

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 1 October 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 23 July 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 Quarterly Standards Update (Pages 13 - 18)

Report of the Strategic Director, Corporate Services and Governance

6 Results of 2017/18 CIPFA Audit Benchmarking (Pages 19 - 22)

Report of the Strategic Director Corporate Resources

7 Review of Internal Audit Charter (Pages 23 - 36)

Report of the Strategic Director, Corporate Resources

8 Treasury Management - Performance to 30 September 2018 (Pages 37 - 40)

Report of the 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 Corporate Risk Management 2018/19 - Quarterly Report to 30 September 2018 (Pages 41 - 60)

Report of the Strategic Director Corporate Resources

11 Mid Year Counter Fraud Update 2018/19 (Pages 61 - 66)

Report of the Strategic Director, Corporate Resources

12 Internal Audit Plan 2018/19 Quarterly Monitoring Report to 30 September 2018 (Pages 67 - 76)

Report of the Strategic Director Corporate Resources

13 Date and time of next meeting

The next meeting will be held on 28 January 2019 at 10.00 am in the Blaydon Room, Civic Centre

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 23 July 2018

PRESENT: Councillor H Haran (Chair)
Councillor(s): J Green, L Green, J McElroy, J Turnbull, Mr Stuart Bell (Independent Member) and G Clark

IN ATTENDANCE: Councillor(s):

APOLOGIES: Councillor(s): J McClurey, N Weatherley and B Jones

ASC146 MINUTES

The minutes of the previous meeting, held on 18 June 2018 were approved as a correct record.

ASC147 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC148 QUARTERLY STANDARDS UPDATE

The Committee received a report which will form part of a quarterly update highlighting national and local standards issues.

The Committee also received an update on national reviews and consultations which may be relevant to their role, and agreed that Standards Updates should be rolled out to all councillors in due course.

- RESOLVED -
- i) That the information be noted
 - ii) That a Standards update will be provided on a quarterly basis to the Audit and Standards Committee and then pertinent information be rolled out to all Councillors in due course.

ASC149 ANNUAL REPORT TO CABINET AND COUNCIL 2017/18

The Committee received a report outlining the Annual Report to Cabinet and Council 2017/18, which allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:

- Maintaining effective internal control
- Risk management; and
- Reporting on financial and other performance

The Committee were advised that the Audit and Standards Committee has received reports in the following areas during 2017/18:

- Internal Audit planning, performance and activity;
- Annual Internal Audit benchmarking results;
- Internal Audit recommendations;
- External Audit planning, performance and activity;
- Corporate Risk Management and Resilience activity;
- Annual Counter Fraud Update
- The Annual Governance Statement and supporting evidence;
- Review of Internal Audit Charter and compliance with Public Sector Internal Audit Standards;
- Annual Audit Letter;
- Achievement of Going Concern Status;
- Audit Completion Report and Council Statement of Accounts;
- Treasury Management Policy and mid-year update;
- Counter Fraud and Corruption Arrangements;
- Risk Management within Resilience and Emergency Planning; and
- Local Code of Governance

The Committee were assured that based on the evidence presented during the year and at the meeting of the Committee on 18 June 2018 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2017/18, which accompanies the Statement of Accounts.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agreed the draft report to Cabinet and Council

ASC150 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2018 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2017/18

The Committee received a report which provided an update on the outcome and findings of the audit of Gateshead's Statement of Accounts 2017/18 by the Council's external auditor Mazars.

The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2017/18 and the Council's external auditor, Mazars has issued its report, subject to the completion of outstanding work.

The Audit Completion Report covers:

- The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
- The Council's arrangements for securing economy, efficiency and

effectiveness in its use of resources including a value for money conclusion.

The external auditors report and the Council's Statement of Accounts were tabled as appendices to the main report.

The Committee were advised that although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

- EY assurance has now been received which is being considered by Mazars
- In relation to TGHC, KPMG are to provide Mazars with access to their files to allow the necessary Group Accounts work to be completed. It is anticipated that Mazars will receive sufficient assurance from KPMG's files by the Accounts Committee date (Friday 27 July 2018) to allow the Council's accounts to be fully signed off.

The Committee also received an update position verbally from Mazars at the meeting.

The Committee were advised that none of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, not do they affect the position of any usable reserves. Management has assessed the identified uncorrected misstatement as not being material, either individually or in aggregate to the financial statements, and does not plan to adjust.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee noted the contents of the external auditor's Audit Completion Report and Statement of Accounts 2017/18 prior to their submission to the Accounts Committee on 27 July 2018.

ASC151 CORPORATE RISK MANAGEMENT 2018/19 - QUARTERLY REPORT TO 30 JUNE 2018

The Committee receive a report which provided an update on developments in Corporate Risk Management during the period 1 April to 30 June 2018 in compliance with the requirements of good corporate governance.

The Action Plan for the delivery of the Development Objectives for 2018/19 incorporating progress to date was tabled at Appendix 1, and the Committee were advised that work is progressing as per the plan.

The Committee were advised that as previously reported, the Council was required to assess the risks of an employee or associated person facilitating tax evasion, following the introduction of a Corporate Offence contained within the Criminal Finances Act 2017. The aim of the assessment was to ensure that the Council had in place reasonable procedures to prevent the facilitation of tax evasion by its employees or associated persons. To ensure the identified risks continue to be managed effectively, with controls being subject to regular review, the Corporate Risk Officer is now working with the risk owners on the transfer of risks to the Operational Risk Register.

Operational Risks are managed within Services, with the Corporate Risk Officer providing quarterly risk management monitoring information to Group Management Team Meetings. The information contained in the Operational Risk Register is also readily available to Auditors for when they undertake their Audits. Increased risk management guidance and support has resulted in all registered operational risks being reviewed by risk owners within the last 12 months with 96.2% (352 Of 356) of these reviewed within the last 6 months.

