

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 24 September 2021**

**Present:**

Mr G N Cook in the Chair

Councillors N MacKnight, Nicholson, Stewart and P Wood together with Mr M. Knowles

**In Attendance:**

Jon Ritchie (Executive Director of Corporate Services), Paul Davies (Assistant Director of Business and Property Services), Paul Dixon (Chief Accountant), Jon Beaney (Senior Corporate Strategy Officer), Diane Harold (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 Price.

**Minutes**

9. RESOLVED that the minutes of the meeting of the Committee held on 23 July 2021 be confirmed as a correct record.

**City Plan Update**

Jon Beaney, Senior Corporate Strategy Officer was in attendance to provide an update on the City Plan and the associated assurance and review work.

The City Plan was the Council's sole strategic plan for the period 2019-2030 and described the challenges, themes and commitments in place for regeneration, growth and recovery in the city. The City Plan was a key reference point for council processes and other plans and was published in 2019 with the intention of carrying out periodic reviews when it was considered necessary. The first review had taken

place in 2020 and resulted in revisions being made to the Plan with Covid-19 having been a specific challenge and the emerging impacts of the pandemic and other socio-economic challenges being reflected. There had been refinements to the 14 commitments in the Plan and the indicative timeline had been updated to 2030.

Jon highlighted that the assurance and review process involved the collecting and collating evidence from four key sources: -

- Council quarterly performance management reporting
- Scrutiny committee responses to that reporting
- Specialist analysis from Council services and city partners
- Wider socio-economic data from around the city.

It was stated that this was the first time that the Council had drawn on specialist support from city partners; they had a key role to play in addressing challenges in relation to health and education and the identification of activity for the indicative timeline. Any changes to the contents of the Plan would be presented to Council in January 2022, having been reported to Cabinet in November 2021 and Scrutiny in December.

Councillor MacKnight commented that corresponding with key stakeholders, particularly in health, was a good idea. He noted that the timescales for agreeing changes to the Plan were tight and suggested that it would be useful for the members of the Scrutiny Co-ordinating Committee to get as early sight of the report as possible.

Jon Beaney said that it was encouraging that key stakeholders were willing to engage with the process and the Council could have an eye on some issues but not have an awareness of the pressures which other organisations were under from the Government and this process helped the understanding of all partners. Discussions were taking place around how the information could be shared with the Scrutiny Co-ordinating Committee at an early stage.

Councillor Stewart asked if the VCS Network had been involved in the review; the Plan was there to impact on residents and these organisations were very close to them. Jon advised that all partners were being involved as widely as possible and voluntary and community sector would be picked up. Once the Plan was developed this would be shared with the Sunderland Partnership, the document was to be reflective of everyone in the city and this would be built on as work progressed.

Mr Knowles commented that the health service had received a large amount of funding for the next six months and suggested it might be useful to go from that angle with partners. The Chair said that he would liked to have seen a list of the partners which were being engaged with.

Jon said that he would follow up with health partners and would also provide a list of partners and contacts.

10. RESOLVED that the information be noted.

## Risk and Assurance Map - Update 2021/22

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 proposed Risk and Assurance Map and planned work for the year had been agreed by the Committee in April 2021 and the Map had been updated to reflected changes in both the Strategic and Corporate Risk Profiles. The Cumulative Assurance Position for all risk areas was Green or Amber and this reflected the changes from Red to Green as a result of the Ofsted inspection of Children's Services. The key changes to the Strategic Risk Areas were as follows: -

- The risk score and assurance position in relation to R08 *'The Council is not able to fulfil its statutory responsibility for Children and Young People and also ensure families are supported to enable them to achieve their desired outcomes'* had been updated in response to the recent Ofsted inspection of Together for Children Ltd which gave an 'Outstanding' rating. The current risk score had been reduced to 4 (Green) and the assurance position had also been moved to Green. This was shown on the Risk and Assurance Map against the Strategic Risk Area *'Access to equitable opportunities and life chances'*.
- An additional risk had been added at R12 described as *'The introduction of a statutory Integrated Care System with a regional Integrated Care System (ICS) Health and Care Partnership, covering the North East and Cumbria may reduce the resources available in Sunderland for Health and Social Care'*. The current risk score was assessed as 9 (Red), as it was currently unclear what impact the new arrangements would have on the funding available for social care in Sunderland.

