

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 4 March 2019

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

APOLOGIES: Councillor(s): L Green and B Jones

ASC182 MINUTES

RESOLVED - That the minutes of the last meeting held on 28 January 2019 be approved as a correct record.

ASC183 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC184 EXTERNAL AUDITOR: AUDIT STRATEGY MEMORANDUM YEAR ENDING 31 MARCH 2019

The Committee received a report outlining the external auditor's Audit Strategy Memorandum for the year ended 31 March 2019.

The report set out details on:-

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

Key areas or risk were identified as:

- Management override of control
- Revenue recognition (miscellaneous income only)
- Property, plant and equipment valuation
- Defined benefit liability valuation

The external auditor's report was also appended to the main report for information.

RESOLVED - That the contents of the external auditor's Audit Strategy Memorandum was noted.

ASC185 ANNUAL GOVERNANCE STATEMENT 2018/19 - ASSURANCE FRAMEWORK

The Committee received a report which provided an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2018/19 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

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 assurances from a number of sources of Council activity.

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?

The Committee were advised that 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
- Senior Managers
- The system of internal audit
- Risk management arrangements
- Counter Fraud arrangements
- Performance management and data quality
- View of the external auditor and other external inspectorates
- Financial controls
- Partnership arrangements and governance
- Other sources of assurance

The Committee were advised that the Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committee in April 2007.

This was last updated and agreed by the Audit and Standards Committee on 28 January 2019. This Code defines how the Council complies the principles of good

governance as set out in the 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

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

Using evidence from this assessment the Group will prepare the AGS for 2018/19 for approval by the Audit and Standards Committee in June 2019. This will then accompany the Statement of Accounts for 2018/19.

RESOLVED - that the Assurance Framework as set out in the report was agreed.

ASC186 TREASURY POLICY STATEMENT AND TREASURY STRATEGY 2019/20 TO 2023/24

The Committee received a report which reviewed the proposed Treasury Statement and Treasury Strategy for 2019/20 to 2023/24 prior to consideration by Cabinet.

The Committee were advised that in order for the Strategic Director of Corporate Resources his delegated powers, the Council agreed a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

The 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).

The Committee reviewed the Treasury Policy and Treasury Strategy as appended to the main report, thus ensuring that the Council fully complies with the requirements of good financial practice in Treasury Management.

RESOLVED -

- i) That the information be noted
- ii) That the Treasury Policy and the Treasury Strategy be agreed and submitted to Cabinet for consideration

ASC187 REVIEW OF FINANCIAL REGULATIONS

The Committee received a report which provided an update on the review of the Council's Financial Regulations.

The Accounts and Audit Regulations place a duty on the Strategic Director, Corporate Resources to determine the systems of financial control, which must include measures to:

- Ensure that the financial transactions of the Council are recorded as soon as, and accurately as, reasonably practicable;
- Enable the prevention and detection of inaccuracies and fraud; and
- Ensure that risk is appropriately managed

The Financial Regulations contained within the Council's Constitution form part of the system of financial control and are subject to periodic review to ensure they remain effective.

The format of the Regulations has been revised to provide more clarity on the purpose and objectives of the Regulations, the key risks and rule of each one, with a greater emphasis on broad control principles rather than detailed prescriptive processes.

The procedural guidance will ensure controls are proportionate, with risks adequately managed and mitigated, and supported by effective exception reporting to ensure any instance of non-compliance is captured and reported for supervisory review.

The draft revised Financial Regulations were appended to the main report for information.

- RESOLVED -
- i) That the information be noted
 - ii) That the draft revised Financial Regulations be submitted to Cabinet on 19 March 2019 for approval.

ASC188 AUDIT AND STANDARDS COMMITTEE - TRAINING AND INDUCTION

The Committee received a report setting out proposals for induction and training plans. Previously the Committee had considered a report on the Councillors' Engagement and Development Framework, which is intended to guide councillors on how they undertake their duties, and particularly relates to consultation, engagement, training and development.

The Committee were advised that all training and development is important, but some areas are considered essential. All councillors (and independent members) are expected to undertake training on several areas including Ethics and Probity training related to committee membership.

In addition to guidance, the Framework also contains role descriptors with a specific

one being produced relating to a member of the Audit and Standards Committee, which was attached as an appendix to the main report.

The Committee were advised that at present, all newly elected councillors undertake an induction programme which consists of them meeting all Strategic Directors. As part of this programme they receive a hard copy of the Council's Code of Conduct and related guidance following their election. It is proposed that they will also receive a hard copy of the Local Code of Governance in their induction packs. These will be provided to independent members following their appointment.

