Gateshead Council

Public Document Pack

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 5 March 2018 at 10.00 am in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 10) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 29 January 2018
3	**Declarations of Interest** Members of the Committee are invited to declare interests in any agenda items.
4	**Audit and Standards Committee Work Programme 2017-18** (Pages 11 - 12) The Committee is invited to review and note the current work programme.
5	**Treasury Policy Statement and Treasury Strategy Report** (Pages 13 - 44) Report of the Strategic Director Corporate Resources
6	**External Auditor: Audit Strategy Memorandum Year Ending 31 March 2018** (Pages 45 - 64) Report of the Strategic Director Corporate Resources
7	**Annual Governance Statement 2017/18 - Assurance Framework** (Pages 65 - 72) Report of Strategic Director, Corporate Resources
8	**Internal Audit Plan 2017/19 Update Report** (Pages 73 - 76) Report of Strategic Director Corporate Resources
9	**Exclusion of the Press and Public** The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.

10 **Risk Management within Resilience and Emergency Planning**
(Pages 77 - 86)

Report of the Strategic Director, Communities and Environment

11 **Date and time of next meeting**

Monday 30 April 2018 at 10.00 am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk,
Tel: Date: Friday, 23 February 2018

GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2018

PRESENT: Councillor H Haran (Chair)

Councillors: J Green, L Green, J McElroy, J Turnbull, N Weatherley and Mr Stuart Bell (Independent Member)

APOLOGIES: Councillor J McClurey, G Clark and B Jones

ASC96 MINUTES

The minutes of the last meeting of the Committee held on 2 October 2018 were approved as a correct record.

ASC97 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC98 EXTERNAL AUDIT: ANNUAL AUDIT LETTER 2016-17

The external auditor's Annual Audit Letter 2016-17 provides a summary of the external auditor's work and findings for 2016-17 in respect of: -

- Audit of the financial statements
- Value for Money conclusion
- Other reporting responsibilities
- Fees
- Future challenges

RESOLVED - That the contents of the external auditor's Annual Audit Letter be noted.

ASC99 EXTERNAL AUDIT: AUDIT PROGRESS REPORT

The audit progress report by Mazars sets out progress in delivering their responsibilities as external auditor.

The report outlines the 2016/17 audit, 2017/18 audit, and national publications and other updates.

The Committee was advised that in respect of the 2016/17 audit there had been an objection received from a member of the public in relation to the Lender Option Borrower Option (LOBO) loans held by the Council. This objection had been looked

into by Mazars. The Council had 12 loans of this nature and it had the requisite documentation for them for the last ten years. The loans were considered to be value for money. The objector had been advised of this outcome and had not contacted Mazars any further.

In response to a reference to a query about materiality, the Committee was advised that the external auditor did not report on materiality less than £325,000 and the Council did not need to change it. However, the Council always made the necessary changes to address such cases. Above that amount the auditors did report instances of materiality and in cases of accumulative materiality the auditors would ask for the accounts to be changed. Once again the Council has always made the necessary changes. In cases of materiality above £8m the accounts would be qualified if the necessary changes were not made to them

The Committee was informed that Mazars had been appointed as the Council's external auditors for the next five years.

The Committee was reminded that the statutory deadline for completion of the accounts changed from 30 September to 31 July year. The Council has completed its Statement of Accounts early in the last two years in "dry runs".
Councillors were advised that as all authorities now had to meet this new deadline Mazars would be facing a massive challenge but it would be staffed appropriately to meet this. Gateshead would be well placed this year given its experience of meeting the earlier deadline in the last two years.

RESOLVED - That the contents of the external auditor's progress report be noted.

ASC100 CORPORATE RISK MANAGEMENT 2017/18 - QUARTERLY REPORT TO 31 DECEMBER 2017

The Committee received an update on developments in Corporate Risk Management during the period 1 October to 31 December 2017 in compliance with the requirements of good corporate governance.

The Action Plan for the delivery of the Developmental Objectives for 2017/18 incorporating progress to date shows work is progressing as per the plan and further details about the specific areas are covered below.

The draft Strategic Risk Register was presented to the Corporate Management Team to ensure all risks and controls have been included and are accurate and up to date. It was agreed that all risks had been identified and included within the draft register, however, a review of some of the controls was requested to ensure it focused on the control not the output.

The draft Council pledges are currently subject to public consultation. It was agreed that, where appropriate, these should be referenced within the Strategic Risk Register.

The amendments have subsequently been made to the Strategic Risk Register and the revised register will be presented to the Corporate Management Team for comment once the outcome of the public consultation on the Council's pledges has been received to ensure any changes to the pledges, resulting from the consultation have been included.

Once the outcome of the public consultation is know the revised draft will be taken to Corporate Management Team for comment and then will be presented to the Audit and Standards Committee for comment and recommendation to Cabinet.

A new crime has been introduced in the Criminal Finance Act 2017, the failure to prevent the criminal facilitation of tax evasion, which took effect from 30 September 2017.

The Act is likely to impact primarily on higher risk organisations such as those in the finance industry but the Corporate Risk Management team are co-ordinating a risk assessment of all Council services to ensure procedures are in places and have been affectively communicated for any areas where this type of crime could be attempted.

A standard risk assessment template has been developed by the Corporate Risk Management Team for completion by Services. The templates gather information on the potential risk and the mitigating controls currently in place.

Once completed the templates will be collated and reviewed by the Corporate Risk Management Team to ensure the controls in place are satisfactory. Where additional controls are required, the implementation process will be monitored and progress reported to the Risk and Resilience Group.

The Risk and Resilience Group met 24 January and the following items were discussed:

- Risk Management and Business Continuity Plans:
  - Update on the changes to the draft Strategic Risk Register
  - Annual review of operational risk registers
  - Annual review of business continuity plans
  - Update on changes to the draft Strategic Risk Register
  - Completion of templates relating to the Criminal Finance Act 2017
- Resilience and Emergency Planning:
  - Gateshead modern slavery, trafficking and exploitation – concept of operations
  - Local Resilience Forum – training and exercise programme review of the previous 12 months
  - Exercise Border Reivers
  - Refresh of the Strategic Resilience and Emergency Planning Framework

RESOLVED – That the information be noted.

ASC101 COUNTER FRAUD AND CORRUPTION ARRANGEMENTS

The Committee has been provided with details of the outcome the recent review of the Council's overall Counter Fraud and Corruption Arrangements, including the revised Counter Fraud and Corruption Policy and Fraud Response Plan and the proposed Counter Fraud and Corruption Strategy.

CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption states that an organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

It is recognised that to minimise losses to fraud and corruption, a strategic approach with a clear remit covering all areas of fraud and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud and corruption culture, create a strong deterrent effect and prevent fraud and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud and corruption and seek to apply sanctions and recover losses where they are found).

Since 2011 the Council has had a Counter Fraud and Corruption Policy and Fraud Response Plan, but had not documented the overarching strategy. The Council's draft Counter Fraud and Corruption Strategy clearly identifies the Council's commitment to an effective Counter Fraud and Corruption approach, as part of its overall Corporate Governance arrangements. The draft strategy outlines the principles the Council is committed to in preventing and reporting fraud and corruption.

Regular reports on any activity relating to this Strategy, and progress against the fraud plan, will be provided to the Committee.

An annual report will be provided to the Committee on performance against the Strategy and the effectiveness of the Strategy. Conclusions will also form part of the Annual Governance Statement.

A Counter Fraud and Corruption Policy and Fraud Response Plan forms an important part of the Counter Fraud and Corruption Strategy by setting the tone, culture and expectations of the Council, as part of the corporate framework.

The Council has had a Counter Fraud and Corruption Policy and Fraud Response Plan since 2011. A part of this review both documents have been updated to take account of current best practice and guidance.

The Counter Fraud and Corruption Policy outlines the Council's attitude to and position on, fraud and corruption and sets out responsibilities for its prevention and detection. It also communicates important deterrence messages to employees, councillors, and third parties that fraudulent conduct will not be tolerated by the Council and that the stance against fraud is endorsed and supported at the most senior level.

The Fraud Response Plan details the Council's procedures for responding to any

incidents of suspected fraud or corruption. The Plan sets out how suspicions should be raised and how investigations will be conducted and concluded.

