

## **AUDIT AND GOVERNANCE COMMITTEE**

### **Friday 24 July 2020**

#### **Present:**

Councillors Crosby, Lawson, N MacKnight, Stewart and Wood.

#### **In Attendance:**

Jon Ritchie (Executive Director of Corporate Services), Sarah Reed (Director of People, Communications and Partnerships), Paul Davies (Assistant Director of Business and Property Services, Tracy Davis (Senior Manager - Assurance), James Magog (Chief Accountant), Owen Thomas (Data Protection Officer), Cameron Waddell and Diane Harold (Mazars) and Gillian Kelly (Principal Governance Services Officer).

#### **Appointment of Chair**

In the absence of both independent members of the Committee, nominations were invited for the Chair of the meeting. It was proposed that Councillor Lawson be appointed as Chair for the meeting. Accordingly, the Committee: -

1. RESOLVED that Councillor Lawson be appointed as Chair for the meeting of the Committee taking place on 24 July 2020.

#### **Declarations of Interest**

There were no declarations of interest.

#### **Apologies for Absence**

Apologies for absence were received from Mr Cook and Mr Knowles.

#### **Minutes**

2. RESOLVED that the minutes of the meeting of the Committee held on 7 February 2020 be confirmed as a correct record.

## **Covid-19 Update**

The Executive Director of Corporate Services submitted a report providing an update to the Committee with regard to the Council's response to the Covid-19 pandemic, focusing on the areas within the remit of the Committee.

The Council had had in place specific major incident response arrangements through March to June; a command structure had been established and multi-agency arrangements were set up through the Local Resilience Forum. A specific Covid-19 Risk Register was developed to drive and inform the groups working within the structure.

When the number of virus cases fell in June, the Council moved out of the 'response' to the 'recovery' phase and the Recovery Co-ordination Group was focused on bringing services back online in a safe and managed way. New groups were also established to support delivery of the Covid-19 Outbreak Control Plan.

The Council was focusing on the recovery effort but also had a vital role to play in reform, including the restarting of the economy, dealing with the impact of Covid on education and learning, dealing with increased health inequalities and the general wellbeing of the population. The Strategic and Corporate Risk Registers would also be updated to reflect the impacts of Covid-19 moving forward.

Councillor Wood noted that there had been reports of cases of the virus increasing again in the local area and the Assistant Director of Business and Property Services stated that the numbers were still small, but the percentage rise was high. The Director of Public Health had been clear that the situation was finely balanced, and the Council would move forward in a phased and managed way.

The Council had been administering the grants to businesses under Government support schemes and had advised on business rate discounts for different sectors and issued new council tax bills to the most vulnerable households. A lot of work was taking place with regard to managing the Council's own budgets and finances.

Councillor Wood asked about the extent to which discussions would take place with the Government on the costs and complications resulting from Covid-19. Councillor Crosby queried whether the plans for the future and recovery would be affected by Brexit.

The Executive Director of Corporate Services was able to provide a further update as the position had changed since the report had been published. The Government had allocated £3.2 billion nationally for local government to cover the general financial impact of Covid. Sunderland had received just over £18m and had now been allocated a further £2.8m, bringing the total to £21m. Based on the authority's returns to MHCLG, the estimated costs to the council were over £40m; additional costs had been incurred in social care and budget areas such as the leisure joint venture had lost income as a result of closures. The Executive Director highlighted that there was a gap in terms of cost pressures against available funding.

The Executive Director went on to say that Brexit was a wider consideration as the authority reflected on the medium-term financial plan; there would be costs in this,

and the next, financial year. Brexit was one of the Council's planning assumptions and there would be updates to the Scrutiny Co-ordinating Committee and the Cabinet later in the year.

Councillor Stewart emphasised that the funding gap issue needed to continue to be pressed with the Government. He noted that the number of residents who qualified for the council tax support scheme had increased and queried if that was linked to people becoming unemployed. He asked if this was being monitored and also for some details on the monitoring of the Risk Register.

The Executive Director of Corporate Services advised that the Council would be lobbying as Sunderland, as part of the LA7 and Association of North East Councils and also through the Local Government Association and SIGOMA.

The council tax support scheme was monitored closely, and the Executive Director said that he would follow this up in writing. Working age people were subject to a means tested approach and approximately 16,000 people paid no council tax with another 14,000 receiving maximum support. There had been a 15% increase in people coming into the scheme and a reduction in the Council Tax Base which had been reported in the returns being made to MHCLG.

