financial impact and unfortunately the joint venture did not qualify for certain funding although there was a live application in at the current time. The link to the report would be circulated to Members of the Committee.

Councillor Lawson commented that everyone was aware of the challenges which had been faced by the Internal Audit team over recent months and she asked how the 28 audits which were to be completed out of the original 59 planned audits for 2020/2021 had been prioritised.

The Assistant Director of Business and Property Services stated that this had been a risk based judgement based on the results of previous audit work, how recently the area had been audited, the importance of the area and whether it was a key financial system or not. Internal Audit was work within the Council so there was a fair knowledge of what was going on within the authority and the level of change taking place.

Councillor Wood referred to R12 in the Strategic Risk Profile 'A City with great transport and travel links' and noted that there had been an amendment to the impact section. He asked what targets were being worked to for this action. The Assistant Director of Business and Property Services undertook to get the full detail and provide a respond to the question outside of the meeting.

Councillor Stewart asked about the changes to R02, the thinking behind this and plans for investment in local businesses. The Executive Director of Corporate Services highlighted that this would be an evolving picture over the next few weeks, months and even years. Community wealth was an important element of the way forward for the funding administered and managed by the Council and work was ongoing with organisations like the BID and BIC to understand the needs of businesses. There was also a national context in relation to the Fair Funding Review and plans for business rate retention. Members would be kept involved in the long-term economic recovery strategy and Councillor Stewart emphasised that this was a priority for councillors.

Upon consideration of the report, it was: -

17. RESOLVED that the report be noted.

Risk and Assurance Map – Consultation for 2021/2022

The Assistant Director of Business and Property Services submitted a report setting out the development of the plans of work for the Internal Audit and Risk and Assurance teams for the forthcoming year. Members were given the opportunity to raise issues which they felt should be considered in the plans.

The allocation of resources would continue to be flexible given the level of changes occurring across the Council and the response to the pandemic, but there had been a number of priority areas identified as follows: -

- Council owned companies, e.g. Siglion
- Activity to deliver the City Plan
- Supporting the Council's response to the Covid-19 pandemic
- Economic development including SSTC Phase 3 and work on the International Advanced Manufacturing Park
- Construction of the new City Hall
- ICT business continuity/Disaster Recovery
- Delivery of the new Housing Service
- National Fraud Initiative and counter fraud work
- Key corporate systems and functions

Councillor Crosby queried whether this work would pick up issues around Siglion rents due to Covid. The Assistant Director of Business and Property Services stated that those would not feature in the Audit Plan but had been discussed. The Executive Director of Corporate Services advised that it had been agreed that Siglion tenants would have a rent-free month at the beginning of the pandemic, however any further decision on that would be a matter for the Siglion Board. This would be reported through budget monitoring.

Having considered the proposed priority work areas, it was: -

18. RESOLVED that the proposed plans of work for the Internal Audit and Risk and Assurance teams for 2021/2022 be noted.

Treasury Management – Third Quarterly Review 2020/2021

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the third quarter of 2020/2021 and setting out the Lending List Criteria and the Approved Lending List.

The Covid-19 pandemic had continued to have significant impacts on financial markets and economic forecasting and had required a pro-active approach to Treasury Management to support the Council's response to the pandemic. This had included holding higher levels of cash balances to support the Business Rate payer grants, stringent monitoring of cash flow and any investments being short term to ensure both liquidity and security of funds given increased economic uncertainty.

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 informed that the Chancellor had announced that the 1% rise in PWLB borrowing was to be removed; this was welcome news. No new borrowing had been required during 2020/2021 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 2.91%, 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 0.46% compared with a benchmark of -0.07%.

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.

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.

Councillor Wood referred to the 'significant additional costs being incurred in response to the pandemic' and asked if there was any update on this. He also asked about the prohibition introduced in relation to PWLB loans and whether this and the negative benchmark rate was having any impact on Sunderland.

The Chief Accountant highlighted that the Revenue Budget Third Quarter Review report presented to Cabinet in January had outlined the current position with additional costs and the Executive Director of Corporate Services stated that £12.5m had been unfunded at that time with a further update due to be provided in March. Some of the costs related to the Collection Fund and would be spread over future years.

The new investment rules for PWLB loans would not affect Sunderland based on current plans as in the short term there were no plans to purchase investment assets. The Bank of England had confirmed that base rates were staying the same, however it was not clear what negative interest rates would mean for the authority but the rate of return of 0.46% was very good in comparison to the benchmark.

Having considered the report, it was: -

19. RESOLVED that: -

- (i) the Treasury Management performance for the third quarter of 2020/2021 be noted; and
- (ii) the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C be noted.

Treasury Management Policy and Strategy 2021/2022, including Prudential Indicators for 2021/2022 to 2024/2025

The Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both

borrowing and investment strategies) proposed for 2021/2022. The Committee were asked to note the Prudential 'Treasury Management' Indicators for 2021/2022 to 2024/2025 and to provide comments to Council on the proposed policy and indicators where appropriate.