In response to a query on how these documents would be shared with employees, the committee was informed that they would be subject to a report to the Council's SMG Services and Performance and then to Cabinet. Following this they would be the subject of employee briefings. It is intended that a six monthly report will be presented to this Committee providing updates on the work of the Corporate Fraud Team.

The Chair suggested that this topic could form a theme for the Committee to consider at a future meeting or form the basis of a councillors' seminar.

RESOLVED - That the Counter Fraud and Corruption Strategy, Counter Fraud and Corruption Policy, and Fraud Response Plan be approved.

ASC102 LOCAL CODE OF GOVERNANCE

The Council has a local code of governance, which was originally presented to the Audit Committee in April 2007. The document was developed from a framework document produced by CIPFA and SOLACE. This has been updated on an annual basis.

The code defines how the Council complies with the principles of good governance laid down by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.

The Code is essentially based on the Council's existing constitution, protocols and procedures but is updated to include changes to documents and procedures in the previous year.

The Committee was advised in March 2015 that CIPFA was reviewing its framework document to ensure that it remained fit for purpose. CIPFA issued their new Delivering Good Governance in Local Government: Framework along with comprehensive Guidance in April 2016.

The new approach is intended to better assist local authorities, and associated organisations and vehicles through which authorities now work, in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.

The new Framework will require a full re-drafting of the Council's Local Code of Governance although the majority of the information contained in the current Code will be pertinent to the new one. However, rather than just attempting a simple transposing of information, to get the best value from the new Framework a new approach was proposed.

The Committee on 6 March 2017 agreed that an iterative and measured

approach be taking to development of the new Framework over the following 6-9 months so that the new Code could be fully populated and in place for March 2018. This would involve:

- creation of a core officer working group
- regular reports to Audit and Standards Committee along with involvement (e.g. by way of workshop sessions) in between
- regular reports to Corporate Management Team and Leadership Team.

It was intended that this approach would enable development of a meaningful and inclusive code whilst communicating the fundamentals of good governance to officers and councillors.

The following actions have been undertaken.

- a core officer working group was established;
- update reports were taken to Corporate Management Team on 29 March and 26 July 2017, along with a full session with the Leadership Team (all Directors) on 10 August 2017. Feedback from all of the sessions was taken into consideration in developing the new code.
- a workshop session was held on 18 September 2017 involving a number of senior members and members of this Committee. Issues arising from the workshop were again taken into consideration in developing the new code.

Taking all of the work into consideration a self-assessment document has been prepared which it is proposed will comprise the Local Code of Governance to be adopted for the future.

The Committee was advised that the Code would be the subject of a councillors' briefing and would also be included in the induction of new councillors and in future training on ethics and probity.

RESOLVED - That the updated Local Code of Governance based on the new CIPFA Framework be approved.

ASC103 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting during consideration of the remaining business in accordance with Paragraph 3 of Schedule 12A to the Local Government Act 1972.

ASC104 INTERNAL AUDIT PLAN 2017/18 - QUARTERLY MONITORING REPORT TO 31 DECEMBER 2017

A report was presented outlining progress made by the Internal Audit and Risk Service against the audit plan for the financial year 2017/18. It also summarised the main findings arising from audit activity throughout the period 1 October 2017 to 31 December 2017.

RESOLVED - That the information be noted.

ASC105 OTHER BUSINESS

The Chair advised the Committee that a presentation would be given at its next meeting on Pandemic Flu and the implications of the Grenfell Tragedy as they relate the strategic risk register (existing and future controls: the failure to provide a response during a major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community).

The Chair invited members to suggest other areas relating to the Strategic Risk Register which could be scrutinised/reviewed in future.

The Chair also informed the Committee that she had asked for a programme of training to be prepared covering the work of the Committee which could involve the participation of all councillors.

RESOLVED - That the information be noted.

ASC106 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 5 March 2018 at 10.00am in Gateshead Civic Centre.

Chair……..

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Audit and Standards Committee – Work Programme – 2017/18

Committee Meeting Date/Time (Bridges Room)	Items to be considered
19 June 2017 10am	• Constitution • Role and Remit • Cyber Security: Business Continuity & Disaster Recovery Planning • Oversight of Management Processes • Members' Assurance Statements 2016/17 • Managers' Assurance Statements 2016/17 • Review of the Effectiveness of Internal Audit 2016/17 • Corporate Risk Management – Annual Report 2016/17 • Annual Governance Statement 2016/17 • Internal Audit Annual Report 2016/17 (exempt agenda)
24 July 2017 10am	• Annual Report to Cabinet and Council 2016/17 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 30 June 2017 (Exempt Agenda) • Corporate Risk Management 2017/18 – Quarterly Report to 30 June 2017
2 October 2017 ***5.30pm***	• Committee on Standards in Public Life (Annual report 2016-2017) • Results of the 2016/17 CIPFA Audit Benchmarking • Corporate Risk Management 2017/18 - Quarterly Report to 30 September 2017 • Review of Internal Audit Charter • Annual Governance Statement 2016/17 – Internal Audit Review of Managers' Assurances • Treasury Management – Performance to 30 September 2017 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 30 September 2017 (Exempt Agenda)
29 January 2018 10am	• Corporate Risk Management 2017/18 – Quarterly Report to 31 December 2017 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 31 December 2017 (Exempt Agenda)
5 March 2018 10am	• Treasury Policy Statement and Treasury Strategy • Local Code of Governance (Confirm with Martin / Mike) • Annual Governance Statement (Assurance Framework) Internal Audit Update
30 April 2018 10am	• Dispensations • Internal Audit Strategy Statement and Annual Plan 2018/19 • Corporate Risk Management 2017/18 – Quarterly Report to 31 March 2018 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 31 March 2018 (Exempt Agenda) • Counter Fraud Annual Report (Exempt Agenda)

Issues to programme in:

Counter Fraud Mid-Year Update Report (Exempt Agenda) – October Committee

Training to programme in:

- Ethics and Probity Training – September / October 2017

- Counter Fraud Awareness Training – tbc (agreed by Committee at its meeting on 6 March 2017)

Contact: Neil Porteous **Ext:** 2149

Gateshead Council

REPORT TO AUDIT AND STANDARDS COMMITTEE
5 MARCH 2018

Title of report: **Treasury Policy Statement and Treasury Strategy 2018/19 to 2022/23**

Report of: **Darren Collins – Strategic Director, Corporate Resources**

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed Treasury Policy Statement and Treasury Strategy for 2018/19 to 2022/23 prior to consideration by Cabinet.

Background

2. To provide a framework for the Strategic Director, Corporate Resources to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

3. The attached Treasury Policy and Treasury Strategy have been prepared considering the Local Government Act 2003, Ministry of Housing, Communities and Local Government 's (MHCLG) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital and CIPFA's Code of Practice on Treasury Management (2017).

Proposals

4. The Committee is asked to review the Treasury Policy and Treasury Strategy attached at Appendix 2 and Appendix 3, to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

Recommendation

5. The Committee is asked to review the recommendations on the Treasury Policy and the Treasury Strategy and submit any comments to Cabinet.

For the following reason:

- To ensure that the Council fully complies with the requirements of good practice as recommended by the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and Prudential Code for Capital (2017) and the Ministry of Housing, Communities and Local Government (MHCLG), Guidance on Local Government Investments.

CONTACT: Clare Morton, ext. 3591

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position. The Council has approached the budget consultation for 2018 within a framework for achieving the Council's new strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just council resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next five years, the Council will need to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making will be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represents best practice. The Council fully complies with the Code and this contributes towards achieving good practice.

4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.

5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the MHCLG's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.

6. MHCLG consulted on proposed changes to the investment guidance which closed on 22 December 2017; as yet the final revised guidance has not been issued. We anticipate that the revised guidance will focus particularly on non-financial asset investments. If the final published guidance warrants a revision to the Treasury Policy Statement and Treasury Strategy these documents will be re-presented to Cabinet and Council mid-year.

7. Under Part 4 of the Council's Constitution the Strategic Director, Corporate Resources will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

8. The Council also provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement.

Treasury Policy

9. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council.

10. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

11. CIPFA's Code requires the setting out of responsibilities and duties of councillors and officers to allow a framework for reporting and decision making on all aspects of treasury management. To achieve this CIPFA has recommended the adoption of 12 treasury management practices (TMPs).