The Committee were also advised that the Risk and Resilience Group met on 27 June and the following items were discussed:

Risk Management and Business Continuity Plans:

- Update on Strategic Risk Management
- Update on business continuity plans and collaborative working with emergency resilience team and ICT
- Publishing of Tax Evasion Statement on intranet and communication to employees

Critical ICT systems:

- Prioritisation of applications for scenario planning ongoing

Resilience and Emergency Updates, which included:

- Regent Court, 9 May 2018 – failure of a water main outside of Gateshead Law Courts
- Regent Court Fire – 10 May 2018
- Bedale Court Fire – 20 May 2018
- Oak Square Fire – 22 June 2018

RESOLVED - That The information be noted

ASC152 ACHIEVEMENT OF GOING CONCERN STATUS 2017/18

The Committee received a report to consider the Council's status as a going concern.

The Committee were advised that the Council has a strong record of delivering within budget and achieving savings. During the period 2010/11 to 2017/18 savings of £143m have been identified and substantially delivered.

The Annual Audit Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter issued in relation to 2016/17 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 31 July 2017.

The Committee also received details of the Current Position 2017/18, the Future Position 2018/19 Budget and the future position in the Medium Term Financial Strategy (MTFS).

The Committee were advised that in conclusion, based on the assessment undertaken, the Council's Chief Finance Officer's (section 151 officer) view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agreed that the Council is considered to be a going concern based on the assessment in the report and that the accounts are prepared and approved on that basis.

ASC153 ANNUAL GOVERNANCE STATEMENT 2017/18 - INTERNAL AUDIT REVIEW OF MANAGER'S ASSURANCES

The Committee received a report informing the Committee of the outcome of the work by the Internal Audit Service in reviewing the assurances provided by Service Directors to inform the 2017/18 Annual Governance Statement.

The 2017/17 Annual Governance Statement audit was carried out using a theme based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- Trading Opportunities
- Information Governance

The Committee were advised that the audit concluded that systems and controls were operating well and no recommendations were raised.

The overall conclusion of this work, as included in the quarter one update from Internal Audit report, is that the systems and processes for the completion of the Managers' Assurance Statements are operating well and that they provided a good level of assurance for the 2017/18 Annual Governance Statement.

RESOLVED - that the information be noted.

ASC154 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME 2017-18

The Audit and Standards Committee Work Programme for the remainder of the municipal year was tabled.

RESOLVED - that the information be noted

ASC155 EXCLUSION OF THE PRESS AND PUBLIC

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

ASC156 INTERNAL AUDIT PLAN 2018/19 QUARTERLY MONITORING REPORT TO 30 JUNE 2018

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the Audit Plan for the financial year 2018/19 and summaries the main findings arising from audit activity throughout the period 1 April 2018 to 30 June 2018.

From the reviews carried out to 30 June 2018 audit work was found to be complying with PSIAS and the Audit Manual.

The year to date performance information is as follows:

- 100% of audits were completed within budgeted time against a target of 90%
- Productive or chargeable time was recorded at 72% of overall time against an annual target of 73% of overall time.
- The average score of the customer satisfaction questionnaires returned is 3.69 against a target of 3.4 (85%)
- The target for implementation of audit recommendations due is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendations due is 100%, with 100% of all high priority and 100% of all medium priority recommendations having been implemented. Further information was tabled as an appendix to the main report.

RESOLVED - that the information be noted

ASC157 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 1 October 2018 at 10.00 am in the Blaydon Room.

Chair.....

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Audit and Standards Committee

Work Programme

Committee Meeting Date and Time	Items to be considered
1 October 2018 10.00am	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Results of the 2017/18 CIPFA Audit Benchmarking • Corporate Risk Management 2018/19 - Quarterly Report to 30 September 2018 • Review of Internal Audit Charter • Treasury Management – Performance to 30 September 2018 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 30 September 2018 (Exempt Item) • Counter Fraud and Corruption Arrangements Update Report (Exempt Item)
28 January 2019 10.00am	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Annual Audit Letter • Mazars AUDIT Progress Report • Corporate Risk Management 2018/19 – Quarterly Report to 31 December 2018 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2018 (Exempt Item)
4 March 2019 5.30pm	<ul style="list-style-type: none"> • Work Programme 2018/19 • Mazars – Audit Strategy Memorandum Year Ending 31 March 2019 • Treasury Policy Statement and Treasury Strategy • Local Code of Governance • Annual Governance Statement (Assurance Framework) • Internal Audit Update
29 April 2019 10.00am	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Mazars Audit Progress Report • Internal Audit Strategy Statement and Annual Plan 2018/19 • Corporate Risk Management 2018/19 – Quarterly Report to 31 March 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 March 2019 (Exempt Item) • Counter Fraud and Corruption Arrangements Annual Report (Exempt Item)
June 2019	<ul style="list-style-type: none"> • Constitution • Role and Remit • Work Programme 2019/20

	<ul style="list-style-type: none"> • Treasury Annual Report 2018/19 • Mazars Audit Progress Report • Oversight of Management Processes • Members' Assurance Statements 2018/19 • Managers' Assurance Statements 2018/19 • Review of the Effectiveness of Internal Audit 2018/19 • Corporate Risk Management – Annual Report 2018/19 • Internal Audit Annual Report 2018/19 (exempt item) • Annual Governance Statement 2018/19
July 2019	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Audit Completion Report Year Ended 31 March 2019 and Gateshead Council Statement of Accounts 2018/19 • Annual Report to Cabinet and Council 2018/19 • Corporate Risk Management 2018/19 – Quarterly Report to 30 June 2019 • Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 June 2019 (Exempt Item)

TITLE OF REPORT: Quarterly Standards Update

REPORT OF: Mike Barker, Strategic Director, Corporate Services and Governance

Purpose of the Report

1. To provide a quarterly update to the Audit and Standards Committee highlighting national and local standards issues.
 2. To ensure Members are aware of national reviews and consultations which may be relevant to their role.
 3. To identify whether further training is required for Members.
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Information Commissioner's Office (ICO): Political campaigns