The Assistant Director of Business and Property Services drew Members' attention to the Risk Register at Appendix 1 of the report and explained that the Gold and Silver Command had met daily with risks being a standing item. The risks were formally reviewed in detail at least once a week and the risks setting out new causes and impacts would be worked into existing profiles and would be reflected in the scores. The updated profiles would be brought to the next meeting of the Committee.

Councillor MacKnight echoed the comments that had been made regarding resources and noted that there had been a number of lessons learned and mitigation action which would be utilised prior to a potential second wave.

The Assistant Director of Business and Property Services commented that after a major incident, a quick 'lessons learned' review took place on entering the recovery phase. A fuller, more detailed review would be carried out as the authority moved forward and would inform a future emergency response.

Upon consideration of the report, it was: -

3. RESOLVED that the report be noted.

### **Proposed Forward Plan of Reports for 2020/2021**

The Executive Director of Corporate Services submitted a report presenting the proposed Forward Plan of reports for 2020/2021 for consideration and comment.

The Assistant Director of Business and Property Services highlighted that this was an annual report setting out the reports which would allow the Committee to fulfil its role. He advised that the Internal Audit team would be in touch with Councillor MacKnight to offer training as he had recently been appointed to the Committee.

4. RESOLVED that the proposed Forward Plan of reports be agreed.

### **Annual Governance Review/Statement 2019/2020**

The Executive Director of Corporate Services submitted a report providing details of the 2019/2020 Annual Governance Review, the Risk and Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. The report also included a draft Annual Governance Statement and an improvement plan for the year ahead.

The Local Code of Corporate Governance was reviewed annually to ensure that it was up to date and effective and no changes were considered to be required this year. The Council was also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

The Annual Governance Review has considered assurance provided from Assistant Directors, Executive and Corporate Directors, specialist functions, the Risk and Assurance Team, Internal and External Audit and other external agencies. These assurances were shown in the Risk and Assurance Map which had all elements marked as Green or Amber with the exception of those relating to the Ofsted inspection of Children's Safeguarding. The impact of Covid-19 began at the end of March and it was considered that this did not affect the strategic risks for 2019/2020 but would be reflected in the Strategic and Corporate Risk Profiles for 2020/2021.

The opinions from Internal Audit were set out in the Risk and Assurance Map and it was highlighted that the risk area 'More People Living Independently' had changed from Amber to Green due to follow up work confirming that all agreed actions had been taken in relation to an audit of the Council's Social Care Personal Budgets.

It was reported that 64 audits had been planned for the year 2019/2020, however six of these had not been completed for specific reasons and Covid had impacted on the year end meaning that two audits were cancelled. The Internal Audit service had been in the process of carrying out six audits and these had been difficult to complete due to the capacity of clients. At the end of March, 50 of the expected audits had been completed, one further audit had been completed since then and the remaining five were expected to be issued in the near future. 80% of the original 64 audits had now been completed and it was considered that sufficient internal audit work had been undertaken, along with the other assurances gathered, to provide an internal audit opinion on the Council's overall system of control.

Counter fraud and error work took place as planned during the year with no significant issues being highlighted. Testing had also continued on the results of the National Fraud Initiative undertaken in late 2018 and results had been very positive with a 0.0004% error rate.

Progress on the actions in the corporate governance improvement plan for 2019/2020 had been reviewed and it was found that three actions were complete and three were ongoing. In addition to these, a further three actions resulting from the Covid outbreak had been added to the improvement plan for 2020/2021.

Councillor Crosby commented that Sunderland Lifestyle Partnership was not included within the Risk and Assurance Map. The Assistant Director of Business and Property Services advised that the Risk and Assurance Map only included wholly owned companies and as the Lifestyle Partnership was a joint venture between the Council and SLM, monitoring was carrying out through the contract management arrangements. The Executive Director added that the provision of additional resources would be reflected in budget monitoring which was then presented to the Council, and transparency and oversight were achieved through that route.

With reference to duplicate payments, Councillor Stewart noted that these were a tiny amount but asked if there was any trend being identified. The Senior Manager - Assurance advised that the duplicate payments had been picked up in random areas and there were no concerns.

Following consideration of the report, it was: -

5. RESOLVED that: -

- (i) the report and the Risk and Assurance Map at Appendix 1 be noted;
- (ii) the Improvement Plan at Appendix 2 be agreed; and
- (iii) the draft Annual Governance Statement at Appendix 3 be agreed.

### **Risk and Assurance Map Update 2019/2020**

The Assistant Director of Business and Property Services submitted a report which asked 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 2020/2021; and
- Internal Audit's key performance measures and targets for 2020/2021.