12. These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA's Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issued by the MHCLG supporting Part 1 of the Local Government Act 2003 in respect of local authority investments. The Treasury Policy is attached at Appendix 2.

Treasury Strategy

13. The Treasury Strategy for 2018/19 to 2022/23 is attached at Appendix 3. This covers the specific activities proposed for 2018/19 to 2022/23 in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times.

14. The term "investments" used in the definition of treasury management activities also covers non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is consistent with the Council's risk appetite.

15. The Council have reviewed the maximum maturity periods and amounts which can be invested with counterparties outlined in Appendix 6. In revising these limits to meet our requirements an assessment of risk has been undertaken and advice obtained from Link Asset Services, formerly Capita Asset Management Services.

16. The Council has produced the Treasury Strategy to comply with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities (2017) and Part 1 of the Local Government Act 2003. The Council considers that compliance with the above ensures that best practice is followed.

Consultation

17. Consultation on the production of the Treasury Policy Statement, including the Treasury Strategy for 2018/19 to 2022/23, has taken place with the Council's treasury advisers (Link Asset Services). The outcome of the consultation process, along with guidance issued by CIPFA and the MHCLG, has informed the format and content of the policy and strategy statements.

18. The Leader of the Council has been consulted on the contents of this report.

Alternative Options

19. There are no alternative options, as the Treasury Policy and Strategy reports recommended for approval are required in order to comply with CIPFA's Code of Practice on Treasury Management (2017).

Implications of recommended options

20. **Resources:**

a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

b) **Human Resources Implications** - There are no human resources implications arising from this report.

c) **Property Implications** – There are no property implications arising from this report.

21. **Risk Management Implications**

The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

22. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

23. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

24. **Sustainability Implications**

There are no sustainability implications arising from this report.

25. **Human Rights Implications**

There are no human rights implications arising from this report.

26. **Area and Ward Implications**

There are no direct area and ward implications arising from this report.

27. **Background Information:**

The following documents have been used in preparation of the report:

- Local Government Act 2003
- MHCLG Guidance on Local Government Investments
- CIPFA's Prudential Code for Capital (2017)
- CIPFA's Code of Practice on Treasury Management (2017)
- Council's approved Treasury Management Practice Statements

Appendix 2

Treasury Policy 2018/19 to 2022/23

1. Approved Activities of the Treasury Management Operation

1.1 In December 2017 CIPFA published a revised Code of Practice on Treasury Management in the Public Services (the Code), which represents best practice. Treasury management activities are defined by CIPFA as:

> "The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 The term "investments" used in the definition of treasury management activities includes all financial assets of the organisation, as well as other non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is also consistent with the Council's risk appetite.

1.3 The Council provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement. Borrowing to fund the capital programme of the Company is also carried out by the Council and is included in the overall borrowing figure.

2. Formulation of the Treasury Strategy

2.1 The formulation of a Treasury Strategy involves determining the appropriate borrowing and investment decisions with the prime objective of safeguarding the Council's assets and secondary objectives of obtaining a reasonable rate of return on investments and minimising the costs of borrowing. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council and ensure robust due diligence procedures cover all external non- treasury investments.

2.2 The Treasury Strategy encompasses the requirements of CIPFA's Treasury Management Code of Practice, Prudential Code for Capital and the MHCLG Guidance on Local Government Investments.

2.3 The Treasury Strategy covers the following:

a) treasury limits in force which will limit the treasury risk and activities of the Council, including prudential and treasury indicators;
b) prospects for interest rates;
c) the borrowing strategy;
d) debt rescheduling;
e) policy on borrowing in advance of need;
f) the investment strategy; and
g) the policy on the use of external service providers.

The strategy for 2018/19 to 2022/23 is attached at Appendix 3.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Council may borrow money
(a) for any purpose relevant to its functions under any enactment, or
(b) for the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Treasury Management Code of Practice the following indicators have been adopted:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit;
- Operational boundary;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable; and
- Upper limit on principal sums invested for periods of over 365 days.

3.3 Given the link to the budget and capital programme, these indicators were approved by the Council on 22 February 2018 as part of the Budget and Council Tax Level 2018/19 report. For completeness, the approved indicators are attached at Appendix 4.

4. Annual Investment Strategy

4.1 Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest.

4.2 The MHCLG has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify”. The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an Annual Investment Strategy. This is included as Section 6 of the Treasury Strategy in Appendix 3.

4.4 The Annual Investment Strategy document will include:

- The Council’s risk appetite in respect of security, portfolio liquidity and return;
- The definition of ‘high’ and ‘non-high’ credit quality to determine what are specified investments and non-specified investments;
- Which specified and non-specified instruments the Council will use, dealing in more detail with non-specified investments given the greater potential risk;
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies;
- The types of investments that may be used during the course of the year;
- The limit to the total amount that may be held in each investment type;

- The Council's policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Council will deal with changes in ratings, rating watches and rating outlooks;
- Limits for individual counterparties, groups and countries; and
- Guidelines for making decisions on investments and borrowing;
- The Council's policy on commercial investments held for return.

5. Policy on Interest Rates Exposure

5.1 The Budget and Council Tax Level 2018/19 approved by Council on 22 February 2018, sets treasury limits for the maximum and minimum level of exposure to fixed and variable rate borrowing. The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the Strategic Director, Corporate Resources will obtain approval from the Council prior to entering into any arrangement of this nature.

6. Policy on Delegation, Review Requirements and Reporting Arrangements

6.1 It is the Council's responsibility under the Code to approve a Treasury Policy statement.

6.2 The Council delegates the review of the policy and monitoring of the performance of the treasury management function to Cabinet, the scrutiny of treasury management strategy and policies to the Audit and Standards Committee, and the execution and administration of treasury management decisions to the Strategic Director, Corporate Resources, who will act in accordance with the organisations policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management. Any proposals to approve, adopt or amend policy require the consent of the Council and are matters for the Council to determine.

6.3 Council will receive:

a) a Treasury Policy Statement and five-year Treasury Strategy report, including the annual Investment Strategy, for approval before the commencement of each financial year; and
b) an annual report on borrowing and investment activity by 30 September of each year.
c) a mid-year report on borrowing and investment activity.

6.4 The Audit and Standards Committee will receive:

a) a Treasury Policy Statement and five-year Treasury Strategy report for scrutiny; and
b) a mid-year report on borrowing and investment activity.

6.5 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
b) an overview of how the associated risk is managed
c) the implications for future financial sustainability

6.6 The aim of this report is to ensure that all elected members of the council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

6.7 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all councillors to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Appendix 3

Treasury Strategy 2018/19 to 2022/23

1. Introduction

1.1 The CIPFA Code of Practice on Treasury Management 2017 (the Code) emphasises a number of key areas including the following:

a) All authorities must formally adopt the Code.
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security and portfolio liquidity when investing treasury management funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports must be approved by full council.
i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
k) Treasury management performance and policy setting should be subjected to prior scrutiny.
l) Councillors should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
m) Responsibility for these activities must be clearly defined within the organisation.
n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the Treasury Management Practices).
o) "Investments" covers the financial and non-financial assets which the organisation holds primarily for financial returns. This will include investments which are not managed as part of the normal treasury management delegations.

1.2 This Strategy has been prepared in accordance with the Code.

1.3 The Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy & Strategy / Annual Investment Strategy	Council approval with review delegated to Cabinet/ Audit and Standards Committee	Annually before the start of the year or where a material change is proposed
Annual Report	Council with review delegated to Cabinet/ Audit and Standards Committee	Annually by 30 September after the end of the year
In year changes to agreed Treasury Management Policy & Strategy / Annual Investment Strategy / Prudential and Treasury Indicators	Cabinet	By exception
Scrutiny of treasury management performance via mid-year report	Council approval with review delegated to Cabinet / Audit and Standards Committee	Mid-Year
Scrutiny of treasury management Policy, Strategy and procedures	Audit and Standards Committee	Annually before the start of the year
Treasury Management Monitoring Reports	Strategic Director, Corporate Resources	Monthly/Weekly
Treasury Management Practices	Strategic Director, Corporate Resources	Monthly

1.4 The revised Prudential Code covers the following Prudential Indicators which were approved by Council on 22 February 2018:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit for external debt;
- Operational boundary for external debt;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable;
- Upper limit on principal sums invested for periods of over 365 days.