1. In May 2017 the Information Commissioner announced a formal investigation into the use of data analytics for political purposes.
2. In March 2017, the ICO began looking into whether personal data had been misused by campaigns on both sides of the referendum on membership of the EU. This led to the launch of an investigation on May 2017 into political parties, data analysis companies and major social media platforms.
3. The purpose of the investigation is to ensure the integrity of our democratic process. It is acknowledged that new technologies use data analytics to micro-target people to allow campaign groups to engage with individual voters. The Information Commissioner wants to ensure this is not done at the expense of transparency fairness and compliance with the law.
4. The background to the investigation can be <https://ico.org.uk/action-weve-taken/investigation-into-data-analytics-for-political-purposes/>
5. The findings to date can be found at: <https://ico.org.uk/media/action-weve-taken/2259371/investigation-into-data-analytics-for-political-purposes-update.pdf>
6. A further report on the topic has also been published by DEMOS "The future of political campaigning". It examines current and emerging trends in how data is used in political campaigns, how use of technology is changing and how it may evolve in the next two to five years: <https://ico.org.uk/media/action-weve-taken/reports/2259365/the-future-of-political-campaigning.pdf>

Committee on Standards in Public Life

Speech to the Lawyers in Local Government Annual Monitoring Officers' conference

7. On 27 June 2018 Dr Jane Martin CBE addressed the Lawyers in Local Government Annual Monitoring Officers' conference on the progress of the Committee's review into local government ethical standards.
8. Dr Martin explained that the Committee recognised councils are involved in more out-sourcing and commercial decision-making, with more joint working. Whilst this creates new opportunities, there are potential risks where lines of accountability are unclear and no scrutiny process is established. This is against a background of diminished regulatory oversight and a perception that officers are less able to challenge elected members.
9. Responsibility for local standards lies with the local authorities, this provides for flexibility and a discretion to resolve issues informally, however councils want to be given the framework, tools and guidance to maintain high standards in their own authority.
10. The Committee has been urged to look at sanctions to deal with serious and persistent misconduct.
11. In terms of the codes of conduct, variation in codes can lead to problems, firstly where councillors hold different roles and there are different requirements for registering or declaring interests and secondly for principle authorities investigating parish codes.
12. Further problems arise from the drafting of codes, some being too wide, meaning it is difficult to adjudicate on, leading to disputes over interpretation.
13. The Committee is therefore considering best practice and whether guidance should be given to councils to assist when drawing up a code of conduct.
14. Declaration of interests also raises difficulties. Evidence suggests the current system needs to be tightened up whilst being clearer for both councillors and officers. Independent oversight is regarded as crucial in making sure decisions are taken impartially and fairly.
15. The Committee is ultimately concerned with the behaviour of councillors, "*Their conduct and probity in council business, their professional relations with officers and the public, and their decision-making when they have executive responsibilities or are serving on a committee*". Dr Martin asks that councillors provide their view directly to the Committee to gain their perspective on what a standards regime needs to achieve.
16. The speech reiterates the Nolan Principles of integrity and objectivity. Dr Martin suggests ethical standards encompass:
 - Protection – from legal and governance risks, reputational risk, conflict of interests
 - Ordinary day to day interactions – maintaining professional conduct, standing up to bullying and harassment
 - Outward looking – a culture of openness, scrutiny and objective decision making.
 - Public interests and the centre of everything that a local authority does
17. The speech can be found in full at:
<https://www.gov.uk/government/speeches/dr-jane-martin-cbe-speech-to-lawyers-in-local-government-annual-monitoring-officers-conference>

Closed consultation: Local government standards: stakeholder consultation

18. The consultation ran from 29 January 2018 to 10 May 2018. 317 responses were received.

19. The terms of reference were:

- examine the structures, processes and practices in local government in England for:
 - maintaining codes of conduct for local councillors
 - investigating alleged breaches fairly and with due process
 - enforcing codes and imposing sanctions for misconduct
 - declaring interests and managing conflicts of interest
 - whistleblowing
- assess whether the existing structures, processes and practices are conducive to high standards of conduct in local government
- make any recommendations for how they can be improved
- note any evidence of intimidation of councillors, and make recommendations for any measures that could be put in place to prevent and address such intimidation

20. The Committee will publish the report of its finding “by the end of 2018”.

Minutes of Committee meeting on 21 June 2018 (published 13 August 2018)

21. The Committee noted themes that had emerged from the public consultation (Local government standards: stakeholder consultation) and agreed the project plan for the next period of the review.

22. The Committee noted the paper setting out lessons learnt from the Committee’s most recent published report, *The Continuing Importance of Ethical Standards for Public Service Providers*.

23. The agenda and minutes of the meeting can be found at:

<https://www.gov.uk/government/publications/committee-on-standards-in-public-life-257th-meeting-thursday-21-june-2018-agenda-and-minutes>

National Association of Local Councils

24. NALC research suggests local councils (parish and town) would favour a single, mandatory code of conduct that could be used by all local authorities. 90% of those local councils questioned would support a code of conduct that is the same and mandatory for all local authorities.

25. The full article can be found at:

<https://www.nalc.gov.uk/news/entry/1062-local-councils-in-favour-of-single,-mandatory-code-of-conduct>

Civil Society Strategy – “Innovation in Democracy”

26. The Government is to trial ways for people to take a more direct role in decisions that affect their local areas.

27. The proposal was unveiled on 9 August 2018 by Tracey Crouch, Minister for Sport and Civil Society. It is aimed at “finding new ways to give people back a sense of control over their communities’ future”.

28. The strategy document can be found at:

<https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>

29. The Innovation in Democracy pilot scheme will take place in six regions across the country “to trial face-to-face deliberation (such as Citizens’ Juries) complemented by online civic tech tools to increase broad engagement and transparency”.

30. The government also wishes to explore the possibility of devolving more power to community groups and parishes. It will explore with the National Association of Local Councils and others the option for local ‘charters’ between a principal council, local councils, and community groups setting out respective responsibilities.
31. Other initiatives set out in the Civil Society Strategy include:
- Revising the guidance that helps communities take ownership of local assets.
 - Exploring means of ensuring community-led enterprises which take over public assets or services are able to secure the funding they need.
 - Improving the use of the Public Services (Social Value) Act 2012 “to ensure that organisations can generate more social value for communities when spending public money on government contracts”. The government will explore the potential for the use of social value in grants as well as contracts, and the suggestion that the Act should be applied to other areas of public decision-making such as planning and community asset transfer. Also, “as announced on 25 June 2018, central government departments will be expected to apply the terms of the Act to goods and works and to ‘account for’ the social value of new procurements, rather than just ‘consider’ it as currently. The Department for Digital, Culture, Media and Sport will lead the way by applying this wider remit to major projects, to be followed by other departments in due course.”
 - Exploring (through the Ministry of Housing, Communities and Local Government) the potential of transfers of public land to community-led housing initiatives, such as Community Land Trusts, by which residents become members of a trust which holds land and housing on behalf of the community.
 - Unlocking £20m from inactive charitable trusts (those which spend less than 30% of their annual income) to support community organisations over the next two years.
 - Supporting charities “to make their voices heard on issues that matter to them and ensuring that charitable trustees reflect the diversity of the society they serve”.
 - Distributing money from dormant bank accounts to independent organisations that will (a) get disadvantaged young people into employment (£90m) and (b) tackle financial exclusion and the problem of access to affordable credit (£55m).