The proposed Risk and Assurance Map and planned work for the year had been due to be presented to the Committee in April 2020, however the meeting had been cancelled due to the pandemic and this was the earliest opportunity to bring the Map to Members. The report also included the Internal Audit and Risk and Assurance plans for the year, relevant Key Performance Indicators (KPIs) and targets.

The Assistant Director of Business and Property Services advised that the Internal Audit Service had been temporarily stood down during the early part of the lockdown to enable staff to support the response and critical functions as required. Due to Covid and its associated impacts, some planned work would potentially need to change and the service would need to be flexible and to respond quickly to the risks being faced at the time.

The Covid-19 outbreak had had a significant impact on Sunderland and as a result the City Plan was being reviewed and the Strategic Risk Profile would be updated to reflect this. The updated profile would be presented a future meeting of the

Committee and the impacts of Covid-19 would also be reflected in the Corporate Risk Profile.

Councillor Crosby asked if there was any plan to look at counter fraud checks in relation to the discretionary funding for businesses. The Executive Director stated that it was a pertinent question as officers had been required to balance the speed of getting grants out with the appropriate checks and balances. BEIS had issued a return which looked at that assurance, however it was noted that some Internal Audit staff had worked with the grants team to help to assure the grants as they were issued.

6. RESOLVED that the report be noted.

### **Treasury Management Review of Performance 2019/2020**

The Executive Director of Corporate Services submitted a report which presented the Treasury Management borrowing and investment performance for 2019/2020 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 6 March 2019.

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 2.90% was low and this compared favourably with other local authorities as did the 1.01% rate of return achieved on investments.

Members were reminded of the basis for the agreed Borrowing Strategy for 2019/2020 and that it had been reviewed in July and December 2019 and February 2020. The worldwide response to Covid-19 had had a significant impact on financial markets and economic forecasting. To stimulate the economy and ease the impact of the pandemic, the Bank of England had cut the base rate by 0.5% to 0.25% on 11 March 2020 and to a historic low of 0.10% on 19 March 2020. As the crisis only developed late in the financial year, the impact had been minimal on the treasury management strategy and policy in 2019/2020.

There had been high levels of volatility in financial markers during 2019/2020 and PWLB rates had started the year at 2.44%, fell to 1.77% in September 2019 and peaked at 3.25% in December. The rates were 2.59% at the end of March 2020.

The Council had taken advantage of low borrowing rates troughs which had occurred and had taken out £50m of new borrowing during the financial year which would benefit the revenue budget over the longer term. Rates had not been sufficiently favourable for debt rescheduling in 2019/2020 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 £673.627m for 2019/2020 and the Operational Boundary for External Debt was set at £648.627m and the authority was well within the tolerances for these.

The Investment Strategy for 2019/2020 was also approved by the Council on 6 March 2019 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 was 1.01% against a benchmark of 0.53%. The total of fund managed by the Council's in-house team amounted to £212.316m with £150m being fixed term deposits and £62.316m in call accounts.

Following consideration of the report, the Committee: -

7. RESOLVED that the positive Treasury Management performance for 2019/2020 be noted.

### **Treasury Management – First Quarterly Review 2020/2021**

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

The Covid-19 pandemic had a significant impact 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. PWLB rates continued to be volatile and no new borrowing had been taken out to date during 2020/2021. There was a requirement for borrowing within the Capital Programme and there was an ongoing Government consultation on the PWLB lending terms.

The Council's interest rate on borrowing was low, currently 2.90%, 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 0.56% compared with a benchmark of -0.04%.

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 economic climate was likely to be unclear and uncertain for some time and it was important not to lose sight of the impact of Brexit moving forward.

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 average PWLB rates for Quarter 1 and that this was negative for 7 days' notice. The Chief Accountant stated that this was literally borrowing for a seven-day period and would be even cheaper if the 1% surcharge was removed; this anomaly reflected the volatility of the financial markets.

8. RESOLVED that: -

- (i) the Treasury Management performance for the first 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.

### **Data Protection Annual Report 2020/2021**

The Director of Strategy, Partnerships and Transformation and the Data Protection Officer submitted a joint report presenting the Data Protection Officer's annual report of work and findings to the Committee for consideration.

The Committee was asked to consider: -

- the Data Protection arrangements outlined in the report;
- performance against Data Protection standards in the 2019/2020 year; and
- comments and issues which the Committee would highlight to the Council's senior leadership.