The Committee were made aware of the statutory requirement for the Council to set Prudential Indicators, including specific Treasury Management Indicators, for a minimum period of three years to ensure that the Council's capital investment plans were affordable, prudent, and sustainable. The Prudential Indicators were set out in Appendix 1 of the report and these reflected the commitments in the Authority's current plans and ensured compliance so that proposed spending remained affordable. It was highlighted that the Authorised Limit for External Debt and the Operational Boundary for External Debt increased significantly over the period in order to accommodate the ambitious capital plan for the city.

The Council was also required to adopt a Treasury Management Policy Statement and to set out its Treasury Management Strategy comprising the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments. The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' had been updated in February 2018 and CIPFA had updated its Treasury Management in the Public Services Code of Practice in December 2017. The Council was required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy.

The Treasury Management Policy Statement was shown at Appendix 2 and the Treasury Management Strategy at Appendix 3 to the report. Members of the Committee were directed to the Council's potential borrowing requirement set out within the Treasury Management Strategy and it was highlighted that borrowing would be phased depending on capital spend and the reserves position.

Appendix 4 of the report set out interest rate forecasts based on a range of intelligence sources. The Lending List Criteria and Approved Lending List were shown at Appendix 5 and 6 of the report.

Councillor MacKnight noted that the Authorised Limit for External Debt was to increase by 20% over the period and asked what the big risks were which justified this. The Chief Accountant explained that this linked to the requirements of the Capital Programme and that although the figure was high, plans were in place to fund it. It was also highlighted that the authority could borrow in advance for the approved Capital Programme if the situation was favourable.

Having noted the prudent approach and positive performance of the Treasury Management function, the Committee: -

20. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2020/2021 (including specifically the Annual Borrowing and Investment

Strategies) and the Prudential 'Treasury Management' Indicators to 2020/2021 to 2023/2024 be noted; and

- (ii) the Council be advised that the Committee were satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

Annual Audit Letter 2019/2020

The Executive Director of Corporate Services submitted a report detailing the external auditor's Annual Audit Letter covering the year 2019/2020.

Cameron Waddell of Mazars was in attendance to talk to the Annual Audit Letter and explained that it was a public document setting out the rationale for the audit opinion given to the authority. The audit of financial statements had been unqualified as predicted and the other information published was consistent with the statements. The Value for Money conclusion remained qualified due to the inadequate Ofsted judgement in relation to Children's Services and this would continue until the Council no longer had that rating, however the approach to Value for Money was changing for 2020/2021.

The Whole of Government Accounts (WGA) Return had not been completed due to issues with central government's new system but it was not anticipated that there would be any significant issues. The Audit Certificate could not be issued until this was complete but this would be done as soon as the system issues were resolved.

There had been no questions or objections from members of the public during the course of the audit. The report summarised the detail which had already been presented to Members in October, Cameron drew attention to Sunderland's status as a Public Interest Entity, noting that this was no longer the case but had been at the time of the audit and therefore Key Audit Matters had been reported.

The Committee were directed to the section of the report dealing with fees and Cameron advised that there had been a number of areas where additional work had been undertaken due to the pandemic and these would lead to additional costs. This figure had been discussed with the Executive Director of Corporate Services but a formal process had to be undertaken with Public Sector Audit Appointments before the additional fee could be published.

Councillor Lawson referred to there having been no queries on the financial statements from members of the public and asked how residents were made aware that they could raise questions.

Cameron commented that the public were able to ask the external auditors questions within a set time period but should always approach the Council first and follow their processes. The Council would publish a notice every year stating the inspection period and the process for making objections was tightly defined.

The Executive Director of Corporate Services endorsed what Cameron had said, noting that the Council would regularly receive questions, complaints and freedom of

information requests. With regard to fees, he acknowledged that no one would want to pay additional monies but this had been driven by circumstances and it had not come as a surprise as the authority had worked with the auditors throughout.

Cameron highlighted that the Annual Audit Letter concluded with a forward look which included the findings of the Redmond Review into the oversight of local audit and the transparency of local authority financial reporting. It was also noted that the Ministry of Housing, Communities and Local Government were proposing to put back the audit deadline to September for the next two years, however there had been no proposals on extending the length of time councils had to prepare the financial statements.

Having thanked Cameron for the report, it was: -

21. RESOLVED that the contents of the Annual Audit Letter be noted.

Value for Money Arrangements

Diane Harold, Mazars, was in attendance to deliver a presentation on the new Value for Money arrangements approach.

The Value for Money approach had been refreshed and refocused in response to feedback from audited bodies, a new Code of Practice and changes in the audit environment. The key areas of focus would include more timely reporting of any significant weaknesses, a move away for the binary qualified or unqualified opinion and linking to the new reporting format which would see an Auditor's Annual Report be issued rather than an Annual Audit Letter.

There would be no overall criterion for Value for Money but it would still be about having arrangements in place to secure economy, efficiency and effectiveness. There would be an enhanced commentary for Value for Money criteria rather than just a description and auditors would have to consider how bodies' arrangements had adapted to respond to the new risks they would be facing from 2020/2021 onwards as a result of the pandemic.

Diane confirmed that the audit plan would be brought to next meeting of the Committee and any significant risks would be highlighted within it.

22. RESOLVED that the information contained within the presentation be noted.

(Signed) Mr M Knowles
Vice-Chair