Electoral integrity pilots May 2019

32. A prospectus has been published by the Government inviting local authorities to work with the Cabinet Office to deliver electoral integrity pilots at local elections in May 2019.
33. The initial voter ID pilot was undertaken at the local elections on 3 May 2018 in Bromley, Gosport, Swindon, Watford and Woking. Proxy voters in Peterborough were also required to show ID before they could vote.
34. The purpose of the proposed pilots in 2019 is to further assess the impact of requiring voters to present identification before voting.
35. Expressions of interests are asked to contact the Elections Project Team (date passed)
36. The prospectus can be viewed at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/735413/Electoral_Integrity_Pilots_Prospectus_2018.pdf

Consultation outcome: Access to elections: Call for evidence

37. A Call for Evidence asked for views on how people with disabilities experience registering to vote and voting itself. The consultation ran from 5 September 2017 to 14 November 2017.

38. The Cabinet Office received 256 responses and the evidence was analysed in partnership with the government-chaired Accessibility of Elections Working Group which has produced a report setting out the key findings and recommended actions to improve the accessibility of elections.
39. A number of themes have been identified and a list of 17 actions has been published to improve accessibility of future elections. Those of relevance to the council are as follows:
- Action 1: Returning Officers should ensure effective training of polling station staff and the use of checklists developed in conjunction with national and / or local disabled persons groups to identify issues from the viewpoint of disabled people.
 - Action 4: Returning Officers to consider equipment at polling stations with reference to use by people with manual dexterity issues and ensure the availability of full size writing implements for those who may need them.
 - Action 9: Returning Officers and relevant local authority staff should ensure that all polling station staff know how the Tactile Voting Device (TVD) works and ensure it is readily offered to those who need it. Disabled Persons Organisations including those supporting people with sight loss should also ensure that awareness is promoted.
 - Action 15: The Electoral Commission and other relevant organisations should consider how training of staff in polling stations may be focused to address the needs of disabled people.
40. The full Government response document can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/736710/Government_response_to_the_Call_for_Evidence_on_Access_to_Elections_.pdf

Guidance: Data Ethics Framework

41. The Department for Digital, Culture, Media and Sport has published Guidance to public sector organisations recommending the use of the Data Ethics Framework to guide the appropriate use of data to inform policy and service design.
42. The document recognises the challenges faced by the public sector with the pace of technological changes in light of codes and standards.
43. The Data Ethics Framework sets out clear principles for how data should be used in the public sector, helping organisations maximise the value of data whilst also setting the highest standards for transparency and accountability.
44. The aim of the framework is to develop transparent standards for using technology in the public sector, promoting innovation in a safe and ethical way. It is crucial that public servants are equipped to use data-informed insight responsibly and processes must be in place to support this.
45. Specifically, the framework will help:
- policy or operational professionals understand the uses and limits of data science, define ethics-related requirements, and develop context and domain-specific questions when planning a project or writing a tender
 - data practitioners ensure that they have considered policy and subject matter when designing data science approaches, and develop questions around project-specific requirements
 - information technology providers better understand the core ethical expectations or public sector data science projects, and to tailor their offerings appropriately

46. The Framework can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737137/Data_Ethics_Framework.pdf

Centre for Public Scrutiny

47. The Centre for Public Scrutiny has prepared a document inviting “scrutiny practitioners” to provide feedback as to what they would like detailed in the new statutory guidance which will be published by the government in December 2018 (as referred to at points 18 – 20 above – overview and scrutiny in local government).
48. CfPS has been asked to draft parts of the guidance and for that reason, together with the Association of Democratic Services Officers, they are encouraging officers and councillors to discuss the guidance’s content.
49. The document “**Scrutiny guidance: things to think about**” can be found at:
<https://www.cfps.org.uk/3323-2/>

Consultation: Protecting the Debate: Intimidation, Influence and Information

50. This consultation follows on from the report from the Committee on Standards in Public Life regarding the impact of intimidation in public life. The consultation is seeking views on proposed changes to electoral law aimed at improving political debate and to make an informed decision at the ballot box. The consultation will also look at how to protect candidates and their supporters.
51. This consultation looks at the following recommendations from the December 2017 report:
- the Government should consult on the introduction of a new offence in electoral law of intimidating Parliamentary candidates and party campaigners
 - the Government should extend electoral law requirements for an imprint on campaigning materials to electronic communications
52. The consultation closes on 22 October 2018
53. A Corporate Advisory Group, to draft a response of behalf of the council, has been arranged for 10 October 2018.
54. The consultation can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/730209/CSPL.pdf

Future Updates

A Standards Update will be provided on a quarterly basis to the Audit and Standards Committee.

It is noted that the content of the update will vary depending on the local and national picture at that time.

Contact: Angela Simmons-Mather Ext: 2662



Title of Report: Results of 2017/18 CIPFA Audit Benchmarking

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 The report informs the Committee of the annual Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking results for 2017/18.

Background

- 2 The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of the Council's resources.
- 3 Benchmarking data allows the comparison of the Council's Internal Audit Service with 18 other local authorities (20 in 2016/17).

