

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 29 April 2019 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 4 March 2019
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.
4	Audit and Standards Committee Work Programme (Pages 11 - 12) The Committee is invited to review and note the current work programme.
5	Audit and Standards Committee - Induction and Training (Pages 13 - 18) Report of the Strategic Director, Corporate Services and Governance
6	Local Government Ethical Standards Report (Pages 19 - 32) Report of the Strategic Director, Corporate Services and Governance
7	Quarterley Standards Update (Pages 33 - 38) Report of the Strategic Director, Corporate Services and Governance
8	External Auditor: Audit Progress Report (Pages 39 - 50) Report of the Strategic Director, Corporate Resources
9	Internal Audit Charter, Strategy Statement and Annual Plan 2019/20 (Pages 51 - 78) Report of the Strategic Director, Corporate Services
10	Corporate Risk Management 2018/19 Quarterly Report to 31 March 2019 (Pages 79 - 90) Report of the Strategic Director, Corporate Resources

11 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.

12 Internal Audit Plan 2018/19 Quarterly Monitoring Report to 31 March 2019
(Pages 91 - 98)

Report of the Strategic Director, Corporate Resources

13 Date and time of next meeting

The next meeting will be held on Monday 24 June 2019 at 10.00 am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk,
Date: Friday, 19 April 2019

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.....

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME

Committee Meeting Date and Time	Items to be considered
29 April 2019 10.00am	<ul style="list-style-type: none"> • Work Programme • Training and Induction • Standards Update • Mazars Audit Progress Report • Internal Audit Charter, Strategy Statement and Annual Plan 2019/20 • 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)
24 June 2019 10.00am	<ul style="list-style-type: none"> • Constitution • Role and Remit • Work Programme • 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
22 July 2019 10.00am	<ul style="list-style-type: none"> • Work Programme • 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)
28 October 2019 10.00am	<ul style="list-style-type: none"> • Work Programme • Standards Update • Results of the 2018/19 CIPFA Audit Benchmarking • Corporate Risk Management 2019/20 - Quarterly Report to 30 September 2019 • Treasury Management – Performance to 30 September 2019

	<ul style="list-style-type: none"> • Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 September 2019 (Exempt Item) • Counter Fraud and Corruption Arrangements Update Report (Exempt Item)
27 January 2020 10.00am	<ul style="list-style-type: none"> • Work Programme • Standards Update • Local Code of Governance • Mazars Audit Progress Report • Mazars – Results of Certification Work 2018/19 • Corporate Risk Management 2019/20 – Quarterly Report to 31 December 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2019 (Exempt Item)
9 March 2020 10.00am	<ul style="list-style-type: none"> • Work Programme • Training and Induction • Treasury Policy Statement and Treasury Strategy • Annual Governance Statement (Assurance Framework) • External Quality Assessment of Internal Audit (Exempt Item)

TITLE OF REPORT: **Audit and Standards Committee – Training and Induction**

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

Purpose of the Report

1. This report sets out proposals for induction and training plans for the Audit and Standards Committee.

Background

2. The Audit and Standards Committee considered a report at its last meeting held on 4 March 2019 on proposals for developing training and induction for the Committee.
3. The Committee agreed that a CIPFA knowledge and skills assessment form should be circulated to all members of the Committee to help develop a training development plan for the committee. A copy of the form is attached at Appendix 1. It was also agreed that an outline development plan attached at Appendix 2 should be circulated with this form.
4. The form and outline development plan were circulated to all members. Of the replies received, one member indicated that he had not acquired the relevant knowledge for the core aspects outlined in the knowledge and skills assessment form. It is considered that the proposals outlined below will address this training need.
5. No comments were received on the outline development plan.

Proposals

Induction

6. 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 also be provided to independent members following their appointment.
7. 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.
8. 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.