1.5 In addition to the above indicators, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.6 The strategy covers:

a) Prospects for interest rates;

b) Treasury limits in force which will limit the treasury risk and activities of the Council, including prudential and treasury indicators;
c) The borrowing strategy;
d) Sensitivity forecast;
e) External and internal borrowing;
f) Debt rescheduling;
g) Policy on borrowing in advance of need;
h) The investment strategy; and
i) The policy on the use of external service providers.

2. Prospects for Interest Rates

2.1 The table shown below outlines the Council's view of anticipated movements in interest rates, based on guidance received from the Council's treasury management advisers Link Asset Services as at 18 February 2018.

	March 2018	June 2018	Sept 2018	Dec 2018	March 2019	March 2020	March 2021
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%
5 yr PWLB*	1.90%	2.00%	2.10%	2.10%	2.20%	2.40%	2.60%
10 yr PWLB	2.50%	2.50%	2.60%	2.70%	2.70%	3.00%	3.20%
25 yr PWLB	2.80%	2.90%	3.00%	3.10%	3.20%	3.40%	3.60%
50 yr PWLB	2.60%	2.70%	2.80%	2.90%	3.00%	3.20%	3.40%

* Public Works Loan Board, a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB's function is to lend money to other prescribed public bodies.

Short Term Interest Rates

2.2 The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase the Bank rate twice more by 0.25% the Link Asset Services forecasts anticipate increases in Bank Rate of 0.25% in May 2018, November 2018, November 2019 and August 2020. The prospects for additional bank rate rises have been supported by MPC announcements placing greater importance on achieving the 2% inflation target within a18-24 month time horizon.

Long Term Interest Rates

2.3 Following advice from the Council's treasury management advisers, the Council's view on longer term fixed interest rates is that there will be little difference between 25 year and 50 year rates which are expected to remain around 3.00% throughout 2018/19. It is also expected that PWLB rates on loans less than ten years in duration will be lower than longer term loans.

3. Treasury Limits for 2018/19 to 2022/23 including Prudential Indicators

3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a

level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Council for the foreseeable future.

3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.

3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code requires that treasury management decisions be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Council will take into account its arrangements for the repayment of debt and consideration of any impact, on the authority's overall fiscal sustainability.

3.4 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and housing rent levels is affordable.

3.5 To facilitate the decision-making process and support capital investment decisions the Prudential Code and the Treasury Management Code require the Council to agree and monitor a minimum number of prudential indicators which were approved by Council on 22 February 2018 as attached at Appendix 4.

3.6 The Strategic Director, Corporate Resources will ensure systems are in place to monitor the treasury limits and will report to Council instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4. Borrowing Strategy

4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.

4.2 The main options available for the borrowing strategy for 2018/19 are PWLB loans, market loans and the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.

4.3 Variable rate short term borrowing is expected to be cheaper than long term fixed borrowing and therefore may be considered throughout the financial year. Due to the expectation that interest rates will rise, the risk of the potential increase in interest rates will be balanced against any potential short-term savings.

4.4 There are different types of market loans available, including forward starting, at variable and fixed interest rates. These loans generally would have to be offered at

rates below the current or future PWLB forecast rates to make them an attractive option. The forward starting loans will be considered as a means of mitigating future interest rate movements, i.e. where the Council can agree an interest rate ahead of when it would actually be required to draw down the funds. This also avoids the 'cost of carry' – the difference between borrowing costs and investment returns.

4.5 To mitigate this interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing in 2018/19.

4.6 The main strategy is therefore:

- Current (February 2018) long term PWLB rates (50 years) are around 2.50%. It is forecast that this will rise over the financial year 2018/19 with targets rates being, 2.70% Q1, 2.80% Q2, 2.90% Q3 and 3.00% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -
  10 years – 2.60%
  25 years – 3.05%
  50 years – 2.85%

- The use of short term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.

- External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.

- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

Sensitivity of the forecast

4.7 The Council, in conjunction with Link Asset Services, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

- *if it was felt that there was a significant risk of a sharp FALL in long and short-term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the

portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.8 Against this background, caution will be adopted in the management of the 2018/19 treasury operations. The Strategic Director, Corporate Resources will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Council.

External and Internal Borrowing

4.9 As at 31 January 2018 the Council has net debt of £545.044m; this includes total borrowing of £640.723m and investments of £95.679m.

4.10 Investment returns are likely to remain relatively low during 2018/19 but to be on a gently rising trend over the next few years.

4.11 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances, defined as internal borrowing, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

4.12 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Investment returns are likely to remain relatively low during 2018/19 and beyond and interest rates are expected to be below long-term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). Any short-term savings gained from adopting this approach will be weighed against the potential for incurring additional long-term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher. This position will be monitored on an ongoing basis during 2017/18 in response to any changes to interest rates and forecasts.

4.13 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. The significant difference between early redemption rates and interest rates payable on PWLB debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by the PWLB.

Borrowing in advance of need

4.14 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that it is in line with the projected

capital financing requirement and prudential indicators and that the Council can demonstrate value for money and ensure the security of the funds.

4.15 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow; and
- consider the alternative forms of funding.

Municipal Bond Agency

4.16 It is likely that the Municipal Bond Agency will be offering loans to local authorities in the near future. The agency has declared itself open for business after issuing its first operating framework to councils. Once approved the agency will develop plans for its first issue of bonds. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider this as an additional source of borrowing as and when appropriate.

5. Debt Rescheduling

5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Council's Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.

5.2 The reasons for any proposed rescheduling will include:

- the generation of cash savings at minimum risk; and
- in order to amend the maturity profile and/or the balance of volatility in the Council's borrowing portfolio.

5.3 The Strategic Director, Corporate Resources in line with delegated powers outlined in the approved Treasury Management Practice Statement, will approve all rescheduling.

5.4 As short-term borrowing rates are expected to be cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Opportunities identified will take into consideration the likely cost of refinancing these short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

5.5 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short-term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

All rescheduling will be reported to Council in the mid-year and annual reports.

6. Investment Strategy 2017/18 to 2019/20

Introduction

6.1 The Council has regard to the CLG's Guidance on Local Government Investments and CIPFA's Code of Practice. The Council must produce a strategy on an annual basis which covers the subsequent three years.

6.2 This annual strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the categories of **specified investments** and **non-specified investments.**

6.3 Specified investments are denominated in Sterling, are for periods of 364 days or less and do not involve the acquisition of share or loan capital in any corporate body. Such an investment will be with either:

- the UK Government or a local authority, parish or community council, precepting or levying body or
- a body or investment scheme which has been awarded a high credit rating by a credit rating agency.

6.4 Non-specified investments are deemed more risky and guidance on local government investments requires more detailed procedures. Such procedures are required in order to regulate prudent use and establish maximum amounts which may be invested in each category.

6.5 Both specified and non-specified investment types currently utilised by the Council are detailed in Appendix 6, along with approved limits. These limits have been revised to reflect the Council's investment requirements whilst assessing risk and obtaining advice from Capita Asset Management Services.

6.6 In addition to these, numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the option will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

6.7 All investments will be in Sterling.

6.8 The Council's primary investment objective is the security of the capital investment. The Council will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

6.9 The borrowing of monies purely to invest is unlawful and the Council will not engage in such activity.

Creditworthiness Policy

6.10 The Council uses the creditworthiness service provided by Link Asset Services to assess the creditworthiness of counterparties. The service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. This service uses a scoring system to ensure that it does

not give undue consideration to just one agency's ratings. It does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.11 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

6.12 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and information, information on government support for banks and the credit ratings of the government support.

6.13 The Council has determined the minimum long term and short-term ratings it deems to be "high" for each category of investment. These "high" ratings allow investments of 365 days or less to be classified as **specified investments**. The Council's approved limits for this "high" credit rating for deposit takers is as follows:

High Rated	**Fitch**	**Moody's**	**Standard & Poor's**
Short Term (ability to repay short term debt)	F1	P1	A1
Long Term (ability to repay long term debt)	A	A2	A

6.14 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.

6.15 UK Government nationalised/part nationalised banks will have a maximum limit of 40% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £15m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.