Summary of Results for 2017/18

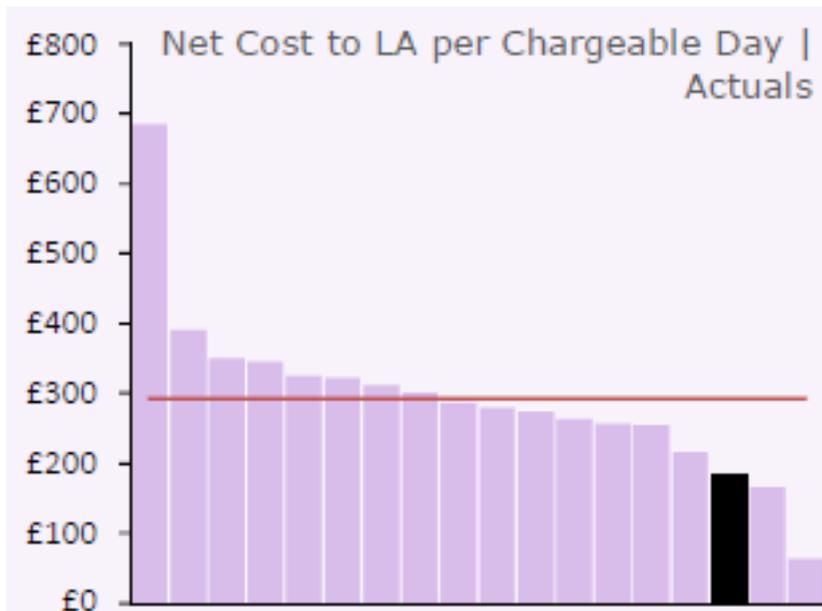
- 4 Attached at Appendix A is a summary report of the 2017/18 benchmarking results. Overall this continues the trend from previous years and highlights Gateshead Council's Internal Audit Service as being low cost with high productivity; in comparison with other local authorities in the benchmarking data.
- 5 The information is based upon 2017/18 actual results taken from the financial ledger and the Internal Audit management system.

Recommendation

- 6 The Committee is asked to note this report.

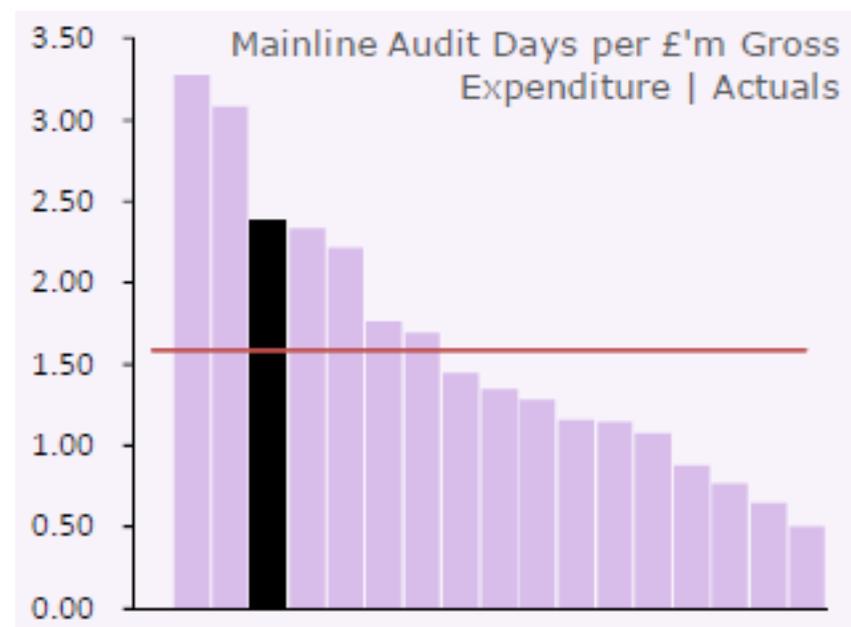
Contact: Craig Oakes – Ext. 3711

Appendix A



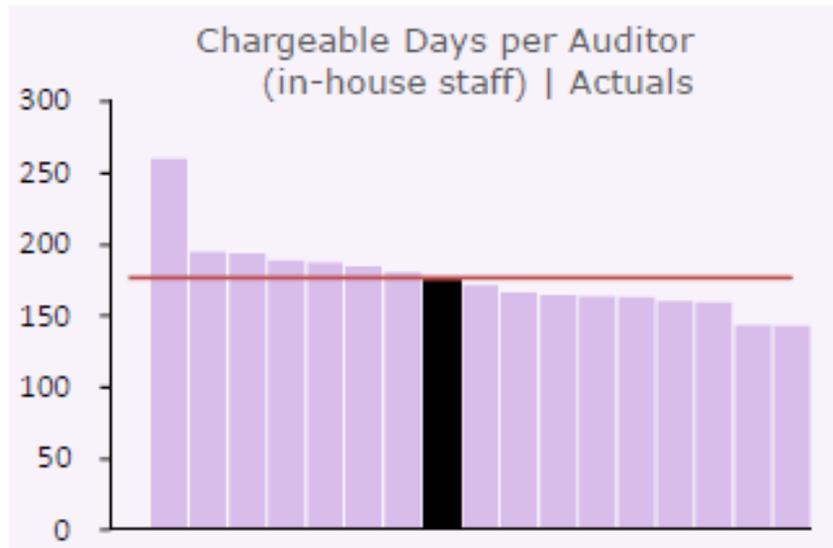
Gateshead Net Cost per Chargeable Day £184

Average £293



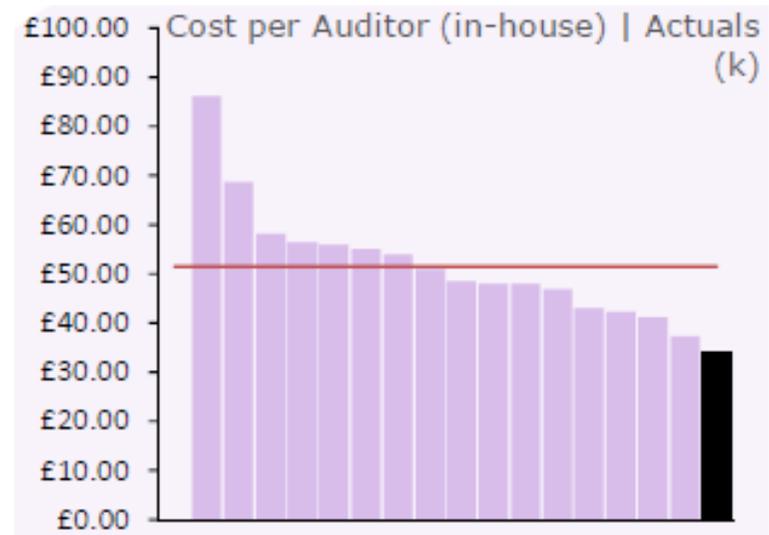
Gateshead Audit Days per £m expenditure 2.39

Average 1.59



Gateshead Chargeable Days per Auditor 176

Average 176



Gateshead Cost per Auditor £34,190

Average £51,510

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Title of Report: Review of Internal Audit Charter

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report informs the Committee of the review of the Internal Audit Charter.