Training

9. All councillors are expected to undertake training on Ethics and Probity once in their four-year term following their election. Regular training sessions have been arranged on this topic and it is proposed that they continue to be arranged throughout 2019/20.
10. It is proposed that the potential training areas outlined in Appendix 2 should be developed into a training programme to be rolled out throughout the year to not only committee members but also to all members of the Council. Some of this training could be in the form of sessions at the end of committee meetings facilitated by Council officers or Mazars. The training programme will be flexible and other topics can be added, as and when necessary.
11. Officers will identify training opportunities for members of the Committee to attend national and regional events, as appropriate. Any member attending such an event would be expected to give feedback and share any learning materials with the Committee to maximise learning and development opportunities.
12. 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.

Recommendation

13. The Committee is asked to endorse the approach to induction and training set out above and to receive the training programme at its next meeting.
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Contact: Deborah Hill

extension: 2110

Audit Committee Knowledge and Skills Assessment

Area of activity: Corporate Governance

Audit committee activities	Core knowledge areas
<ul style="list-style-type: none"> • Reviewing the local code of governance and changes to activities in the year • Ensure the governance statement is underpinned by a framework of assurance • Receive reports and assurances on the application of the framework in practice • Monitor implementation of action plans to improve governance arrangements • Consider how the principles are applied in practice 	<ul style="list-style-type: none"> • Seven principles of the CIPFA/SOLACE Good Governance Framework 2016 (local government) • Requirements of the Annual Governance Statement • The organisation's local code of governance and arrangements for providing assurance, including the roles of the leadership team and the audit committee

Core aspects of knowledge <i>These are the basic aspects that all audit committee members need to know.</i>	Own assessment of knowledge	Full audit committee's knowledge
Have members of the audit committee received the following support or acquired the relevant knowledge:		
1. Received training or guidance on the principles of corporate governance in the public sector in the last 5 years. (This could be acquired in other organisations.)		
2. Received training or guidance on the organisation's own code of governance in the last 2 years.		
3. Is familiar with the organisation's Annual Governance Statement.		
4. Is aware of the requirements underpinning the development of the Governance Statement.		
5. Has reviewed strategic governance assurance arrangements in the last 12 months.		
6. Knows who is responsible for corporate governance activities in the organisation: <ul style="list-style-type: none"> • Lead officers (including the statutory officers); • Leading members 		
7. Knows what the audit committee's terms of reference relating to corporate governance are.		
8. Knows how the leadership team obtains assurance on governance arrangements.		

Action Points / Areas for development:

Action point	Date for action

Audit and Standards Committee

Basis of Development Plan

Member	*Basic Introduction to Role/Remit of Committee & Governance Structures	Ethics and Probity	Risk Management	Counter Fraud	Reviewing Financial Statements	Understanding Internal/External Audit	Treasury Management
Councillor Haran (Chair)							
Councillor Turnbull (Vice Chair)							
Councillor J Green							
Councillor L Green							
Councillor J McClurey							
Councillor J McElroy							
Councillor N Weatherley							
Mr S Bell							
Mr G Clark							
Mr B Jones							

* This training will be provided to all new members of the Audit and Standards Committee. In addition, existing members of the Committee can use this as a refresher session. Attendance by other members of the Council would be welcome.

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TITLE OF REPORT: Local Government Ethical Standards Report

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

Purpose of the Report

1. To advise the Committee that on 30 January 2019 the Committee on Standards in Public Life published its report on local government ethical standards. The report contains recommendations on ethical standards in local government, following a year-long review and wide consultation.

Summary

2. The key recommendations include:
 - a new power for local authorities to suspend councillors without allowances for up to six months
 - revised rules on declaring interests, gifts and hospitality
 - local authorities retain ownership of their own Codes of Conduct
 - a right of appeal for suspended councillors to the Local Government Ombudsman
 - a strengthened role for the Independent Person
 - greater transparency about the number and nature of Code complaints.
3. The Committee concluded that whilst improvements could be made to the system of adjudicating on standards, there was no need to reintroduce a centralised body.
4. The Committee proposed Local Authorities should retain ultimate responsibility for implementing and applying the 7 Principles of Public Life in local government:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership
5. The full 110 page report can be viewed at:
<https://www.gov.uk/government/publications/local-government-ethical-standards-report>

