

AUDIT AND GOVERNANCE COMMITTEE

24 July 2020

ANNUAL GOVERNANCE REVIEW / STATEMENT 2019/2020

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 This report provides details of the 2019/20 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. A draft Annual Governance Statement and an improvement plan for the year ahead are included.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to consider the report and agree the:
- Draft Annual Governance Statement, and
 - Improvement Plan.

3. Background

- 3.1 In April 2019 the Committee approved the proposed Risk and Assurance Map for 2019/20 and the plans of work for Internal Audit and the Risk & Assurance team.
- 3.2 A key feature of the Council's Integrated Risk and Assurance Framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources. The results of this assurance work are used to review the Council's corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective, no changes are considered to be required this year. The Council is also required to publish an Annual Governance Statement (AGS) with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

4. Annual Governance Review 2019/20

- 4.1 The review was undertaken by gathering assurance throughout the year from several sources via the Integrated Risk and Assurance Framework. From early March the Council put in arrangements to respond to Covid-19 and employee and elected member formal Covid-19 briefings commenced on March 13th, 2020. The Council followed advice from Public Health

England and has continued to work with partners across the city to monitor developments, communicate the latest guidance and take all the precautionary action necessary to protect residents and our staff, and to help safeguard services. The impact of this on Council services and governance arrangements is also considered within this report.

4.2 The review has considered assurance provided from:

- Assistant Directors
- Executive and Corporate Directors
- Specialist functions with an oversight of governance arrangements
- Risk and Assurance Team
- Internal and External Audit
- Other external agencies

Risk and Assurance Map

4.3 The assurances gathered are shown in the Risk and Assurance Map which is updated and reviewed on a quarterly basis and presented to the Chief Officers Group and the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress updates regarding specific issues and considered the performance of the Internal Audit team. The Risk and Assurance Map as at 31st March 2020 is shown at Appendix 1.

Strategic Risk Areas

4.4 The top section of the Map relates to the risks identified in the Strategic Risk Profile, which was updated in September 2019 to reflect the new City Plan. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

4.5 In response to the Covid 19 outbreak a separate risk profile was developed to assess the risks to the Council and the City as a whole. Given that the impact outbreak was felt significantly from March 2020 it is considered that this does not affect the strategic risks for the delivery of priorities for 2019/2020. The impact will however be evident during 2020/21 and the Strategic and Corporate Risk Profiles will be updated accordingly.

Assurance from Internal Audit

4.6 The Map shows the opinion of Internal Audit from work undertaken within 2019/20 and the preceding three years.

4.7 The rating from Internal Audit in relation to the risk area More People Living Independently has changed from Amber to Green due to follow up work confirming that all agreed actions relating to an audit undertaken in 2017/18 regarding the Council's Social Care Personal Budgets arrangements have been implemented

Assurance from Risk and Assurance Team

4.8 Much of the work of the team is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work, this is shown on the Map. Assurance work that has been on-going in 2019/20 includes:

- Assurance in relation to regeneration activity, including major schemes such as Sunderland Strategic Transport Corridor (SSTC) phase 3 and the International Advanced Manufacturing Park.
- Key ICT developments, including moving to the Microsoft Cloud and implementation of Office 365.
- Update of key SAP systems and optimising their use to deliver efficiency savings.
- Project regarding the move to the new City Hall.
- Development of the Council's new Housing Service.
- Monitoring and reporting of the risks to the City from the Covid 19 outbreak.
- Supporting the Council's response to the Covid 19 outbreak.

Assurance from others within the Council

4.9 Assurance provided from others within the Council is shown in the Risk and Assurance Map. This predominantly shows substantial assurance against the risk areas.

Assurance from Management

4.10 Arrangements have been developed to obtain assurance from service management in a number of areas. Members will note that all risk areas are shown as having substantial assurance.

Assurance from External Sources

4.11 The Map includes feedback received following the OFSTED inspection and the external auditor. The opinions rated "limited" are as a result of the Ofsted inspection of Children's Safeguarding Services as previously reported.

Overall

4.12 The only change to the overall level of assurance for all risk areas is in relation to More People Living Independently which has moved from Amber to Green.

