

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on Friday 30 September 2011**

**Present: -**

Mr G N Cook in the Chair

Councillors Forbes, Rolph, Speding, Tate and Mr J P Paterson.

**Declarations of Interest**

The following Councillors declared personal interests in the reports listed below for the reasons indicated: -

Item 5 – Internal Audit Progress Report	Councillor Rolph	Blue Badge Holder
Item 9 – Audited Statement of Accounts	Councillor Rolph	Member of the LGPS
	Councillor Tate	Member of GMB, the LGPS and the Sunderland Empire Theatre Trust.

**Apologies for Absence**

Apologies for absence were received from Councillor T Wright.

**Minutes**

19. RESOLVED that the minutes of the meeting of the Committee held on 22 July 2011 be confirmed and signed as a correct record.

**Strategic Update**

The Executive Director of Commercial and Corporate Services delivered a presentation to the Committee giving a strategic update on the Council's position, the budget and potential developments to the role of the Audit and Governance Committee over time.

He outlined the policy context and the impact of public reform on local people, local businesses and partner services. Government priorities had been identified broadly as Growth Strategy, Social Policy and Public Sector Reform.

Details of the Government's deficit reduction plan and the uncertainty that existed beyond 2013/2014 were highlighted. The Executive Director referred to the Council's successes in response to the spending review including the development of the Sunderland Way of Working 18 months prior to significant funding reductions which had enabled Sunderland to take a different approach to other councils. The Business Transformation Programme had protected frontline services whilst improving customer services and had maximised productivity and efficiency through the streamlining of Support Services and through better procurement and use of ICT and buildings.

The Council had also been reviewing services to continue to provide the most effective outcomes by modernising social care, reconfiguring customer services and developing responsive local services. The community leadership programme had put members at the heart of decision making and the Council had maintained its broad economic regeneration ambitions including for the Vaux site, the Port and the new Wear Bridge. There would be a new and more commercial approach to the work of the Authority in the future and the foundations for this were already being established.

The Executive Director provided a summary of the funding gap and the savings programme 2011-2012 to 2014-2015. He advised that the Audit and Governance Committee would have a key role in underpinning the governance of the Authority going forward and would continue to play a key role in assurance and risk management processes as these would inevitably develop to reflect the changing role of the Authority.

Councillor Forbes asked if there were specific criteria which applied when the Council was reinvesting money. The Executive Director replied that there had to be a demonstrable business case for the better outcomes which would be achieved and efficiencies would have to be created to cover the investment. On regeneration projects, there were very strong arrangements for the business case to be absolutely right before pursuing any new developments.

The Chairman asked if the localisation of business rates would mean that authorities would consume what they had earned. The Executive Director stated that on face value, Sunderland collected less than was distributed from the business rates pool, but would be classed as a 'top up' authority and therefore it was the intention of the Government that it would be compensated for the gap. The key issues would be to ensure that the tariff and top up system worked correctly and that any growth generated was attributable to the local authority. The risk posed to the Authority from the new arrangements was recognised.

There was a big risk in transferring this from central to local government and there were ongoing conversations about what would happen if businesses failed but it was hoped to get these issues resolved in the near future.

Having thanked the Executive Director for his presentation, the Committee: -

20. RESOLVED that the information be noted.

### **Internal Audit Progress Report**

The Head of Audit, Risk and Procurement presented a report detailing the performance of Internal Audit up to 9 September 2011, the areas of work undertaken and internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

All of the Key Performance Indicators (KPIs) were on target with the exception of the implementation of medium risk recommendations which stood at 81% against a target of 90%. A particular problem had been observed in Health, Housing and Adult Services where the implementation rate was only 59%.

All audits carried out so far this year had resulted in good or satisfactory opinions and no concerns to highlight to the Committee from the other work undertaken. Good progress had been made against the plan and the key risk areas were now all either good or satisfactory.