6.16 Where more than one counterparty from a group is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.

6.17 A number of counterparties are also approved by the Strategic Director, Corporate Resources for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the Strategic Director, Corporate Resources prior to investments being placed.

Nationalised/Part Nationalised Banks

6.18 A number of banks in the UK do not conform to the credit criteria usually used to identify banks that are of high credit worthiness. In particular, as they are no longer separate institutions in their own right it is impossible for an individual rating to be assigned to them. Due to Government ownership these institutions now have the highest short-term rating possible as they effectively take on the creditworthiness of the Government and deposits placed with them are effectively with the Government. Taking this into consideration they have the highest rating possible. As a result of this when deposits are being considered with these counterparties the limits will be in accordance with the Link Asset Services creditworthiness list.

6.19 Where the bank has not been fully nationalised but receives support from the UK Government the individual rating of the bank will not be taken into consideration and the relevant banks will be included on the Council's lending list as prescribed by the Link Asset Services creditworthiness list as detailed in 6.15.

Foreign Banks

6.20 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list, they must also meet the high rated lending criteria and have operations based in London. Limits will be prescribed by the Link Asset Services creditworthiness list and limited to 365 days or less. Each country will be limited to the maximum investment limit of £15m or 20% of the Council's total investments. A list of those countries with a minimum sovereign rating of AA+ is shown in Appendix 7.

Local Authorities

6.21 The Council invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis and agreed by the Strategic Director, Corporate Resources, prior to funds being placed. Limits are detailed at Appendix 6.

Non-specified Investments

6.22 In addition to the above specified investments, the Council has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non- High Rated	Fitch	Moody's	Standard &Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

Limits for non-high rated counterparties and non-rated building societies are detailed at Appendix 6.

6.23 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. The Council has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Asset Services creditworthiness service. Ongoing monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- If a counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the Strategic Director, Corporate Resources.

6.24 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and information on government support for banks and the credit ratings of government support.

Investment balances / Liquidity of investments

6.25 The Council deposits funds beyond 365 days to a maximum of 3 years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.26 Deposits for periods longer than 365 days are classed as **non-specified investments** and this will increase the total limit of overall deposits in this classification to 75%.

Non-Treasury Investments

6.27 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as **'non-specified investments'**.

6.28 A loan or grant by the Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan was capital expenditure or if it is an investment made primarily to generate a financial yield. The latter will be assessed using the Council's Investment Framework.

6.29 The Council will ensure that all the organisation's investments are covered in either the Capital Strategy or Investment Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury

investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

6.30 The Council will maintain a schedule setting out a summary of existing material Investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

Internal Investment Strategy

6.31 The Strategic Director, Corporate Resources will monitor the interest rate market and react appropriately to any changing circumstances.

6.32 The Council takes the view that bank rate will remain unchanged at 0.50% before starting to rise from quarter 1 of 2018 so short-term deposits, up to 365 days, will be utilised to cover cash flow and minimise risk to the Council. Bank rate forecasts for financial year ends are 2018/19 1.00%, 2019/20 1.25% and 2020/21 1.50%.

6.33 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and/or forecasts for increase in inflation rise, there could be an upside risk.

6.34 The Council will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

6.35 The Council will use an investment benchmark to assess the investment performance of its investment portfolio against the 7-day London Interbank Bid Rate (LIBID). The Council is also a member of the Link Asset Services investment benchmarking Group who meet semi-annually. As a member, quarterly reports on comparative performance with other members of the group and the wider Link Asset Services client base are received. The benchmarking return for the group is a reasonable target for the Council, which allows the relative risk appetite to be considered as part of the benchmark.

End of year investment report

6.36 By the end of September each year the Council will receive a report from Cabinet on its investment activity as part of its annual treasury report.

Policy on use of external service providers

6.37 The Council currently uses Link Asset Services as its external treasury management advisers.

6.38 It is recognised that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

6.39 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by

which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation

6.40 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed in Appendix 3, paragraph 1.3.

Role of the Section 151 Officer

6.41 As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit; and
- Arranging for the appointment of external service providers;
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

7. Other Issues

Market in Financial Instruments Directive (MiFID) II

7.1 The European regulation MiFID II became effective from 3 January 2018. The directive and UK implementation rules require regulated firms to classify local

authorities previously assumed as professional clients by default instead to retail clients, unless authorities choose to opt-up to Elective Professional Status.

7.2 Classification as a retail client would mean regulated firms would either;

- No longer be able to offer local authorities in this category the investment opportunities outside those deemed appropriate for retail clients who are considered less knowledgeable in financial markets, or;
- Those firms would be required to provide significant support in taking clients through accessing the risks and opportunities involved at considerable internal cost – these costs would either be passed on to the customer, or would more likely lead to a withdrawal of those opportunities to retail clients.

7.3 The opt-up to Elective Professional Status process involves an assessment of the expertise and experience of local authority treasury functions, a minimum portfolio size and minimum annual trade volumes. The Council fulfils those requirements, and has therefore applied to its investment counterparties for Elective Professional Status.

7.4 Obtaining Elective Professional Status will allow the Council to continue to access the markets and opportunities which have been available to it in the past, and are reflective of the Council's risk-based approach to conducting investment activity.

Money Market Reform

7.5 It is proposed to continue the use of Money Market Funds (MMFs) for short term and instant access investment purposes. New Money Market Fund regulations have been published with new categories of Funds, with tighter controls and restrictions over Funds in each category. Therefore, the definition of approved MMFs in the Council's permitted Specified Investments (Appendix 5) requires amendment.

7.6 Accordingly, it is proposed to amend the definition of MMFs in the Council's permitted Specified Investments (Appendix 5) to replicate the European Securities and Market Authority (ESMA), MMF classification of Short Term and Standard funds. The classifications of Short Term Money Market Funds and Standard Money Market Funds are closely aligned to the way the Council's current approved MMFs operate, and therefore this change does not increase the risks of using such funds.

Appendix 4

Prudential Indicators –Treasury Management

Authorised Limit for External Debt					
	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Borrowing	875,000	905,000	910,000	910,000	925,000

Operational Boundary for External Debt					
	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Borrowing	850,000	880,000	885,000	885,000	900,000

Treasury Indicators

Upper and Lower Limits for the Maturity Structure of Fixed Rate Borrowings		
	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	40%	0%
30 years and within 40 years	50%	0%
40 years and within 50 years	50%	0%
50 years and above	30%	0%

Upper and Lower Limits for the Maturity Structure of Variable Rate Borrowings		
	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	15%	0%
5 years and within 10 years	15%	0%
10 years and within 20 years	15%	0%
20 years and within 30 years	15%	0%
30 years and within 40 years	15%	0%
40 years and within 50 years	15%	0%
50 years and above	15%	0%

Upper Limit on Amounts Invested Beyond 365 Days					
	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Investments	15,000	15,000	15,000	15,000	15,000

Appendix 5

Specified Investments (All Sterling Denominated)

Investment type	**Share/ Loan Capital**	**Repayable/ Redeemable within 12 months**	**Security / Minimum Credit Rating**	**Capital Expend-iture**	**Circumstance of use**	**Maximum period**
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. *See appendix 3 Creditworthiness Policy*	No	In-house	365 days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	365 days

Short Term Money Market Funds The majority of these funds are instant access and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).
Standard Money Market Funds and Ultra Short Duration Funds 3-day notice cash plus fund These funds require three-day notice for withdrawals and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. Notice required is three days, however it is the intention to leave these funds for terms longer than other money market funds to achieve greater returns.