Context

6. The report was not prompted by specific allegations of misconduct with local government, instead the Committee wanted to be satisfied that the current framework, specifically the Localism Act 2011, remained conducive to promoting and maintaining the standards in public life.
7. High standards of conduct in local government are needed to protect the integrity of decision making, maintain public confidence and safeguard local democracy.
8. Much of the framework for local government standards evolved from a largely unregulated regime 1997 to a highly centralised system under the Standards Board. The Board was abolished in 2012 making way for the current, highly devolved, system.
9. There are a number of checks and balances in the current system to protect against poor ethical standards and impropriety. Each principal authority operates within its own constitution, creating a governance framework which ensures good administration and decision making. These arrangements are overseen by officers of the council, and particularly by three statutory officer – the Chief Executive, the Chief Finance Officer and the Monitoring Officer.

Findings

10. On the whole, the Committee found that the majority of councillors acted with integrity however there was a small minority of councillors who do not act in such a manner and there were examples of persistent and repeated harassment, bullying and disruptive behaviour. The Committee also found there was a small number of parish councils with a disproportionate number of complaints being made against them.
11. The Committee identified a risk to standards under the current arrangements as a result of the rules on declaring gifts, interests and hospitality in the context of increasingly complex local government decision-making.
12. Whilst consideration was given to a centralised body to deal with standards issues, which would improve consistency of standards across England, the Committee found that giving local authorities responsibility for ethical standards had the benefit of flexibility and discretion to deal with matters informally. As such, there is no need for a centralised body, however the consistency and independence of the current system could be enhanced.

The Committee's Recommendations

13. The Committee makes 26 recommendations (Appendix 1). These are made to the Government for a change in primary legislation as well as to specific groups of public office-holders for a change in secondary legislation and the Local Government Transparency Code, the latter of which could be implemented more swiftly.

14. The best practice recommendations are aimed at local authorities and should be considered a benchmark of good ethical practice (Appendix 2). The Committee expects local authorities to implement best practice and will review implementation of their best practice in 2020.

Matters considered in the body of the report

Codes of Conduct

15. Under s.27 Localism Act 2011, each local authority must adopt a code of conduct against which councillors' conduct may be assessed. The code should reflect the Seven Principles of Public Life (as set out above). The code should also include provisions for registering and declaring pecuniary and non-pecuniary interests.
16. Codes of conduct play an important role in maintaining ethical standards, making clear how values and principles should be put into practice. They enable councillors to be held to account for their actions by setting out clear expectations about how they should behave.
17. The Committee, whilst acknowledging that local authorities can determine their own code of conduct to address the expected behaviour of its councillors, found a wide variation between local authorities' codes of conduct in terms of quality, length and clarity. Many codes also failed to adequately address the use of social media, bullying and harassment. This invariably caused confusion for both members of the public and councillors.
18. The Committee proposes a model code of conduct is made available to enhance the consistency and quality of codes across the country, to be drafted by the Local Government Association.
19. A model code would reflect common expectations of the public. The implementation of the updated model code will be voluntary to allow individual authorities to amend the code to meet the needs of the authority, which is viewed as important in allowing councils to strengthen ownership of ethical standards within an authority.
20. Criteria for an effective code of conduct:
- seen as relevant every day and not exceptional
 - proportionate – giving enough detail to guide actions without being so elaborate that people lose sight of the underlying principle.
 - adapted to the needs and context of each organisation
 - clear about the consequences of not complying with the code, both for the individual and others
 - wherever possible, frames positive
 - written in plain English
21. The Committee found that whilst codes of conduct could only apply to councillors when acting in their capacity as a councillor (as per the Localism Act), a councillor could not be found to be in breach of the code, or sanctioned

for that breach, for behaviour in a private context. This was found to be too narrow, especially when dealing with the use of social media. There needs to be a balance between the right of democratic representatives to exercise free speech with the public interest demands to meet certain responsibilities of that role. The Committee therefore recommends a rebuttable presumption that a councillor's behaviour in public is in an official capacity whilst an individual's behaviour in private, in a personal capacity, should remain outside the scope of the code.