In addition, all newly appointed members of the Audit and Standards Committee, including councillors and independent members, will receive an induction meeting from officers from Corporate Services and Governance and Corporate Resources prior to their first attendance at the Committee.

The induction meeting will cover the role and remit of the Committee, the role descriptor for members of the Committee, any training needs they need to fulfil their roles, and an overview of the governance structures of the authority and decision making processes

The Committee were advised that all Councillors are expected to undertake training on Ethics and Probity once in their four year term following their election. Four sessions have been held in 2018/19. Further sessions will be arranged in 2019/20 starting in September 2019.

The Audit and Standards Self Assessment for 2017/18 to support the Annual Governance Statement included a comment that a skills analysis of the Committee should be undertaken, following which a Development Plan will be drawn up which will be subject to continuous formal committee review. A suggested Development Plan was appended to the main report and members of the Committee were asked to identify those areas where their skills could be strengthened by further training, this will then inform the final Development Plan for the Committee.

It was also reported that it would be prudent to plan for delivery of training in relation to Risk and Counter Fraud as both of these areas have undergone changes recently, and it is proposed that training on these areas should be arranged during 2019/20 starting after the local elections in order to ensure that newly elected councillors have the opportunity to attend these sessions.

The Committee were advised that it is also proposed that the training opportunities referred to above be offered to all members of the council.

The Committee were advised that the chair of the Committee attended a CIPFA event (Development Day for Local Authority Audit Committees) on 16 January 2019. Officers will identify opportunities for members of the Committee to attend similar national and regional events. Any members attending such an event would be expected to give feedback and share any learning materials with the Committee to maximise learning and development opportunities.

It was also suggested that Mazars could be requested to give some short sessions

at the end of committee meetings on aspects of their work with the Council, such as their Audit Completion Report and Statement of Accounts.

The Chair and Vice Chair are invited to meetings of the North East Governance Forum, hosted by Mazars, which along with presentations and discussions on topical issues, provides networking and member development opportunities. These meetings are attended by Audit Committee Chairs/Vice Chairs from other North East Councils, along with their Chief Internal Auditors.

The Committee were requested to complete the skills audit and a further update will be given at the next meeting of the Committee.

- RESOLVED -
- i) That the information be noted
 - ii) That the CIPFA document be circulated for information
 - iii) That the skills audit and draft development plan be brought to the next meeting of the Committee for consideration

ASC189 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME

The Audit and Standards Committee Work Programme for 2019/20 was tabled and the contents noted.

ASC190 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.

ASC191 EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

The Committee received a report of the options for the external assessment of the Internal Audit and Risk Service compliance with the UK Public Sector Internal Audit Standards (PSIAS) to be carried out in 2019/20.

The Committee were advised that the first option is for the external assessor to undertake a full review of the Internal Audit and Risk Service without any prior work being undertaken. The second option is for a validated self-assessment, whereby Internal Audit and Risk would review their own compliance with the standards and produce a portfolio of evidence to support this. This was the option selected for the previous assessment.

Three main options available were outlined for the external assessment to Committee:-

- **Undertaken by a relevant professional body.** The assessment would be carried out by a professional body such as CIPFA or the Institute of Internal Auditors (IIA). This has the benefit of having specialist trained assessment staff and would be viewed as being fully independent. An initial quote from the IIA for a validated self-assessment was between £5,500 and £8,000 plus

expenses.

- **Tri-partite peer review.** A peer review group of three Local Authorities would join together to carry out the work on each other's behalf. A group of three authorities would be required so that there was no reciprocal review between only two organisations which would not be viewed as being independent. This would have the benefit of not having a cost attached in cash terms but would require a significant investment of officer time which could have implications for the delivery of the audit plan.
- **Undertaken by the Council's external auditor or another external accountancy firm.** This would have the benefit of access to experienced staff while still demonstrating independence. If Mazars carried out the work they possess a prior working knowledge of the Council's Internal Audit and Risk Service, although because of this relationship the Audit and Standards Committee would need to be satisfied that they are sufficiently independent and free from any conflicts of interest. This will be achieved as it would be the intention from Mazars that the work would be carried out by a member of their team currently involved in the external audit. Mazars have provided a quote of £4,500 to undertake a validated self-assessment. No other external firms have been approached to date. Using Mazars would be the preferred option given their knowledge of the Council and the level of the quote provided.

- RESOLVED -
- i) That the information be noted.
 - ii) That the Committee endorsed the option for a validated self-assessment of the Internal Audit and Risk Service's compliance with PSIAS and for Mazars to undertake this work following consideration of the options detailed above.

ASC192 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 29 April 2019 at 10.00 am.

Chair.....