Following the audit of Information Governance in 2010/2011, an unsatisfactory opinion had been issued. However, good progress had been made towards implementing recommendations arising from the eight audits carried out in this area and the Head of Audit, Risk and Procurement had advised that the opinion had now been changed to 'satisfactory'.

Councillor Rolph commented that the directorates who were performing least well were those who were undergoing restructures and asked if this had impacted on their ability to implement recommendations. She also asked if the awarding of the contract to Choices Care had been taken account of in the opinion relating to Procurement and Contract Management.

The Head of Audit, Risk and Procurement stated that it was too early to ascertain whether the new structures had impacted on the implementation rate. The implementation rates looked back over the previous twelve months and so the impact would not been seen for some time, but during recent follow up work it had been mentioned by some areas that things had not been implemented due to reduced resources.

In respect of Choices Care, Internal Audit had not reviewed the award of the contract. Councillor Rolph suggested that an audit could be carried out, however the Executive Director stated that the focus had been getting the Local Authority Controlled Company in place and through the actions taken, management had picked up and addressed the relevant issues.

Graham King, Head of Strategic Commissioning within Health, Housing and Adult Services was in attendance to update the Committee on the progress made against the recommendations of the audit into Vulnerable Adults Protection Arrangements.

He advised that the full review of the approach to safeguarding was still underway but that the new business processes would be implemented before the conclusion of the review and the safeguarding module would go live on 12 October 2011.

The project implementation schedule had been shared with Internal Audit and staff training was currently underway. Further training would be carried out in April 2012 to tie in with the implementation of the new system.

With regard to the level of implementation of recommendations generally within Health, Housing and Adult Services, Graham acknowledged that there had been a dip but reassured the Committee that the directorate had instigated changes in the way audit recommendations were dealt with. Performance and Commissioning Clinics were now held monthly and progress would be checked against audit recommendations long before the due date for implementation. He highlighted that two recent audits were showing 100% compliance for implementation but a further audit of personalisation services showed very poor implementation and was affecting the total implementation rate due to the fundamental changes that had to be made in this area.

The Chairman thanked Graham for the update and asked that he make the Executive Director of Health, Housing and Adult Services aware that if an improvement was not seen, the Committee would want to discuss this with the Executive Director himself.

Tom Baker, Head of ICT was in attendance to update the Committee on the progress made following the audit of HR Management / Financial Management System Consolidation. A number of recommendations had come out of the audit, with some being higher risk than others. Tom reported that ICT was featuring regularly in the Managers monthly briefing, processes for disabling user accounts and for requesting access to accounts had been redesigned and a new process had been developed for account management on the Council network.

A significant issue from the audit had been the protection of Finance and HR systems from system failure. New arrangements had been tested earlier in the week and, although not perfect, the trial had gone well. Another test would be carried out imminently, inside the agreed timescales. An interim solution would be in place in advance of the deadline with a final solution next year.

The Head of Audit, Risk and Procurement added that the Council's systems were resilient, the issue had been that although ICT knew how they would deal with a system failure, the process had not been documented or tested.

Councillor Tate asked if the ICT service had any responsibility for the contract with RM to provide ICT in schools. The Head of ICT stated that the contracts were managed by Children's Services with advice being offered by ICT. He was aware that there had been a number of issues, particularly with management information. The Chairman stated that Councillor Tate was welcome to ask for this issue to be considered by the Committee in the future if he had concerns about it.

Following discussion, it was: -

21. RESOLVED that the report be noted.

### **Bribery Act 2010**

The Head of Audit, Risk and Procurement presented a report which detailed the key provisions of the Bribery Act 2010 and provided an update on the work carried out to assess and respond to the implications of the Act.

The new Act reforms UK criminal law in respect of bribery and corruption and creates four new offences, including one of 'failing to prevent bribery' which would mean that councils could be prosecuted if they did not have adequate procedures in place to prevent bribery.