Declaring and Managing Interests

22. To ensure the integrity of decision making, councillors should be free from undue influence, which includes conflict of interests.
23. The Committee found current arrangements are unclear. Not all registerable interests will present a conflict of interests. The purpose of the register is to make transparent an individual's financial and non-financial interests and relationships that are most likely to lead to a potential conflict. An interest only needs to be managed where it is reasonable to suppose that an individual's participation in a discussion or decision could be unduly influenced by a particular relationship or personal interests.
24. The existing requirements for registering interests should be updated and widened to include the registering of non-pecuniary interests. The current rules should be repealed and replaced with an objective test for whether a councillor should recuse themselves from a discussion or vote. This is the practice in Scotland, Wales and Northern Ireland.
25. The question to be asked is:
"if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your discussion or decision-making in relations to that matter".

Investigations and Safeguarding

26. The standards process has three strands:
 - The Monitoring Officer will filter and investigate alleged breaches of the code of conduct, as officer with responsibility for standards and governance.
 - The Standards Committee will advise on standards issues, review the decision of the Monitoring Officer and can play a role in deciding on alleged breaches and sanctions (or a combination of both). It is recommended that Independent members should be able to vote on these matters.
 - The Independent Person ensures that decisions are made fairly and impartially. The Council must take into account the view of an Independent Person before a decision is made on an alleged breach, following a formal investigation. This role should be strengthened. A local authority should only be able to suspend a councillor where the Independent Person agrees there has been a breach of the code and suspension is the appropriate sanction. The role should have legal

protection and be for a fixed term. The decision of the Independent Person should be published in any formal decision notice.

27. These roles can be defined by an authority's own standards procedures according to their own needs and resources, which means that whilst authorities' standards arrangements have commonalities, in practice they can be implemented very differently.
28. The Committee found that in strengthening to role of independent members of the standards committee and the Independent Person, it is possible to strengthen safeguards within a framework of local responsibility for maintaining standards – thus negating the need for a centralised body.

Sanctions

29. Sanctions serve four purposes in the standards framework:
 - motivating observance of standards arrangements
 - deterring damaging behaviour
 - preventing further wrongdoing
 - maintaining public confidence
30. Presently the authority may impose a sanction, which cannot include suspension or disqualification. The sanctions can include an apology, training, censure or withdrawal of certain facilities or access to council buildings. Where there is a positive action required of the councillor however, for example to apologise or to attend training, there is no mechanism for the authority to impose the sanction.
31. The lack of serious sanctions has the following consequences:
 - prevents local authorities from enforcing lower level sanctions if the councillor will not take the positive action required of them
 - damages public credibility of the standards system – leads to public frustration in a system which cannot deal with misconduct in a robust or effective way.
 - Makes the cost and resources of undertaking an investigation disproportionate in terms of the sanctions available.
 - Gives local authorities no effective means of containing reputational damage or preventing reoccurrence.
32. Political party discipline can play a positive role in upholding ethical standards within a local authority, allowing matters to be dealt with on an informal basis where it is appropriate to do so. It can however have its drawbacks when political interests override public interests.
33. The Committee found that current sanctions are insufficient and need to be strengthened. Local authorities should be given the power to suspend a councillor for up to 6 months without allowances, however there was no compelling evidence to introduce a power of disqualification. The power to suspend should be used rarely and only in the cases of the most serious breaches. Suspended councillors, including parish councillors, should have the right to appeal to the Local Government Ombudsman, who in turn should

be given the power to investigate alleged code of conduct breaches on appeal. The Ombudsman's decision should be binding.

34. The Committee found that the criminal sanctions regarding Disclosable Pecuniary interests are disproportionate in principle and ineffective in practice and as such should be abolished.