Internal Audit Performance

- 4.13 There were originally 64 audits included the audit plan for the year, including 23 maintained school audits. During the year it became evident that six of these could not be completed during the year, as follows:
- Two schools converted into Academies.
 - Contract monitoring in relation to Sunderland Homes Ltd was no longer required as the Council began to set up its own internal housing service and the company was to be closed.
 - The audit of the Development Control service was no longer required as the Directorate had undertaken a full service review instead.
 - The process for monitoring the delivery of the City Plan was under review and therefore the audit would need to be deferred.
 - The audit of the effectiveness of the restructure at the Port of Sunderland could not be completed due the implementation of the restructure being delayed.
- 4.14 This means that there were 58 audits remaining from the original audit plan to complete. At the beginning of March 2020 six of these audits were ongoing on two were being arranged. During March the Government imposed a lockdown in response to the Covid 19 outbreak and staff within the Council were sent home to work where possible. The Internal Audit service was stood down to allow staff to be redeployed to critical functions. A decision was made with the clients at that point to cancel the two audits yet to be started. Whilst waiting for redeployment requests the Internal Audit service continued to try and complete the remaining six audits. This has proven to be difficult due to the capacity of clients due to their roles in responding to the outbreak. At the end of March, 50 of the expected audits had been completed, one audit has since been completed and the remaining 5 are expected to be issued in the near future.
- 4.15 As at the time of writing this report, 80% of the original 64 audits (88% of the expected 58 audits) were completed plus three unplanned audits were also completed. It is therefore considered that sufficient internal audit work has been undertaken along with other assurances gathered to provide an internal audit opinion on the Council's overall system of control.
- 4.16 All of the targets set for Internal Audit were achieved, based on the 50 audits completed to the end of March 2020.
- 4.17 It is confirmed that the internal auditors undertaking the work continue to remain independent of the areas audited.

Counter Fraud / Error Work

- 4.18 Planned counter fraud / error work was undertaken in the following areas during the year:
- Payroll compliance testing
 - BACS compliance testing
 - Cash Receipting
 - Accounts Receivable Recovery
 - ICT Asset Management
 - Council Tax Setting and Billing
 - Council Tax Liability
 - Accounts Payable
- 4.19 The work carried out did not highlight any significant issues however some opportunities for improvements to the control environment were identified, which have been reported upon.
- 4.20 In addition, testing continued on the results of the National Fraud Initiative undertaken in late 2018. This work identified seven duplicate payments processed through the Accounts Payable system to the value of £71,834, of which £65,897 has been repaid to date. (1 payment outstanding). The total number of transactions analysed was 553,550 with a value of £1,839,565,340.
- 4.21 In November 2019 the Council took part in the International Fraud Awareness week which included messages from key officers from the Council, various articles regarding 'hot topics' were published and hints and tips for staff on how to recognise potentially fraudulent activity. The Council worked with Together for Children Limited to publish relevant information to schools.

Corporate Governance Improvement Plan

- 4.22 The corporate governance improvement plan for 2019/20 included six actions. A review of progress on these actions and found that three are complete and three are ongoing where progress has been made. These relate to the review of performance management arrangements and partnership arrangements in support of the delivery of the City Plan, and completion of the review of directorate delegation schemes following the Senior Management Restructure.
- 4.23 As a result of this review a small number of improvements have been identified to strengthen the arrangements and these are detailed at Appendix 2. In addition to the three actions mentioned above, actions are recommended directly resulting from the Covid 19 outbreak to ensure that the Council's priorities clearly address the impacts of the outbreak on the City and the Council's governance arrangements continue to be robust moving forward.

Compliance with the Public Sector Internal Audit Standards

- 4.24 Internal Audit continues to comply with the Public Sector Internal Audit Standards (PSIAS) through the standards being built into audit working practices. This was confirmed during an independent review of the service by the council's external auditors Mazars in December 2018, which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

5. Draft Annual Governance Statement

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 3.

6. Conclusion / Opinion

- 6.1 This report sets out the assurance provided in the Risk and Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2019/20.
- 6.2 The opinion of the head of internal audit has been reported to the Audit and Governance Committee throughout the year. This opinion continues to be that the Council has an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place, with improvements to Children's Safeguarding being overseen by the Chief Executive. The views elicited during the review from senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to:
- note the report and Risk and Assurance Map at Appendix 1,
 - consider and agree the Improvement Plan included at Appendix 2, and
 - consider and agree the draft Annual Governance Statement at Appendix 3.