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Rated deposit takers (banks and building societies) which do not meet the Council's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Long term A-* *Short term F1*	No	In-house	Total not high rated deposits as a proportion of total investments 75%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	Total investment per Counterparty 20%	3 years

Certificate of Deposits issued by banks and building Societies	A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits. B) Credit risk could change but if adverse there is an option to sell onto a secondary market. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Fitch Long term A- Short term F1*	No	In-House	20%	12 months (but set on an individual counterparty basis)

Appendix 6

Maximum Maturity Periods and Amounts

Organisation	**Criteria**	**Max Amount***	**Max Period**
High Rated (Specified Investments – High rated and up to 365 days see Appendix 5) Foreign Banks	Minimum Fitch rating of F1 short term and A long term. Consideration to be given to Moody's minimum rating of P1 short term backed by A2 long term and S&P minimum rating of A1 short term and A long term. Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m (Gov't Backed, otherwise £15m) £15m country limit	3 years 365 Days
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Consideration to be given to Moody's minimum rating of P1 short term backed by A3 long term and S&P minimum rating of A1 short term and A- long term.	£10m	6 months
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years
Short-Term Money Market Funds (Same day settlement)	AAA mmf fund rating or equivalent with assets >£1bn	£7.5m	Overnight
Standard Money Market Funds and Ultra-Short Duration Funds (Trade plus 3-day settlement)	AAAf fund rating or equivalent, backed up with lowest volatility rating (S1) or equivalent with assets > £0.75bn	£7.5m	3 days

* Restricted to a maximum of either 40% or 20% of total investments depending on the counterparty.

Foreign Banks **Appendix 7**

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 15/01/18.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

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Audit and Standards Committee
5 March 2018

TITLE OF REPORT: **External Auditor: Audit Strategy Memorandum Year Ending 31 March 2018**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1 This report requests that the Committee note the external auditor's Audit Strategy Memorandum for the year ended 31 March 2018.

Background

2 The report sets out:

- A summary of the engagement and responsibilities
- The audit engagement team
- Audit scope, approach and timelines;
- Significant risks and key judgements areas;
- Value for Money;
- Fees for audit and other services;
- Commitment to independence; and
- Materiality and misstatements.

3 The external auditor's report is attached at Appendix A.

Recommendation

4 The Committee is requested to note the contents of the external auditor's Audit Strategy Memorandum.

Contact name: Craig Oakes Ext - 3711

Audit Strategy Memorandum

Gateshead Council

Year ending 31 March 2018

MAZARS

CONTENTS

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

23 February 2018

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2018

We are pleased to present our Audit Strategy Memorandum for Gateshead Council for the year ending 31 March 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell
Partner

For and on behalf of Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Gateshead Council (the Council) for the year to 31 March 2018. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: www.psaa.co.uk/audit-quality/terms-of-appointment/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the [Council] for the year.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. We do this by issuing an assurance certificate which confirms that the Council is below the audit threshold set by the NAO.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Accounts Committee, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM

- Cameron Waddell, Partner
- cameron.waddell@mazars.co.uk
- 0191 383 6300

- Jim Dafter, Senior Manager
- jim.dafter@mazars.co.uk
- 0191 433 3667

- Sharon Liddle, Assistant Manager
- sharon.liddle@mazars.co.uk
- 0191 433 3662

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

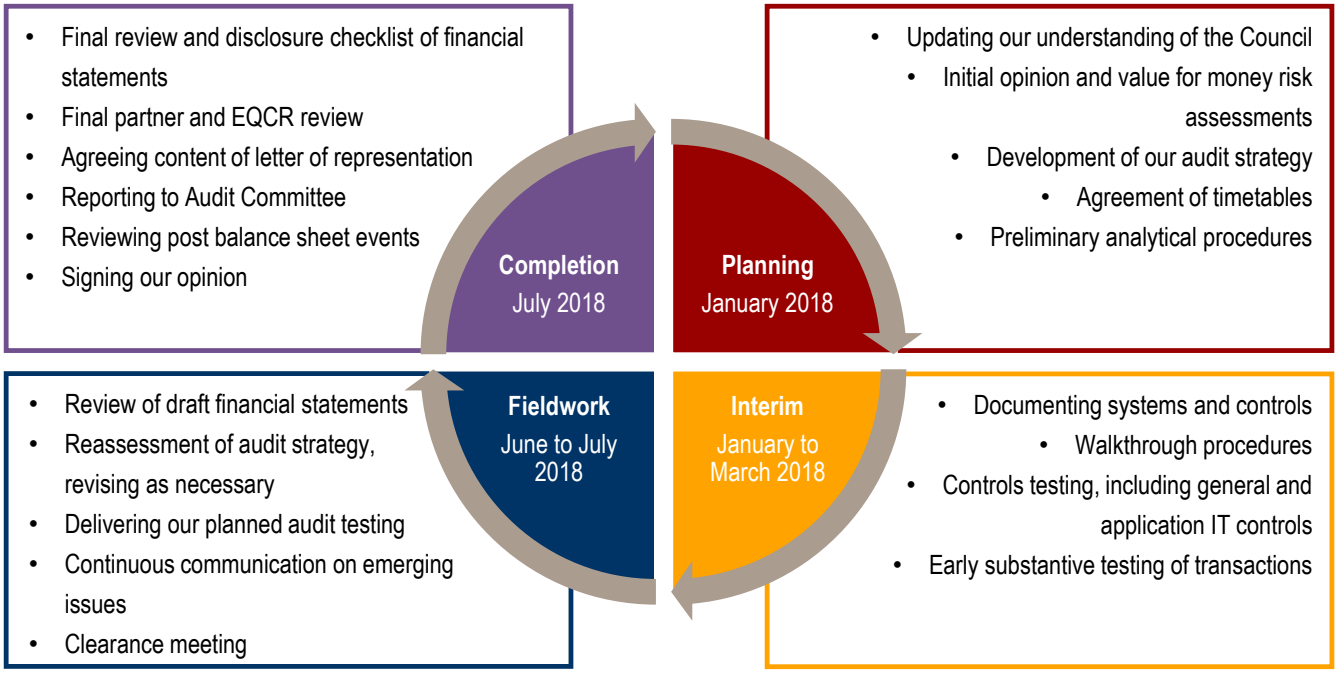
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt).	NAO's consulting actuary (PWC).
Property, plant and equipment	BNP Paribas Real Estate (UK).	NAO's consulting valuer (Gerald Eve).
Financial instrument disclosures	Capita.	NAO.

Reporting deadlines

As we have previously discussed with the Audit and Standards Committee, the statutory timetable for the production and audit of the Council's financial statements changes for 2017/18. The Council is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). The Council have successfully met the earlier deadline in both of the last 2 years. We have met with key finance officers and agreed a detailed plan in order to successfully achieve the revised timetable again in 2017/18.

Group audit approach

In line with the requirements of the CIPFA Code of Practice on Local Authority Accounting ('the Code'), officers have to consider the Council's interests in other entities and determine if there is a need to prepare group accounts which consolidate its interests.

If the Council assesses that group accounts are to be produced, we have planned an appropriate audit approach in relation to the group accounts that will include:

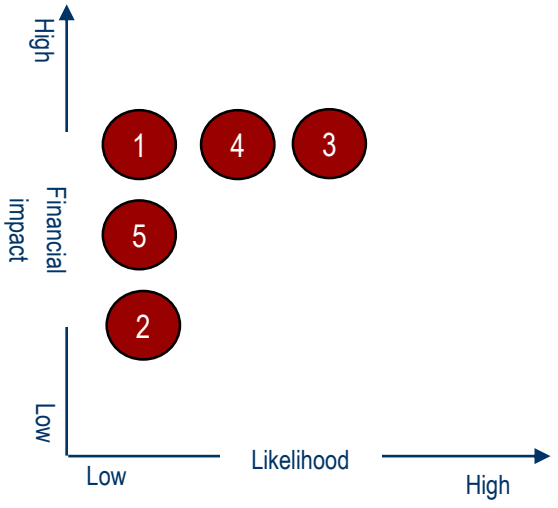
- liaising with the companies' auditors, where appropriate, to obtain any assurance that we require to form our opinion;
- considering the processes and controls that the Council has in place to produce group accounts; and
- carrying out audit testing on the group statements and the consolidation adjustments that have been made.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk	A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
Enhanced risk	An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to: • key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and • other audit assertion risks arising from significant events or transactions that occurred during the period.
Standard risk	This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment revaluation
4	Defined benefit liability valuation
5	Group Accounts Assessment

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We explain the identified risks and our testing approach in the table below. An audit is a dynamic process and if we change our view of risk or our approach to address the identified risks during the course of our audit we will report this to the Audit and Governance Committee.