Town and Parish Councils

35. Only a principal authority has the power to undertake a formal investigation and make decision on an alleged breach of a parish council's code of conduct. It does not therefore follow that a parish council can adopt its own code of conduct but then lack the authority to investigate and enforce that code. There has to be a balance between the need for autonomy for parishes with the responsibility of the principle authority in investigating breaches.
36. The Committee determined that principle authorities should retain the responsibility for investigating complaints for alleged code breaches by parish councillors. Parish councils should adopt the code of conduct of the principle authority (or the new model) and the decision on sanctions should be binding. Clerks should hold the appropriate qualification to support the Monitoring Officer to uphold governance within their parish council.

Supporting Officers

37. As mentioned above there are three statutory officer roles in local government - the Chief Executive, the Chief Finance Officer and the Monitoring Officer.
38. It is the role of the Monitoring Officer that is pivotal in upholding ethical standards in an authority. It involves a broad set of skills.
39. The Monitoring Officer's role is key within the current standards system. The Committee identified that this role may be exposed to conflict, however this is manageable with the support of other statutory officers. Monitoring officers should be provided with the necessary training. The statutory officer role should be given extended employment protection and officers should be provided with training on local authority governance.
40. The Committee considered whistleblowing provisions and recommended that councillors should be listed as "prescribed persons" for the purposes of the Public Interest Disclosure Act 1998, to make it easier for individuals to make protected disclosures to a councillor. A "prescribed person" means that the disclosure of information to them in the public interest will attract employment protections. This would allow an officer to make such disclosures to a councillor and it would attract employment protections for that officer.

Councils' corporate arrangements

41. The Committee found that decision making within councils is becoming more complex with increased commercial activity and partnership working. This can lead to governance challenges, eg identifying who is accountable for particular decisions.

42. When setting up separate bodies, steps should be taken to prevent and manage conflicts of interests, especially if a councillor sits on one of these new bodies. These bodies should be transparent and accountable to the council and the public.
43. The Committee found that there was a strong link between failings in ethical standards and corporate failure by councils, eg where low level breaches of ethical standards go unaddressed. A common threat in cases of corporate governance failings is the failure to uphold the Seven Principles in Public Life.

Leadership and Culture

44. Leadership is seen as being essential in embedding an ethical culture, from a range of senior individuals as well as the local authority's standards committee, through the continual reviewing of ethical standards within the council.
45. Whilst political parties play a role in maintaining ethical culture, they should be seen to sit between direct advice from officers and formal processes by the council, rather than a parallel system to the local authorities' standards process. Political groups should set clear standards for the behaviour of their members and work with senior officers to resolve matters informally where appropriate. The tone of engagement should be civil and constructive.
46. Senior officers should model the expected behaviours, which installs and maintains an ethical culture through a present, visible and accessible leadership.
47. The Committee found that expected standards of behaviour should be embedded through effective induction and continued training. Political parties should require members to attend code of conduct training provided by a local authority.
48. An impartial and objective Monitoring Officer must maintain the day to day ethical standards. This role must be supported by the councillors and the Chief Executive.
49. Local authorities should welcome and foster opportunities for scrutiny and see it as a way to improve decision making. An ethical culture will be an open culture. The scrutiny function within a local authority is vital to ensure effective and ethical decision-making.

Conclusion

50. The recommendations are seen as an opportunity to reform local government standards through strengthening and providing clarity to the existing framework. Whilst some recommendations require primary legislation change, it is hoped that where secondary legislative changes are required, these can happen relatively quickly. With local authorities implementing the best practices without delay, the uptake of which will be reviewed by the Committee in 2020.

Recommendation

51. The Committee is asked to note the Committee on Standards in Public Life's report on local government ethical standards and to receive update reports on the implementation of its recommendations.