During the year, the Data Protection Office had supported the Council and its companies in developing a Data Protection Impact Assessment (DPIA) for a range of projects including the Office 365/Windows 10 project and a range of public health initiatives.

Where there was a serious breach in data protection, this was reported to the Information Commissioner's Office and there were five of these during the course of the year. Four of the breaches were reported by the Council and one by the external provider of their system which was thought to have been breached. This compared to seven reported breaches in the previous year. The five breaches related to: -

- A breach of security within the library management system
- Identification of a complainant to the person complained about through misdirection of a letter
- Unauthorised access by a council employee to personal data of individuals held in a management system
- Release of information about one young person to another
- Misdirection of a letter concerning family circumstances to a neighbour.



There had been no formal enforcement action taken in relation to the reported breaches, however the ICO had indicated that they were considering whether to take action against a former employee in one case and have made practice recommendations to the Council in relation to other cases reported to the office.

Towards the end of the year, the Data Protection Office had supported the Council and its partners in implementing data sharing arrangements in response to the Covid-19 pandemic against a changing set of requirements, guidance and legislation. The Office had also provided advice and guidance to mitigate the highest risks where possible.

The Data Protection Office had supported the development of information sharing arrangements for the Great North Care Record (GNCR) working in partnership with colleagues from Heath and other local authorities. Work also continued to support the development of the City Hall and to reduce the volume of paper records to be transferred to the new building.

The Investigatory Powers Commissioner's Office (IPCO) had carried out an inspection in November 2019 in relation to the Council's arrangements for oversight of covert surveillance under the Regulation of Investigatory Powers Act. There had been no use of RIPA authorisation since the oversight of this was transferred to the Data Protection Office in April 2019, however the inspection was positive about the Council's arrangements.

Councillor Stewart referred to the table showing data breaches and the category of 'Technical failure – including hacking'. He asked if the Council's systems had been hacked during the last year. The Data Protection Officer explained that the four issues recorded had not been hacking incidents. The authority had received cyber attacks, but these were not security issues.

The Data Protection Officer went on to say that the cases which had been reported to the Information Commissioner were mainly related to officers failing to understand the process and in four out of five of these, the Commissioner had been satisfied with the mitigations in place.

9. RESOLVED that the Data Protection Annual Report 2019/2020 be noted.

### **Audit Strategy Memorandum**

Mazars, the Council's external auditors, had submitted their Audit Strategy Memorandum for the year ending 31 March 2020.

The Audit Strategy Memorandum summarised the audit approach, highlighted significant audit risks and areas of key judgement and provided details of the audit team. Cameron Waddell, Engagement Lead with Mazars advised that Sunderland City Council was classed as a 'public interest entity' and as such would have additional acceptance and engagement considerations, enhanced quality control requirements and additional enhanced audit report requirements.

The timeline for the audit had changed due to the Covid-19 situation and the draft Accounts were now to be submitted by the end of August 2020. A group audit approach would be taken and instructions would be issued to the auditors of the subsidiaries and joint ventures of the Council in order to make the audit as efficient as possible.

Cameron advised that there were new elements to the significant risks identified due to the impact of the pandemic. More testing would be carried out in relation to property, plant and equipment and investment property valuations and this risk had increased due to the economic downturn. This year was triennial valuation of pensions and these investments had also been subject to a lot of movement due to the impact of Covid-19.

Significant risks in relation to management override of controls and risk of fraud in revenue recognition would be familiar to the Committee and there was a further risk with regard to the valuation of short and long term debtors being impacted by the economic downturn. There was also an enhanced risk regarding the valuation of long-term investments.

In relation to the Value for Money Conclusion, there were two significant risks; responding to financial pressures and the Ofsted inspection of Children's Services. The Council had previously received an 'except for' qualification and this situation would remain until there was a judgement which identified sufficient improvements to issue an unqualified opinion.

It was highlighted that the audit fees for 2019/2020 would be £104,546 which was the same as the scale fee for 2018/2019. The materiality thresholds had been adjusted for the 2019/2020 audit with overall materiality for the group being £13.898m and £13.538m for the Council itself. These thresholds were provisional and would be subject to the actual accounts. The triviality level had been set at £417,000 and errors above this would be reported to the Audit and Governance Committee.

Councillor Stewart referred to the Valuation Practice Alert issued by the Royal Institute of Chartered Surveyors recently. Cameron advised that this was in relation to accurate forecasting of future income being applied and that indices of valuation were a major focus of attention.

Following consideration of the report, it was: -

10. RESOLVED that the Audit Strategy Memorandum be noted.

(Signed) A LAWSON  
Chair for the Meeting