

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 24 June 2016**

**Present:**

Mr G N Cook

Councillors O'Neil, Scullion, Wood and Mr M Knowles.

**In Attendance:**

Barry Scarr (Interim Director of Corporate Services), Dennis Napier (Assistant Head of Financial Resources), Tracy Davis (Audit, Risk and Assurance Manager), Rhiannon Hood (Assistant Head of Law and Governance), Lisa Armstrong (Principal Accountant), 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 Councillors Speding and N Wright.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 18 March 2016 be confirmed as a correct record.

Liz St Louis, Head of Customer Service and Development, was in attendance to provide an update with regard to the ICT Unit as external reports had found limited assurance in relation to the Business Continuity and ICT key risk areas within the Corporate Assurance Map.

Liz advised that the Business Continuity Planning Corporate Risk Area had changed from green to amber and it was acknowledged that work had fallen behind on this. A project had now been instigated and officers in ICT were working closely with the Business Continuity Officer to address the issues.

Scott Butler, Assistant Technical Services Manager, reported that a third party consultant had been engaged to review the position and report their findings and

suggested actions. The first meeting of a project board established to review Business Continuity and Disaster Recovery from an ICT point of view had taken place and the group would meet several times during June and July. Work was taking place to develop test scenarios for Business Continuity and Disaster Recovery for key business solutions and once completed, testing would be scheduled for the core systems. The work was not being looked at as an ICT solution but rather a core business solution.

The Chair thanked Liz and Scott for the update and was keen to ensure that sufficient resources were available to carry out this work as recovery plans were a serious and critical issue for the authority. He requested that further updates on the major priorities be brought to future meetings of the Committee.

Ann Goldsmith, Interim Director of Children's Services, was also in attendance to provide an update on the work being carried out to address issues in the Children's Safeguarding service.

Members of the Committee were provided with a copy of the Children's Services Learning and Improvement Plan and the Performance Dataset for the Improvement Board. Ann referred to the Improvement Plan and advised that this had been submitted to Ofsted 70 days after the initial inspection and was now showing that more actions were rated as 'green', showing that they had been completed and there was evidence that the improvement was sustained.

The permanent senior management team was now in place and Alex Hopkins, Director of Children's Services and Chief Executive of Together for Children Limited, would review the Improvement Plan once he formally came into post in July.

It was expected that there would be a small Ofsted inspection during August and this would potentially be based around the theme of care leavers. The Children's Commissioner was happy that this theme was to be proposed and it was understood that the original inspector was also interested in looking at this area.

Ofsted had changed their regime for authorities who had been judged to be inadequate and had introduced monitoring visits which would be a more formal visit and include many elements of a formal inspection. A letter would be published setting out the findings from this mini inspection and it was expected that this would be received before the end of August. Visits would take place quarterly until a full follow up inspection took place within two years of the original visit and a theme for each visit would be agreed in advance of the monitoring inspection.

The Committee were informed that the service continued to work on addressing issues and it was highlighted that there were due to be some Serious Case Reviews published in July.

Ann directed Members to the performance report and highlighted that the summary again showed that there were more actions which were rated green showing that performance was good and in line with, or above, target. One of the areas which continued to have problems was the front end of the system where children were referred and there were a high level of partner contacts which flooded this area. The

Children's Safeguarding Board were aware of the issue and would look again at trying to raise the threshold with partners.

There continued to be recruitment challenges; there was a strategy and expectations about the standard of practice but the pace was frustrating due to the number of agency workers, however there had been some improvement in timeliness and quality. A national advertisement had been issued and there was an online microsite for recruitment to the additional posts which had been put into the service.

There were more children subject to Child Protection Plans at the present time than there had been in previous years which reflected anxiety in professional networks. There was a marked improvement in permanence planning and there was much better performance in having all children seen regularly, including young people leaving care.

The number of looked after children who were not in employment, education or training was reducing month by month and it was hoped to get this figure in line with the national average. All accommodation for care leavers had been reviewed, with the Change Council having carried out some inspections and young people being much more involved in giving feedback.

The performance report identified a number of areas which were still to achieve 'green' status but the most important factor was consistency in quality of practice. Work was taking place to update transitions protocols as a result of a scrutiny workshop and early help services were being reviewed and restructured and efforts made to co-locate these teams alongside social workers where the workload was generic.

Mr Knowles commented that progress seemed to be reasonable but noted that the PI for 'Contact Outcome and Timeliness of Decision Making' seemed to remain resolutely red. Ann Goldsmith stated that there were too many contacts of variable quality. The Multi Agency Safeguarding Hub (MASH) would receive initial contacts and the staff, which included the Police, health and education services, had recently been re-shuffled with the intention that they would take a view on the threshold and feed back to their parent organisations. The changes had taken effect on 14 April 2016 and it was hoped that over time this would see the number of contacts being reduced.