List of recommendations

Number	Recommendation	Responsible body
1	The Local Government Association should create an updated model code of conduct, in consultation with representative bodies of councillors and officers of all tiers of local government.	Local Government Association
2	The government should ensure that candidates standing for or accepting public offices are not required publicly to disclose their home address. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to clarify that a councillor does not need to register their home address on an authority's register of interests.	Government
3	Councillors should be presumed to be acting in an official capacity in their public conduct, including statements on publicly-accessible social media. Section 27(2) of the Localism Act 2011 should be amended to permit local authorities to presume so when deciding upon code of conduct breaches.	Government
4	Section 27(2) of the Localism Act 2011 should be amended to state that a local authority's code of conduct applies to a member when they claim to act, or give the impression they are acting, in their capacity as a member or as a representative of the local authority.	Government
5	The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 should be amended to include: unpaid directorships; trusteeships; management roles in a charity or a body of a public nature; and membership of any organisations that seek to influence opinion or public policy.	Government

- | | | |
|-----------|--|------------------------------------|
| 6 | Local authorities should be required to establish a register of gifts and hospitality, with councillors required to record any gifts and hospitality received over a value of £50, or totalling £100 over a year from a single source. This requirement should be included in an updated model code of conduct. | Government |
| 7 | Section 31 of the Localism Act 2011 should be repealed, and replaced with a requirement that councils include in their code of conduct that a councillor must not participate in a discussion or vote in a matter to be considered at a meeting if they have any interest, whether registered or not, “if a member of the public, with knowledge of the relevant facts, would reasonably regard the interest as so significant that it is likely to prejudice your consideration or decision-making in relation to that matter”. | Government |
| 8 | The Localism Act 2011 should be amended to require that Independent Persons are appointed for a fixed term of two years, renewable once. | Government |
| 9 | The Local Government Transparency Code should be updated to provide that the view of the Independent Person in relation to a decision on which they are consulted should be formally recorded in any decision notice or minutes. | Government |
| 10 | A local authority should only be able to suspend a councillor where the authority’s Independent Person agrees both with the finding of a breach and that suspending the councillor would be a proportionate sanction. | Government |
| 11 | Local authorities should provide legal indemnity to Independent Persons if their views or advice are disclosed. The government should require this through secondary legislation if needed. | Government / all local authorities |

12	Local authorities should be given the discretionary power to establish a decision-making standards committee with voting independent members and voting members from dependent parishes, to decide on allegations and impose sanctions.	Government
13	Councillors should be given the right to appeal to the Local Government Ombudsman if their local authority imposes a period of suspension for breaching the code of conduct.	Government
14	The Local Government Ombudsman should be given the power to investigate and decide upon an allegation of a code of conduct breach by a councillor, and the appropriate sanction, on appeal by a councillor who has had a suspension imposed. The Ombudsman's decision should be binding on the local authority.	Government
15	The Local Government Transparency Code should be updated to require councils to publish annually: the number of code of conduct complaints they receive; what the complaints broadly relate to (e.g. bullying; conflict of interest); the outcome of those complaints, including if they are rejected as trivial or vexatious; and any sanctions applied.	Government
16	Local authorities should be given the power to suspend councillors, without allowances, for up to six months.	Government
17	The government should clarify if councils may lawfully bar councillors from council premises or withdraw facilities as sanctions. These powers should be put beyond doubt in legislation if necessary.	Government
18	The criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished.	Government
19	Parish council clerks should hold an appropriate qualification, such as those	Parish councils

	provided by the Society of Local Council Clerks.	
20	Section 27(3) of the Localism Act 2011 should be amended to state that parish councils must adopt the code of conduct of their principal authority, with the necessary amendments, or the new model code.	Government
21	Section 28(11) of the Localism Act 2011 should be amended to state that any sanction imposed on a parish councillor following the finding of a breach is to be determined by the relevant principal authority.	Government
22	The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 should be amended to provide that disciplinary protections for statutory officers extend to all disciplinary action, not just dismissal.	Government
23	The Local Government Transparency Code should be updated to provide that local authorities must ensure that their whistleblowing policy specifies a named contact for the external auditor alongside their contact details, which should be available on the authority's website.	Government
24	Councillors should be listed as 'prescribed persons' for the purposes of the Public Interest Disclosure Act 1998.	Government
25	Councillors should be required to attend formal induction training by their political groups. National parties should add such a requirement to their model group rules.	Political groups National political parties
26	Local Government Association corporate peer reviews should also include consideration of a local authority's processes for maintaining ethical standards.	Local Government Association