Guidelines had been set out and a review of the arrangements already in place had found that: -

- The arrangements the Council has in place compare favourably in light of the Act;
- The provisions of the Act have been communicated to the majority of key stakeholders, including EMT and Cabinet;
- An initial assessment of the level of bribery risk faced by the Council and has been assessed as low; and
- Any improvements made will be considered proportionate to the risk.

As well as communicating the implications of the new Act to the Cabinet and Executive Management Team, a briefing had been circulated to all Members of the Council.

22. RESOLVED that the report be noted.

### **Treasury Management – Second Quarterly Review 2011-2012**

The Executive Director of Commercial and Corporate Services submitted a report outlining the Treasury Management performance for the second quarter of 2011/2012 and asking the Committee to approve amendments to the Lending List criteria and the Lending List.

The Assistant Head of Financial Resources stated that the report depicted a positive situation and the performance of the Treasury Management function continued to contribute financial savings to support future year's capital programmes and also helped to support the Council's revenue budget by taking advantage of debt rescheduling opportunities when appropriate. It was noted that the average long term rate for the Council was very low and was in the top quartile of local authorities.

Treasury Management Prudential Indicators were regularly reviewed and none had been exceeded to date. The investment policy was regularly monitored to ensure compliance within the agreed and prudent Treasury Management policy and strategy

and that options and limits with financial institutions were also reviewed so that the Council could take full advantage of market conditions and opportunities as they arise. It was therefore recommended that the Lending List criteria be amended to increase the amounts able to be invested with AAA rated institutions from £50 to £70 million.

The funds managed by the Council's Treasury Management team had achieved a return of 1.51% on investments compared with the benchmark rate of 0.4%. This increased rate of return to date had generated additional interest above the budget target for 2011/2012 of almost £600,000.

Councillor Rolph welcomed the prudent approach which had been adopted with regard to treasury management and asked if the Council would be able to respond quickly if the Government decided to re-privatise the banks in which it held a stake.

The Committee were informed that the Government had guaranteed banks until 2014. The Government had also previously indicated that it would provide appropriate notice if it was to withdraw this guarantee early or where it was to consider selling its shares in its stakes in RBS and Lloyds TSB. It was stated that it was also unlikely that the Government would ever allow a major UK bank / clearing bank to fail because of the wider implications to the economy and to the financial reputation of the UK's banking sector. If these events occurred then the Council would be monitoring the position and would change its Treasury Management strategy accordingly. In practice, investments were being held shorter term than would normally be the case because of the current uncertainty in the global markets but particularly in the Euro Zone and the problems in the US economy. The Treasury Management team continued to be proactive and responsive to changes in the financial markets as necessary and continued to monitor the position on a daily basis.

Upon consideration of the report, the Committee: -

23. RESOLVED that: - (a) the Treasury Management performance for Quarter 2 of 2011/2012 be noted; and
- (b) the amendments to the Lending List Criteria set out in Appendix B and Lending List set out in Appendix C be approved.

### **Update on the Future of Local Public Audit**

The Head of Audit, Risk and Procurement provided an update on the provision of local public audit over the next three to five years.

The Department for Communities and Local Government (DCLG) had confirmed that all work currently carried out in-house by the Audit Commission would be outsourced. The procurement process had now begun with ten lots being grouped into four English regions. A firm could only be successful with a bid for one lot in any

one region and lots would be awarded in order of size, largest to smallest. The North East and North Yorkshire was the third lot in the Northern region.

A new firm, the DA Partnership, had been created by the Audit Commission's in-house service and an international financial firm (Mazars UK) and was expected to bid for as many contracts as it could. If any bids were won, employees of the audit practice would transfer to the stand alone entity which could be employee owned.

It was still undecided whether three or five year contracts would be awarded but it would be some time before individual authorities were able to appoint their own auditors.

Councillor Rolph queried how, as the smallest lot within the Northern region, it could be assured that best value was achieved for the contract.