Significant risks and key

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Revenue recognition** In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2017/18. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.	We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including testing receipts in March, April and May 2018 to ensure they have been recognised in the right year, testing material year end receivables, testing adjustment journals and obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.
3	**Property, plant and equipment revaluation** The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.	We will consider the Council's arrangements for ensuring that PPE values are reasonable and will use an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We will also assess the competence, skills and experience of the valuer. Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.
4	**Defined benefit liability valuation** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
5	**Group Accounts Assessment** Following changes to the activities undertaken by the Council, for example the Gateshead Energy Company, management need to reassess their group boundary and determine the need to produce group accounts for 2017/18 in line with the CIPFA code. Management revisit this assessment annually based on current and latest up to date information to determine if the group financial accounts are required. There is a risk that management will reach the incorrect conclusion regarding the need to produce group financial statements.	We will: • review the Council's group boundary assessment to ensure that it is complete and all group entities have been identified; and • if necessary, we will request the Council to produce group accounts and then arrange appropriate audit procedures.

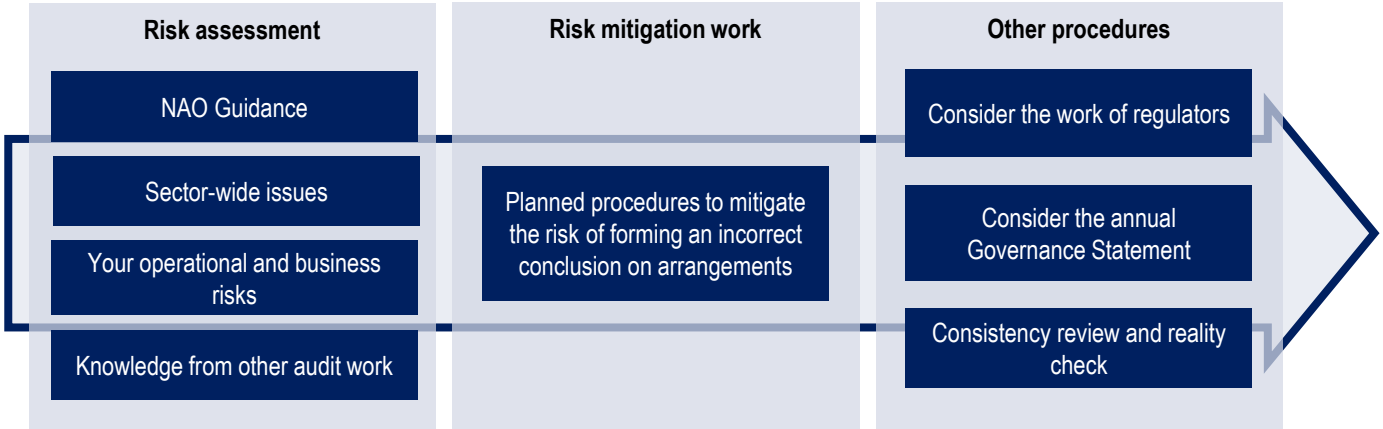
5. VALUE FOR MONEY WORK

Our approach to value for money work
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:
- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake is provided below.



Significant value for money risks
The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2017/18 financial year, we have identified the following significant risk to our VFM work.

Description of significant risk	Planned response
Sustainable resource deployment Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges with a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. Failure to have appropriate arrangements in place to identify and deliver this programme poses a significant risk to the Council's ability to deliver its strategic priorities and maintain statutory functions.	We will review: • monitoring and action plans for a sample of savings included in the budget; • the updated Medium-Term Financial Strategy; • budget monitoring reports and other finance updates; and • the progress made in identifying further savings required;

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 27 April 2017.

Service	2016/17 fee	2017/18 fee
Code audit work	£130,298	£130,298
Housing benefit subsidy certification	£12,405	£10,615

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2016/17 fee	2017/18 fee
Teachers' Pensions	£3,750	To be agreed
Pooling of Housing Capital Receipts return	£1,800	To be agreed
Gateshead Primary SCITT	£2,250	To be agreed

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

In previous years we have been engaged to do work on a number of grant returns and if we are again the following safeguards will apply.

Area	Perceived threat	Safeguards and procedures
Services in relation to grant and returns certification and assurance.	Self -review	The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.
	Self interest	The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.
	Management	The work does not involve Mazars making any decisions on behalf of management.
	Advocacy	The work does not involve Mazars advocating the Council to third parties.
	Familiarity	Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor.
	Intimidation	The nature of the work does not give rise to any intimidation threat from management to Mazars.

No threats to our independence have been identified.

8. MATERIALITY AND MISSTATEMENTS

Definitions
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£10,844
Specific materiality	
• Members allowances	£119
• Senior manager remuneration	£145
• Exit packages	£194
Trivial threshold for errors to be reported to the Audit Committee	£325

Materiality
Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure.

Based on last year's audited accounts we anticipate the overall materiality for the year ending 31 March 2018 to be in the region of £10.844m (£10.844m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £325,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2017/18

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2017/18. Minor changes to the Code include:

- introduction of key reporting principles for the preparation and publication of the Narrative Report;
- clarification of reporting requirements on accounting policies and going concern; and
- updating the accounting requirements for the Housing Revenue Account to align these with changes to underlying regulations and directions.

None of the above are anticipated to have a significant impact on the Council.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 9 – Financial Instruments	2018/19	The standard will replace IAS 39 and will introduce significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets. Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised costs For councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.
IFRS 16 – Leases	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.

The 2018/19 Code will also apply the requirements of IFRS 15 Revenue from Contracts with Customers, but it is unlikely that this will have significant implications for most local authorities.

Gateshead Council

Audit and Standards Committee
5 March 2018

TITLE OF REPORT: **Annual Governance Statement 2017/18 - Assurance Framework**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1 This report provides an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2017/18 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

Background

2 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively demonstrating value for money.

3 The Accounts and Audit Regulations 2015 require the Council to produce an AGS setting out its governance arrangements and reviewing their effectiveness. The statement accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and Chief Executive.

4 The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making, that there is clear accountability for the use of those resources in order to achieve the desired outcomes for service users and the community.

Assurance Framework

5 The assurance framework supports the AGS and provides councillors with information on the Council's control environment and governance arrangements. It maps the Council's strategic objectives to risks and controls and seeks assurance from a number of sources of Council activity.

6 The process of preparing the AGS should itself add value to the effectiveness of the Governance Assurance Framework. The assurance process will demonstrate four aspects:

- **Identify** – what do we want assurance on?
- **Assess** – what are the sources of assurance?
- **Review** – how is assurance validated?
- **Act** – what are the opportunities to improve?

7 In preparing the governance statement it will be necessary to review evidence from the following sources which together form the assurance framework:

- Governance arrangements
- Councillors
- Strategic and Service Directors
- The system of internal audit
- Risk management arrangements
- Performance management and data quality
- Views of the external auditor and other external inspectorates.
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance

Governance arrangements

8 The Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committees in April 2007. This was last updated and agreed by the Audit and Standards Committee on 29 January 2018. This Code defines how the Council complies with the principals of good governance as set out in the revised approach to a Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:

- Behaving with integrity
- Ensuring openness and comprehensive engagement
- Defining sustainable outcomes
- Determining interventions
- Developing capacity
- Managing risks and performance
- Implementing good practice in transparency

9 The effectiveness of the Council's governance arrangements will be considered through the assessment of the assurances below.

Councillors

10 The Council's Constitution sets out the role of the Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;

- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;

- To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the overview and scrutiny role;

- To provide a public face on specific issues.

11 Assurance will be sought from members of the Cabinet on the effectiveness they feel can be placed on the Council's corporate governance arrangements.

Strategic and Service Directors

12 All Service Directors will complete a self assessment assurance statement detailing the level of assurance they feel they can place on their key control and governance processes. This statement will be reviewed and updated for 2017/18 to ensure it remains focused on the key areas. The evidence used to complete these statements will be evaluated by Internal Audit as part of the 2018/19 plan.

The system of internal control

13 The Accounts and Audit Regulations 2015 outline that the Council must ensure it has a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the Council is effective; and
- Includes effective arrangements for the management of risk.

14 The Internal Audit & Risk Service is responsible for ensuring that all key systems, both financial and non financial, are subjected to regular audit as part of the risk based audit plan.

15 In addition, the Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance.

16 The Council must, each financial year, conduct a review of the effectiveness of the system of internal control, which includes internal audit. This is defined by CIPFA as "a framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in understanding its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation". This includes assurance from a variety of sources across the Council where controls are managed e.g. the Council's Health and Safety Section.