Corporate Risk Areas had been reviewed and there had been no changes to the Corporate Risk Profile. The Assistant Director of Business and Property Services reported that the overall risk and assurance positions for the Council owned companies Together for Children (TfC) and Siglion had moved to a Green rating. This was as a result of the Outstanding Ofsted judgement in relation to TfC and receiving assurances from the Siglion Director of Finance and the completion of the financial audit for the company.

The second line of assurance on the Map showed no red and the third line was also Green or Amber with the full detail of work carried out set out in Appendix 4 of the report. The Assistant Director of Business and Property Services commented that it could look like there had not been a lot done as yet this year and he explained that Internal Audit did undertake work for other clients and there were currently vacancies

within the team; the service was looking at appointing an external company to do some work on its behalf.

The performance in relation to targets set for Internal Audit was shown at Appendix 5 and all Key Performance Indicators were on target.

Councillor Stewart referred to the Green rating for Together for Children and asked if this would now always be Green and what could be done regarding monitoring to show any changes.

The Assistant Director of Business and Property Services that just because the rating was Green now, it did not mean that this could not be changed, regardless of Ofsted. The opinion was based on internal audit work and risk and assurance work with a range of factors being taken into account which meant that if any concerns arose from the audit work, these would be flagged up.

In addition, there was an internal audit programme specifically for Together for Children which was agreed with, and reported to, the TfC Board. This would look at certain systems and controls and not the quality of practice. There were a whole range of contract measures existing between the Council and TfC with a suite of key performance indicators, through the monitoring of that, quality issues were picked up.

The Executive Director of Corporate Services highlighted that the Chief Executive of Together for Children reported to the Council Chief Executive. She also reported to the TfC Board and in turn to the Department for Education; the performance of the service was monitored through the Council's scrutiny regime.

Consideration having been given to the report, it was:-

11. RESOLVED that the report be noted.

## **Treasury Management Second Quarterly Review 2021/2022**

The Executive Director of Corporate Services submitted a report presenting the Treasury Management performance to date for the second quarter of 2021/2022 and setting out the Lending List Criteria, the Approved Lending List and the Risk Management Review of Treasury Management.

The Chief Accountant reported that very little had changed since the first quarter review and the Council's Treasury Management function continued to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. In respect of borrowing, due to the temporary use of reserves to fund the Capital Programme no new borrowing had been required to date during 2021/2022 but the position continued to be monitored closely.

The Council's interest rate on borrowing was low, currently 2.81%, 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 0.12% compared with a benchmark of -0.08%.

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.

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 noted that a fairly relaxed view of inflation was being taken at the previous meeting and it did not seem that this had changed. He asked if inflation was to take off, would this present serious difficulties, or were officers happy that it was under control.

The Executive Director of Corporate Services said that similar comments had been made through budget monitoring process at scrutiny meetings and it was for the Council to deal with any repercussions of rising inflation. In terms of the Capital Programme, increased costs would have to be managed within contingencies and potentially through re-financing.

There were concerns going forward in relation to utility prices, the Council had bought ahead through NEPO, but increases would be factored into the Medium Term Financial Plan (MTFP). The National Insurance increase would also feed through to some purchases. There was a long term planning assumption of 2% inflation and officers would continue to monitor the situation.

Consideration having been given to the report, it was:-

12. RESOLVED that: -

- (i) the Treasury Management performance during Quarter 2 of 2021/2022 (Appendix A) be noted; and
- (ii) the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D be noted.