Councillor Wood asked if it was known how much longer agency staff would be relied upon and Ann stated that there was a real push on frontline manager posts which would encourage people to stay with the authority. It was positive to have a permanent senior management team which stabilised the service, however it was nowhere near achieving the target of ten appointments every month. Realistically, the service would be relying on agency workers into the next financial year but there was an opportunity for increased recruitment due to media interest in the new company.

The Chair thanked Ann for her comprehensive update and wished her well for the future.

## **Annual Governance Review/Annual Governance Statement 2015/2016**

The Director of Corporate Services submitted a report providing details of the 2015/2016 Annual Governance Review, the Corporate 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 Audit, Risk and Assurance Manager advised Members that assurance work was carried out throughout the year and was used to review the Council's corporate governance arrangements on an annual basis. The assurance gathered was shown on the Corporate Assurance Map and the final position as at 31 March 2016. It was highlighted that management assurance had changed from green to amber in relation to Customer Focus and Performance Management but the overall assurance positions remained the same.

In terms of Internal Audit performance, all of the targets had been achieved apart from the implementation of medium risk recommendations which stood at 84% against a target of 90%. There had originally been 54 audits planned for the year, however it had not been considered appropriate to carry out five of them; four of these were related to children's social care and the fifth related to Human Resources and Organisational Development, however as the relevant officers were under pressure to deliver the pay and grading review it was decided to move the audit into 2016/2017.

It was confirmed that 91% of the planned audits had been completed and an additional four unplanned audits were also completed during the year, meaning that sufficient audit work had been undertaken in order to provide an internal audit opinion on the Council's overall system of control.

The Audit, Risk and Assurance Manager drew Members' attention to the counter fraud and error work which had been undertaken during the year, noting that there had been no major concerns.

Appendix 1 of the report set out a small number of improvements which had been identified to strengthen the corporate governance arrangements and the draft Annual Governance Statement was attached as Appendix 2.

Having considered the report, it was: -

2. RESOLVED that: -

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

## **Annual Report on the Work of the Committee**

The Director of Corporate Services submitted a report providing a summary of the work undertaken by the Audit and Governance Committee during 2015/2016 and the outcome of this work. The report was intended to demonstrate how the Committee had fulfilled its role and would be presented to the Council following consideration by the Committee.

The report set out the role of the Committee and the matters considered during the year which had included the Corporate Assurance Map, the Ofsted inspection of the Children's Safeguarding service, Information Governance arrangements, Treasury Management and the annual Statement of Accounts.

The Chair commented that he felt that the report accurately reflected the work which had been done over the past year and that regular reports had been received from council officers if the Committee had any specific concerns.

3. RESOLVED that the Annual Report be approved and presented to the Council for their consideration.

## **Corporate Assurance Map 2016/2017 – Update**

The Head of Assurance, Procurement and Projects submitted 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 advised that performance management assurance in relation to customer focus should be amber rather than green and that assurance from the Programme and Projects Office on Programme and Project Management had changed from amber to green.

The Strategic Risk Areas were in the process of being reviewed and now that the Corporate Plan had been finalised, the Strategic Risk Profile would be updated over the summer.

The detailed results of Internal Audit work was set out at Appendix 2 to the report and the Audit, Risk and Assurance Manager stated that a further seven school audits had been issued and two further audits had been added to the plan.

The work of the Risk and Assurance team was also outlined within the report and it was highlighted that the Council had now completed the Department of Health's Information Governance Toolkit and had achieved level 2, with an action plan. The Risk and Assurance team would continue to support further improvements in working towards Level 3 compliance. There were some key areas which were being targeted for improvement which would reduce risk considerably.

The performance of Internal Audit was on target for all KPIs apart from the percentage of medium risk recommendations implemented for the Council and schools which stood at 84% and 82% respectively.

Mr Knowles commented that he looked forward to receiving the revised Corporate Assurance Map and stated that he would be keeping a close eye on the areas where the assurance position was limited, referring particularly to Performance Management and Information Governance.

Councillor Wood asked about the planned Internal Audit coverage for service and business planning in relation to Human Resources and Organisational Development's proposals for spinning out services. The Audit, Risk and Assurance Manager advised that the service was considering options for moving into a different model with the aim of improving income generation opportunities.

Having considered the report, it was: -

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

#### **Draft Statement of Accounts 2015/2016 (Subject to Audit)**

The Director of Corporate Services submitted a report providing Members with a draft copy of the Council's Statement of Accounts 2015/2016 (Subject to Audit), details of the new requirements of the Accounts and Audit Regulations 2015 and the Letters of Assurance required by the external auditor as part of the final accounts process. Appendix B, 'Amendments to the Statement of Accounts' was tabled at the meeting.

The Director of Corporate Services reported that the Accounts were fully compliant with the code of practice for 2015/2016 and referred the Committee to the Narrative Statement which set out the Council's financial position, key priorities and performance management arrangements. The 2015/2016 had seen the adverse Ofsted inspection of Children's Services, however the financial impact of this had been managed well.