The Head of Audit, Risk and Procurement reported that the evaluation criteria to be used for the procurement was not yet public so it was hard to give a definitive answer. However, it was envisaged that local authorities would pay a set fee, regardless of which firm carried out the audit, and once the Audit Commission had taken a percentage to fund itself, rebates may then be issued. Having considered the information, it was: -

24. RESOLVED that the report be noted.

### **Audited Statement of Accounts 2010-2011**

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation, Letters of Assurance, the Annual Governance Report from the Audit Commission and the amended Audited Statement of Accounts for 2010/2011.

The Executive Director expressed his satisfaction with the report of the Audit Commission which was very positive overall and which gave an unqualified audit opinion. The main positives from the report were highlighted as the work carried out in producing the accounts, the value for money conclusion and financial resilience and planning. He also drew Members' attention to the Annual Governance Statement which had been slightly amended and required approval from the Committee.

The Executive Director referred to his foreword to the Statement of Accounts and stated that the Authority was in a healthy and positive position in relation to balances and was strong in the area of financial resilience which was important given the financial challenges the Authority faced over the medium term.

Pensions continued to be managed properly and the Council was making the necessary pension deficiency payments and could meet the assessed deficit with planned and agreed future years contributions. The Accounts were contextualised in the light of the current financial situation and economic downturn and the Council continued to take a prudent approach to capital borrowing and its investment activity.

With regard to Single Status and Equal Pay claims, there were likely to be no significant milestones until the next calendar year.

The Executive Director paid tribute to the team who had compiled the Accounts in line with the International Financial Reporting Standards under very challenging conditions and the Chairman echoed those remarks.

**(a) Letter of Representation**

The Committee considered the Letter of Representation prepared by the Executive Director of Commercial and Corporate Services which set out the principles used in preparing the accounts and provided the external auditor with the necessary assurances required by regulation.

25. RESOLVED that the Letter of Representation be received and noted.

**(b) Letters of Assurance**

The Committee considered two Letters of Assurance, from those charged with governance and those charged with discharging management processes and responsibilities.

26. RESOLVED that the contents of the Letters of Assurance be received and noted.

**(c) Annual Governance Report**

Steve Nicklin, the District Auditor, presented the Annual Governance Report to the Council.

He commended Sunderland for their work in complying with the International Financial Reporting Standards for the Accounts and commented that any required changes to the Accounts were only presentational. He was pleased to be able to issue an Audit Certificate, not only for the 2010/2011 Accounts but also for financial years 2007/2008, 2008/2009 and 2009/2010 when the Audit Certificates had not been issued due to objections to the accounts which had been fully resolved in favour of the Council.

27. RESOLVED that the Annual Governance Report from the Audit Commission be received and noted.



**(d) Amended and Audited Statement of Accounts 2010/2011**

The Executive Director of Commercial and Corporate Services submitted the Audited Statement of Accounts 2010/2011 for consideration by the Committee and highlighted that the Accounts had been amended to reflect a number of presentational adjustments following the audit. This included a late change to the Council's Cash Flow Statement that was tabled at the meeting.

Councillor Rolph made reference to the requirement to account for heritage assets and asked if these were recorded by organisations such as the Tyne and Wear Archives Joint Committee rather than the local authorities. The Assistant Head of Financial Resources advised that the requirement to account for these assets would not apply to local authorities until the next financial year and that Note 3 to the accounts had flagged this as an issue to be addressed fully in the next year's accounts.

Councillor Forbes highlighted that the Annual Governance Report referred to the Council's scrutiny system and the ability to call-in decisions, but there were occasions when call-in was impossible due to time constraints. The Head of Law and Governance explained that the provision for call-in of decisions was in line with legislation but there was also provision to block call-in if there were specific reasons for this.

Having confirmed that there had been no further appeal from the objector to previous year's accounts, the Committee: -

28. RESOLVED that: - (a) the Amended Audited Statement of Accounts 2010/2011 be approved: and
- (b) the amended Annual Governance Statement (AGS) for 2010/2011 be approved.

(Signed) G N COOK  
Chairman