Background

- 2 The purpose, authority and responsibility of Internal Audit must be formally defined in an Internal Audit Charter, consistent with the definition of Internal Auditing outlined in Public Sector Internal Audit Standards (PSIAS). The Chief Internal Auditor must periodically review the Internal Audit Charter and present it for approval.

- 3 The Public Sector Internal Audit Standards (PSIAS), that came into effect from April 2013 and were further revised in April 2017, define internal audit as:

‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

- 4 These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 5 The Internal Audit Charter is attached at Appendix 1. It was last presented to Committee in October 2017 and the report seeks comments on and approval of the Internal Audit Charter in line with best practice.

Internal Audit Charter

- 6 A key element of compliance with PSIAS is the periodic review and approval by the Audit and Standards Committee of an Internal Audit Charter. The Charter is a formal document that defines Internal Audit’s purpose, authority and responsibility setting out the Chief Internal Auditor’s functional reporting relationships, authorises rights of access for internal audit staff and defines

the scope of internal audit activity. Final approval of the Internal Audit Charter resides with the Audit and Standards Committee.

- 7 The Chief Internal Auditor has carried out an annual review of the Internal Audit Charter and confirmed that it continues to reflect best practice and no amendments are required.
- 8 It is proposed that in future years the timing of the review of the Internal Audit Charter will be revised to April, to be reported with the Internal Audit Strategy Statement and Annual Plan.

Recommendation

- 9 The Committee is asked to note the report and the opinion that the Internal Audit Charter continues to comply with Public Sector Internal Audit Standards.

Contact name: Craig Oakes Ext - 3711

INTERNAL AUDIT SERVICE

INTERNAL AUDIT CHARTER 2018/19

1. Introduction

- 1.1 The Chief Internal Auditor is responsible for effectively managing the activity of the Internal Audit Service in accordance with this Charter. This Charter has been written in accordance with UK Public Sector Internal Audit Standards (PSIAS) and is the formal document that defines internal audit's purpose, authority and responsibility. The Charter also establishes internal audit's position within the organisation, including access to records, personnel and physical property.

2. Statutory Basis

- 2.1 Internal Audit is statutory service in the context of the Accounts and Audit Regulations (England) 2015, which states that:

“A relevant authority must 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 or guidance.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN), which came into effect in April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies set out in the Accounts and Audit Regulations 2015. The PSIAS were updated 1 April 2017 and the Charter has been updated to reflect these changes.

- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of these affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include 'compliance with the statutory requirements for accounts and internal audit'.

- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:

- Ensure an effective internal audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- Support internal audit arrangements; and

- Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively.
- 2.5 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.
- 3. Definition of Internal Auditing**
- 3.1 The Council’s Internal Audit Service has adopted the mandatory definition of internal auditing as set out in the common set of PSIAS:
- “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”
- 4. Mission of Internal Audit**
- 4.1 The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. The Council’s Internal Audit Service has adopted the mission statement set out in the PSIAS:
- “To enhance and protect organisational values by providing risk-based and objective assurance, advice and insight.”
- 5. Core Principles for the Professional Practice of Internal Auditing**
- 5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective in achieving its mission, all the following Principles should be present and operating effectively:
- Demonstrates integrity;
 - Demonstrates competence and due professional care;
 - Is objective and free from undue influence (independent);
 - Aligns with strategies, objectives and risks of the organisation;
 - Is appropriately positioned and adequately resourced;
 - Demonstrates quality and continuous improvement;
 - Communicates effectively;
 - Provides risk based assurance;
 - Is insightful, proactive, and future-focussed; and
 - Promotes organisational improvement.

6. Code of Ethics

- 6.1 The Code of Ethics, incorporated within PSIAS, is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control and governance. All internal auditors working for, or providing a service to the Council must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body then they must also comply with the relevant requirements of that body.
- 6.2 The Code of Ethics is based upon four principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct:
- Integrity;
 - Objectivity;
 - Confidentiality; and
 - Competency.
- 6.3 **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All internal audit staff will:
- Perform their work with honesty, diligence and responsibility.
 - Observe the law and make disclosures expected by the law and their profession.
 - Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or the Council.
 - Respect and contribute to the legitimate and ethical objectives of the Council.
- 6.4 **Objectivity:** Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All internal audit staff will:
- Not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council.
 - Not accept anything that may impair or be presumed to impair their professional judgement.
 - Disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.
- 6.5 **Confidentiality:** Internal auditors will respect the value and ownership of the information they receive and will not disclose information without

appropriate authority unless there is a legal or professional obligation to do so. All internal audit staff will:

- Be prudent in the use and protection of information acquired in the course of their duties.
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council.

6.6 **Competency:** Internal auditors will apply the knowledge, skills and experience needed in the performance of their duties. All internal audit staff will:

- Engage only in those services for which they have the necessary knowledge, skills and experience.
- Perform their work in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Continually improve their proficiency, effectiveness and the quality of the service they deliver.

7. Principles of Public Life

7.1 Internal audit staff will also have regard to Nolan's Seven Principles of Public Life in the course of their duties. The seven principles are:

- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office should be as open as possible about all decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

8. Purpose, Authority and Responsibilities

8.1 Purpose

8.1.1 Internal Audit Service is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper economic, efficient and effective use of resources. Internal Audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework. The purpose of the Internal Audit Service is to deliver a risk-based audit plan in a professional and independent manner to allow the Chief Internal Auditor to provide the Council with an opinion on the level of assurance it can place upon the risk management, internal control and governance environments, and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Audit and Standards Committee and supports the Council's Annual Governance Statement which accompanies the Annual Statement of Accounts.