### **Audited Statement of Accounts 2020/2021**

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 presenting the Letter of Representation for 2020/2021. The Committee also received the Audit Completion Report from Mazars LLP providing their opinion on both the Council's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for

money). The audited Statement of Accounts for 2020/2021 was presented for approval by the Committee.

The Chief Accountant highlighted that the statutory audit deadlines had been extended for 2020/2021 and 2021/2022 and the Council had published its draft accounts on 12 July 2021. It was noted that it had been a massive team effort for all involved in the preparation of the accounts and the Chief Accountant thanked the local authority team and the team at Mazars for their contribution to completing the work.

The Chief Accountant stated that it was expected that the outcome of the audit would be unqualified, however there had been identified misstatements in relation to Property, Plant and Equipment and Pensions which would be likely to result in material adjustments to the accounts.

Diane Harold was in attendance from Mazars to present the Audit Completion Report and confirmed that it was proposed to issue an unqualified audit opinion and there were no significant weaknesses identified in relation to value for money. It was anticipated that the audit would be completed shortly however there had been some late adjustments meaning that the auditors were a little behind where they wanted to be at this stage.

Turning to the findings and the significant matters discussed with management, Diane advised that Mazars had engaged a qualified internal valuer for Property, Plant and Equipment and consequently there were more issues being picked up. It was noted that the Council was valuing schools on a Modern Equivalent Asset (MEA) basis and had done so for schools due a valuation in 2020/2021 but not for all schools. The Council was now revising the financial statements to include an MEA valuation for all schools but it was not expected that this adjustment would be material.

The figures produced by the Actuary for pensions had a large variance with those used in the draft accounts and a revised pensions report was awaited. Diane advised that other local authorities were having similar issues and these were large numbers impacting on disclosures but not on the bottom line. The auditors needed to do further work on this element but would summarise this in their follow up letter.

Mr Knowles asked if these issues should be a matter for concern and Diane stated that there was a risk of the audit missing the statutory deadline, however this would be a greater concern if big issues were the reason for the delay. Sunderland had been prioritised for completion, however Diane advised that the majority of audits in the sector would not be complete by the end of September.

In relation to other significant risks, Diane advised that there were no issues in relation to the valuation of current and non-current debtors and there had been an amendment with regard to Covid-19 grant recognition as the external auditors only covered grants which were in the accounts, not where the Council had acted as an intermediary for funds.

It was confirmed that Mazars had not had to exercise any of their wider responsibilities under the 2014 Act and there was one small internal control recommendation in respect of a housekeeping issue for system access. The value of any misstatements was not yet confirmed and would be set out in the follow up letter but did not have a bottom line impact.

The approach to value for money was to identify any risks of significant weaknesses and for Sunderland these had been found to be sustainable resource deployment and the Ofsted inspection of children's services. The work was yet to be completed in this area but no significant weaknesses had been identified . The full commentary would be provided in the Auditor's Annual Report no later than three months after the audit of the financial statements was signed off.

Councillor Wood referred to an issue under the internal control recommendations around the Council not having deeds for a car park. Diane explained that this had been flagged up in the previous year's report and had been followed up during 2020/2021.

Following consideration of the report, it was: -

13. RESOLVED that: -

- (i) the contents of the Letter of Assurance from those charged with governance (Appendix A) and the Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix B) be noted;
- (ii) the contents of the Letter of Representation (Appendix C) be noted;
- (iii) the contents of the Audit Completion Report (Appendix D) provided by Mazars LLP be noted;
- (iv) the revised Audited Statement of Accounts for the financial year ended 31 March 2021 (Appendix E) be approved; and
- (v) it be agreed that, should any amendments to the Statement of Accounts be required after the meeting of the Audit and Governance Committee, these be agreed by the Executive Director of Corporate Services in conjunction with the Chair. Members of the Audit and Governance Committee would be notified of any agreed changes.

(Signed) G N COOK  
Chair