The Committee were advised that, in relation to the funding context and financial planning, matters had been stable over the last few years, however this was now beginning to change in light of rising inflation and other changes in the financial landscape. The council continued to plan for further significant budget reductions and risks through an approved Efficiency Strategy.

The Council's Capital Programme remained ambitious and totalled £252m over four years to 2019/2020. The Council also continued to examine the most appropriate service delivery options for services and these had included Sunderland Care and Support Limited, Sunderland Live Limited, Siglion and Sunderland Lifestyle Partnership.

The Council had also agreed to establish a Children's Company to deliver children's services on behalf of the Council and the structure and governance arrangements for

the company were currently being determined. This company would go live from April 2017.

In terms of the overall financial performance of the Council, there was an underspend of £0.220m for the financial year and the general reserve balance of £7.570m had been maintained. Moving forward the authority would look to bring the additional funding out of Children's Services and the Director of Corporate Services highlighted the careful and prudent approach which was taken to Treasury Management. He also thanked the Assistant Head of Financial Resources and his team for their work in pulling together the Financial Statements for 2015/2016.

Councillor Wood referred to Note 31 regarding the disclosure of remuneration information and the Director of Corporate Services confirmed that this was a legal requirement.

Having considered the report, it was: -

5. RESOLVED that: -

- (i) the draft and unsigned Statement of Accounts 2015/2016 (subject to audit) and the separate Statements set out in Appendices C to E as a result of complying with the requirements of the Accounts and Audit Regulations 2015, be noted;
- (ii) the contents of the Letter of Assurance from those charged with governance be approved; and
- (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

### **Treasury Management Review of Performance 2015/2016**

The Director of Corporate Services submitted a report presenting the Treasury Management borrowing and investment performance for 2015/2016 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Council on 2 March 2016.

The Treasury Management function continued to contribute significant financial savings which were used to provide funding to support the Council's revenue budget. The average rate of the Council's borrowing at 3.52% was low and in the top quartile when benchmarked against other authorities. The rate of return on investments was 0.92% for the year which was also in the top quartile against a benchmark rate of 0.36%.

Members were reminded of the basis of the Borrowing Strategy for 2015/2016 and that it had been reviewed in June, September and December 2015. The strategy had agreed a benchmark financing rate of 4.25% for long term borrowing and no new borrowing had been taken out during 2015/2016.

The Authorised Borrowing Limit for External Debt had been set as £516.408m for 2015/2016 and the Operational Boundary for External Debt was set as £422.196m and the authority was well within the tolerances for these.

The Director of Corporate Services commented that the average borrowing rate achieved by the Council was remarkable, especially for fifty year money, and that the Assistant Head of Financial Resources and the Treasury Management team should be applauded for achieving this result.

Accordingly the Committee: -

6. RESOLVED that the positive Treasury Management performance for 2015/2016 be noted.

### **Treasury Management – First Quarterly Review 2016/2017**

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

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, therefore no new borrowing had been taken out to date in 2016/2017 but the position continued to be monitored.

The Assistant Head of Financial Resources advised that borrowing had been taken out during 2015/2016 when PWLB rates had dipped to record low rates and it was the aim of the Treasury Management team to take value at the most opportune time and a prudent approach was taken towards borrowing small amounts of money at a time. The position would continue to be monitored as the rates could be affected by the outcome of the EU referendum.

The Council's interest rate on borrowing was very low, currently 3.52%, and the authority benefitted from this lower cost of borrowing and also from ongoing savings from past debt rescheduling exercises. The rate of return on investments was 0.84% compared with a benchmark of 0.36% and the Assistant Head of Financial Resources advised that this rate had dropped slightly due to financial institutions strengthening their balance sheets and the overall trend was downwards.

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 Chair thanked the Assistant Head of Financial Resources and his team for the excellent performance of the Treasury Management function as outlined in the report.

7. RESOLVED that: -

- (i) the Treasury Management performance for the first quarter of 2016/2017 be noted; and
- (ii) the Lending List Criteria set out at Appendix B and the Approved Lending List at Appendix C be noted.

### **External Auditor – Audit Progress Report**

The Director of Corporate Services submitted a report presenting the external auditors' regular Audit Progress Report covering the period up to June 2016.

Gavin Barker advised that Mazars had completed all of the audit planning work, carried out interim testing and were now ready to begin detailed testing on the Financial Statements. The external auditors liaised closely with the Assistant Head of Financial Resources and his team and commended their professional approach to the audit process.

Gavin also stated that officers had experimented with bringing the accounts production timetable forward and discussions would take place following the completion of this year's audit about delivering an earlier audit for 2016/2017.

The report informed Members that the second meeting of the North East Governance Forum would take place on Thursday 16 June 2016 and also drew attention to three recent publications which may be of interest to the Committee.

8. RESOLVED that the Audit Progress Report be noted.

### **Update on Key Issues**

This item was deferred to a future meeting of the Committee.

(Signed) G N COOK  
Chair