8.1.2 To this end the Internal Audit Service is required to review, appraise and report upon:

- The soundness, adequacy and application of accounting, financial and other operational controls.
- The extent of compliance with established policies, plans and procedures, statute and regulations.
- The extent to which the Council's assets and interests are properly accounted for and safeguarded from losses of all kinds including fraud, bribery, corruption, other offences, waste, extravagance, inefficient administration, poor value for money or other cause.
- The suitability and reliability of financial and other operational information.
- The economy, efficiency and effectiveness with which resources are utilised.
- Whether operations are being carried out as planned and objectives and goals are being met.
- The investigation of instances of fraud, bribery, corruption and irregularities.

8.1.3 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
- Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.

- Supporting the Audit and Standards Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.
- Supporting Officers and Councillors in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Council, through the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and to continually add value to the organisation.

8.2 Authority

- 8.2.1 The Internal Audit Service is an assurance function established by the Council under the requirements of the Accounts and Audit Regulations 2015. Article 9 of the Council's Constitution outlines the role of the Audit and Standards Committee. Delegated responsibility to maintain an adequate and effective internal audit of the Council's accounting records and control systems rests with the Strategic Director, Corporate Resources as set out in the Council's Constitution (Delegations to Individual Managers, Article 13).
- 8.2.2 The scope of Internal Audit Service activity allows for unrestricted coverage of the Council's control environment, which includes all of its operations, resources, services and responsibilities in relation to other bodies. The Chief Internal Auditor, in consultation with the Chair of the Audit and Standards Committee, the Strategic Director, Corporate Resources, other Strategic Directors and Service Directors will have the freedom to determine the priorities for Internal Audit Service activity.
- 8.2.3 The Chief Internal Auditor will carry out a systematic review and evaluation of all aspects of the internal control environment through consideration of the Council's risk register and consultation with senior managers and the Council's External Auditor. This enables the Chief Internal Auditor to prepare a three-year risk-based plan, covering all areas of the Council and to provide purpose and direction in this process. This plan will be linked to a statement of how the Internal Audit Service will be delivered and developed in accordance with this Charter and the Council's overall objectives.
- 8.2.4 Financial Regulations grant Internal Audit the authority to:

- Enter at all reasonable times any Council premises or land;
- Have access to all records, documents, correspondence and any other sources of relevant information relating to any financial and other transactions of the Council;
- Require such explanations believed to be necessary in the course of an audit, concerning any matter; and
- Require any person to produce cash, stores or any other Council property.

8.2.5 Such rights of access extend beyond the Council to other bodies, including:

- Organisations to whom the Council has given grants;
- Organisations with whom the Council contracts; and
- Partner organisations in any schemes for which the Council has responsibility as the accountable body.

8.2.6 This will be affected by incorporating these audit requirements into appropriate agreements with external bodies. Where required assurances based on the work of the Internal Audit Service may be provided to such a respective body, this will take the form of a written assurance from the Chief Internal Auditor detailing the objectives of the internal audit activity undertaken and a conclusion on the assessment of the internal control environment.

8.2.7 The main determinant of the effectiveness of the Internal Audit Service is that it is seen to be independent. To ensure this, the Internal Audit Service will operate in a framework that allows direct reporting to the Strategic Director, Corporate Resources and free and unfettered access to all senior management, including the Chief Executive, Monitoring Officer and Councillors, including the Chair of the Audit and Standards Committee. The Chief Internal Auditor reports on an administrative basis to the Deputy Strategic Director, Corporate Finance.

8.2.8 For the purposes of compliance with PSIAS within the Council the Audit and Standards Committee is designated as the “Board” and Strategic and Service Directors are designated as “senior management”.

8.3 Responsibilities

8.3.1 The Internal Audit Service will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Council’s Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within them. In addition to the Annual Internal Audit Report the Chief Internal Auditor will report progress against the annual audit plan to the Audit and Standards Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the

results of the Chief Internal Auditor's Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

- 8.3.2 The Internal Audit Service will have no responsibilities over the activities that it audits beyond the furnishing of recommendations and advice to management on associated risks and controls.
- 8.3.3 The existence of the Internal Audit Service does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered way. Management is expected to implement all agreed audit recommendations by the agreed date and each audit will be followed up to assess the extent to which this has happened.
- 8.3.4 Arrangements are in place with Strategic Directors, Service Directors and the Senior Insurance and Risk Officer to inform the Internal Audit Service of changes in Council systems and procedures on an ongoing basis.
- 8.3.5 Every effort will be made to preserve objectivity by ensuring that all Internal Audit Service employees are free from any conflicts of interest and do not undertake any non-audit duties other than those for the demands of the Service.
- 8.3.6 Internal auditors will not be allocated to assurance reviews in areas where they have had responsibility for, or have undertaken and significant advice and consultancy work, within the previous 12 months.
- 8.3.7 As the Chief Internal Auditor also has responsibility for corporate risk management and counter fraud, arrangements are made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor. In these cases the Chief Internal Auditor will remove themselves from the review process of those audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and the Strategic Director, Corporate Resources in order to apply the necessary safeguards as set out in the PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

9 Resourcing of Internal Audit

- 9.1 The Chief Internal Auditor assesses resource requirements and draws up the Audit Plan by considering the following:
- The Council's priorities;
 - The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity;
 - Consultation with senior managers and the External Auditor;
 - Changes in legislation;
 - The scope of planned external audit work; and
 - The implications of external inspection reports.

- 9.2 The staffing structure of the Internal Audit Service comprises of professional accountant, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the Service. Where the Chief Internal Auditor considers there to be insufficient resources to deliver an effective audit plan this will be drawn to the attention of the Strategic Director, Corporate Resources and the Chair of the Audit and Standards Committee immediately.
- 9.3 As far as practical, the Internal Audit Service will not participate in the day-to-day operation of any systems of internal control. Where this is unavoidable then the auditor in question will not perform audit work in the same area for a minimum of 12 months thereafter. Any conflicts of interest relating to a respective area must be notified in advance to the Chief Internal Auditor. The Chief Internal Auditor maintains a record of all declared interests from Internal Audit staff and regular training sessions will be carried out to remind staff of the Code of Ethics. If any impairment to objectivity or independence does occur then these will be disclosed to appropriate parties depending on the nature of the impairment; with significant breaches being reported to the Audit and Standards Committee.
- 9.4 Employees within the Internal Audit Service will be expected to contribute to the general management and conduct of the Council's business through membership of working groups and participation in ad hoc exercises.
- 9.5 At the request of the Strategic Director, Corporate Resources, appropriate specialists from other Services should be made available to participate in any audit or review requiring specialist knowledge.
- 9.6 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training delivered through both internal and external courses.
- 9.7 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network, the Institute of Internal Auditors and through regular liaison with external audit.
- 9.8 The Service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 9.9 In this regard the service considers trends and emerging issues that could impact on the organisation.