17 The review will take into consideration the outcomes and actions from the Chief Internal Auditor's self- assessment against compliance with Public Sector Internal Audit Standards (PSIAS). Independent external assessment, a requirement of PSIAS at least once every five years, has previously been undertaken by Mazars and was reported to the Audit and Standards Committee on 26 January 2015.

18 The overall opinion of the Chief Internal Auditor based on the work undertaken by the Internal Audit & Risk Service and other providers during the year will be reported to the June Audit and Standards Committee in the Internal Audit Annual Report 2016/17.

Risk management arrangements

19 The Corporate Risk Management Policy was approved by Cabinet on 21 May 2013, it identifies the roles and responsibilities of the following key groups:-

- Councillors through the engagement of Cabinet and the Audit and Standards Committee;
- Chief Executive;
- Strategic Director, Corporate Resources;
- Strategic Directors;
- Service Directors;
- Operational Managers;
- Internal Audit & Risk Service; and the
- Corporate Risk and Resilience Group (including Group/Service Risk Co-ordinators)

20 The Policy has been updated to reflect organisational changes which have taken place since it was first adopted. The existing governance arrangements provide a means by which the effectiveness of the Policy can be monitored, thereby facilitating its ongoing development.

21 The Strategic Director, Corporate Resources prepares an annual report for the Committee detailing the Council's risk management arrangements during the year and its findings. The report also includes a view on the effectiveness of the Council's risk management arrangements.

Views of the external auditor and other external inspectors

22 The external auditor issues an Annual Audit Letter to the Council, providing a review of the Council's value for money arrangements and reporting any significant issues arising from the audit of the Council's financial statements.

23 There are a number of other external inspectorates which may report on management or governance arrangements at the Council in the course of the year.

Performance management and data quality

24 The Council's corporate performance management framework is a positive tool for employees, managers and councillors to use to take appropriate action, allocate resources and drive improvement. A suite of strategic indicators has been developed by the Leadership Team to monitor and evaluate performance in relation to delivery of the Council's corporate plan. Performance against these indicators is reported into SMG Services and Performance, the relevant Overview and Scrutiny Committees and Cabinet every six months.

25 In addition, Service Directors use this data, as well as management and operational data, to guide development of their service business plans and service improvements.

Legal and regulatory framework

26 Assurance will be sought from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body.

Financial controls

27 Assurance will be sought from the Strategic Director, Corporate Resources who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety, publicity and budget issues; giving financial information; and acting as the Council's money laundering reporting officer.

Partnership arrangements & governance

28 Another requirement is for each Service Director to review the partnerships their service is connected with and record details within their business plan on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. The overall opinion on the effectiveness of such arrangements will be presented in an annual report to the Audit and Standards Committee.

Other sources of assurance

29 Other areas include anything not covered above which gives an opinion on the Council's internal control environment or governance arrangements. Examples could include fraud reports, ombudsman reports, Ofsted reports or other reports addressing best value.

Production of the Annual Governance Statement 2017/18

30 A corporate group, chaired by the Strategic Director, Corporate Resources will use the findings of the above sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements.

31 Using evidence from this assessment the Group will prepare the AGS for 2017/18 for approval by the Audit and Standards Committee in June 2018. This will then accompany the Statement of Accounts for 2017/18.

Recommendation

32 The Committee is asked to agree the Assurance Framework as set out in this report.

Contact: Craig Oakes – Ext. 3711

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Gateshead Council

Audit and Standards Committee
5 March 2018

TITLE OF REPORT: Internal Audit Plan 2017/18 Update Report

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

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Purpose of the Report

1 This report is to update the Committee on the review of outstanding planned audits to revise the audit plan to reflect and maximize the impact of anticipated resources available for the remainder of the audit year.

Background

2 The Internal Audit Plan Quarterly Monitoring Report to 31 December 2017 reported to the Audit and Standards Committee of 29 January 2018 highlighted that due to delays experienced in recruiting to fill unplanned vacancies which arose during the year, further compounded by the impact of the necessary training and support for the new employees, progress to date was not on target to achieve the local performance target of 97.25% of actual hours against planned hours for the year.

3 To optimise the impact of a revised level of resources, it was agreed that a review of the outstanding planned audits and consideration of their relative risk ratings would be been undertaken, following which high and medium priority audits would be prioritised and any outstanding audits would be carried out early in the new audit plan year.

4 This report summarises the outcome of that review and proposes amendments to the plan which balances the mitigation of risk with available resources.

Summary of Progress

5 A review of the audit plan and discussion with Service Directors highlighted changes to Service delivery that enabled available resources to be optimized by some audits being either no longer required or combined with other audits, which removed 555 hours from the plan.

6 In previous years, audits of key systems were scheduled to take place at specified times on an annual basis to coincide with External Audit work on the financial statements as they placed reliance on this work. As External Audit no longer place reliance on this, it is reasonable to reprofile the audits into the next financial year, despite them being high priority, as the internal audit opinion has consistently been operating well

and it is actually less than 12 months since the most recent audit opinion was issued and reported. This removed 1,200 hours from the plan

7 The remaining audits in the plan were then assessed against a prudent estimate of the productive hours that could be delivered in the remainder of the financial year, and where necessary low and medium priority audits that would otherwise have taken place in the final quarter of the year will be rescheduled to the first quarter of the new audit plan year. These audits account for 1,040 hours.

8 The final vacancy within the Service will be filled when a new member of staff commences employment 5 March 2018, which when coupled to the recent investment in recruitment and training will put the Service in a strong position for the sustained delivery of future audit plans.

9 The following table shows the revised plan taking account of the review process set out in the report, which revises the planned hours to 15,994:

Audit Area	Planned Hours	Revised Hours
Groups and Services		
Care, Wellbeing and Learning	1,595	1,065
Communities and Environment	1,840	1,245
Corporate Resources	1,835	1,655
Corporate Services and Governance	1,115	705
Office of the Chief Executive	596	336
Schools	900	740
Key Systems	2,068	1,408
Corporate		
Audit Planning and Management	1,410	1,410
Counter Fraud	2,750	2,750
Grant Certification	350	350
Total Groups and Services	**14,459**	**11,664**
External Bodies	4,330	4,330
Total	**18,789**	**15,994**

10 The list of audits which account for the reduction in the planned hours is attached at Appendix A to this report.

Recommendation

11 The Committee is asked to note the contents of this report and agree the revised Audit Plan.

Audits revised in 2017/18 plan

Group	Audit	Audit Priority
Audits removed from the Audit Universe		
C&E	Trading Standards Annual Accounts	High
OCE	Change Programme	High
CWL	Shopping and Meals Service	Medium
CWL	Youth and Community Learning	Medium
CWL	Early Years	Medium
CWL	Connexions	Low
CWL	Youth Offending Team	Low
Audits Reprofiled to 2018/19		
CWL	Safeguarding - Adult Services	High
CWL	Public Health - Commissioning Services	High
OCE	Performance Indicators and Data Quality	High
CR	Capital Accounting System and Programme	High
CR	Risk Management and Business Continuity	High
CR	Counter Fraud Arrangements	High
CR	VAT Arrangements	High
CR	Corporate Payroll and Human Resources	High
CR	Corporate Debtors and Income	High
CR	Service Creditors	High
CS&G	Corporate Procurement	Medium
CS&G	Governance Arrangements	Medium
CWL	Early Help	Medium
CR	Insurance	Medium
Audits carried forward to 2018/19		
CS&G	Bereavement Services	Low
Schools	Ravensworth Terrace Primary School	Low
Schools	Ryton Community Junior School	Low
Schools	St Joseph's Catholic Infant School, Birtley	Low
Schools	The Drive Community Primary School	Low
C&E	Resilience Planning	Low
C&E	Post Contractual Procedures	Low
C&E	Quality Inspection	Low
C&E	Trading Standards and Food Safety	Low
C&E	Travelling Community Caravan Site	Low
C&E	Grounds Maintenance	Low
C&E	Business Centres	Low
CR	HR Support	Low
CR	Catering	Low
CS&G	Redeployment and Redundancy	Low
CS&G	Recruitment and Appointment Process	Low

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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