10 **Scope of Audit Work**

10.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by partners where appropriate.

10.2 In addition to the regular review of all key systems of internal control which forms the majority of assurance work, Internal Audit will:

- Respond to requests for support, advice and guidance on implementing and / or improving best practice control procedures for current and new systems.
- Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
- Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of the work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over Internal Audit's independence and objectivity. Consultancy work will be assessed by the Chief Internal Auditor for its impact on the internal control environment and the potential added value in terms of the Council achieving its legitimate and ethical objectives. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit and Standards Committee for approval.
- Be alert in all its work to risks and exposure that could allow fraud and corruption to occur and to any indications that a fraudulent or corrupt practice may be occurring.
- Review controls where a potential fraud has been detected / reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.

10.3 It must be noted that whilst Internal Audit will promote the Council's Counter Fraud Policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. Internal Audit cannot guarantee that fraud or corruption will be detected in its work. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption

will be detected. Managing the risk of fraud and corruption is the responsibility of all service managers.

- 10.4 The Chief Internal Auditor has provision in the Audit Plan to allow for the investigation of fraud, bribery and corruption and the Council's Financial Regulations, Fraud and Corruption Policy and Statement on the Prevention of Bribery require him to be notified of all suspected or detected fraud, corruption or impropriety. The Chief Internal Auditor will assess the potential impact of such cases on the internal control environment.

Next Review Date – April 2019

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TITLE OF REPORT: Treasury Management – Performance to 30 September 2018

REPORT OF: Darren Collins – Strategic Director, Corporate Resources

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2018, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 22 March 2018.
3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
5. Accordingly, treasury management is defined as:

“The management of the Council's 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.”

6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Investment Performance

7. The latest projection of gross investment income for 2018/19 based on interest earned to date and expected interest to March 2019 is £0.559m, compared to the original estimate of £0.417m.
8. This gross investment interest is adjusted to account for £0.254m interest payable to third parties and interest receivable of £1.591m from various third parties, the most significant of which is Newcastle International Airport. This gives a projected

net interest to the General Fund 2018/19 of £1.896m compared to the budget of £1.525m. The current variance to budget is mainly as a result of higher levels of interest received on loans to third parties than anticipated when the 2018/19 budget was set.

Rate of Return

9. The average rate of return is monitored for each investment type that the Council enters into and these are used to calculate an average rate of return for the Council for the year to date. The current rate of return is 0.70%, which is greater than the original estimate of 0.59%.
10. As a means of benchmarking, the average rate of return for the month and year to date is compared to the equivalent 7-day London Inter-Bank Bid Rate (LIBID), which is the rate that banks are willing to borrow money from each other. The monthly return of 0.06467% exceeds the LIBID 7-day rate equivalent of 0.04849%. The Council's year to date rate of return of 0.70050% is also well in excess of the equivalent LIBID 7-day year to date rate of 0.40245%.
11. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across other authorities. In the most recent report received, September 2018, the Council achieved a weighted average rate of return of 0.72% on its investments for Quarter 1 2018/19 which is in line with the risk adjusted expectations (0.61% to 0.74%) defined in the Benchmarking Report for our Group.
12. The rate of return would be expected to decrease during the year as investment balances reduce and current deposits are replaced with shorter, lower yielding deposits.
13. The investment market remains very difficult in terms of actuarial earning levels with much dependent in the near future on achieving a reasonable Brexit agreement which benefits both the UK and the EU. Given this scenario investment returns are likely to remain relatively low for the remainder of the year.

Brexit and the Economy

14. The Bank of England's Monetary Policy Committee (MPC) sets UK monetary policy using a 2% inflation target. Following the release of the Quarterly Inflation Report the Committee voted unanimously to increase Bank Rate by 0.25%, to 0.75% from 2nd August 2018. However, they have emphasised that future Bank Rate increases would be at a gradual pace and to a limited extent with a projected Bank Rate of 2.50% in ten years' time.
15. The deadline for the UK's departure from the European Union is March 2019. Our Treasury Management advisors, LINK Asset Services are forecasting that the next Bank Rate rise will not happen before the Brexit deadline and that the MPC are more likely to wait until August 2019 before they increase rates again.

Borrowing

16. The total borrowing for the Council and HRA as at 30 September 2018 was £641.915m, which was within the operational borrowing limit of £850m. This borrowing is made up of £516.915m PWLB loans and £125m market loans.
17. The Treasury Strategy estimates for the 2018/19 financial year were based on a borrowing requirement of £78.363m. To date this year the Council has taken £5m long term borrowing from the PWLB. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates at the time.
18. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	HRA
Interest Payable	£12.193m	£13.942m
Average rate of interest	3.66%	4.15%

This represents a gross saving of £1.936m on the original estimate, of which £1.042m is a saving for the General Fund and £0.894m is for the HRA.

Summary of Mid-Year Performance

19. The projected net impact of investment and borrowing activity on the revenue budget in 2018/19 is an underspend of £2.307m, comprising £1.413m General Fund and £0.894m HRA.

General Fund	Estimate £m	Projected Outturn £m	Variance £m
Investments	(1.525)	(1.896)	(0.371)
Borrowing	13.235	12.193	(1.042)
Net Position	11.710	10.297	(1.413)

20. 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).
21. The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which is significantly outweighed by the savings achieved from avoiding external borrowing.
22. Internal borrowing does incur an additional element of interest rate risk on the overall treasury management position, but this is being taken into account and

mitigated by the monitoring and review of potential borrowing options and overall market conditions.

Recommendation

The Committee is asked to note the Treasury Management Performance to 30 September 2018.

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

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