List of best practice

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

Best practice 4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

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.
-

Committee on Standards in Public Life

1. Local Government Ethical Standards Report
On 30 January 2019 the Committee on Standards in Public Life published its long awaited report "Local Government Ethical Standards".
2. See separate report (item no 6 on the agenda).
3. Intimidation in Public
On 22 March 2019 the Committee published correspondence from the Government in relation to the Committee's 2017 report on Intimidation in Public Life. The Government set out the actions it has taken since that time to implement, or go beyond, the Committee's recommendations, for example having undertaken a public consultation entitled "Protecting the Debate: Intimidation, Influence and Information"; the Government's response to which will be published "soon".
4. The letter can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788523/MFC2011.pdf
5. On the same day Lord Evans, Chair of the Committee, published a blog on the Committee on Standards in Public Life government website reaffirming the well established view that intimidation in public life undermines our democracy. He stated:
"If the decisions MPs make start to be altered as a result of threats and intimidation, that amounts to subversion of the democratic system and would be a dark day for our country."

If the actions of trolls and abusers deter good, decent people from standing for election, or puts off talented people from a range of backgrounds from coming forward to serve the public, we have all lost.”

6. Lord Evans followed the blog with an appearance on the World at One programme on Radio Four when he reiterated the Committee’s concerns that the increasing levels of abuse and intimidation of MPs and others in public life risks damaging the UK’s representative democracy.
7. The blog can be found at:
<https://cspl.blog.gov.uk/2019/03/08/intimidation-in-public-life-undermines-our-democracy/>
8. The podcast can be found at (scroll through to 22 March 2019):
<https://www.bbc.co.uk/programmes/b006qptc/episodes/player>
9. On 27 March 2019 members of the Committee held a joint meeting of the political parties to discuss the recommendations made in the 2017 report on intimidation in public life. The Committee will endeavour to make further progress to take the next step towards committing to a common approach.
10. The transcript of the meeting can be found at:
<https://www.gov.uk/government/publications/intimidation-in-public-life-political-parties-meeting-update>
11. Artificial Intelligence and Public Standards – Review
On 25 March 2019 the Committee announced the launch of its new review into artificial intelligence and its impact on standards across the public sector. The Committee will consider whether existing frameworks and regulations are sufficient to ensure that high standards of conduct are upheld as technologically assisted decision-making is adopted more widely across the public sector. The Committee wants to understand the implications of artificial intelligence for the Nolan principles and examine if government policy is up to the task of upholding standards as artificial intelligence is rolled out across our public services.
12. The deadline for written submissions is Friday, 17 May 2019 and the Committee expects to publish it’s report in the New Year.
13. The background to the review can be found of the Committee blog:
<https://cspl.blog.gov.uk/2019/03/28/why-cspl-are-reviewing-artificial-intelligence-in-the-public-sector/>
14. The terms of reference can be found at:
<https://www.gov.uk/government/publications/ai-and-public-standards-terms-of-reference>
15. Minutes of Committee meetings:
Committee on Standards in Public Life_meeting Thursday 10 January 2019: agenda and minutes:
<https://www.gov.uk/government/publications/committee-on-standards-in-public-life-263rd-meeting-thursday-10-january-2019-agenda-and-minutes>

16. Committee on Standards in Public Life meeting Thursday 28 February 2019: agenda and minutes:
<https://www.gov.uk/government/publications/committee-on-standards-in-public-life-264th-meeting-thursday-28-february-2019-agenda-and-minutes>

Electoral Reform

17. On 8 March 2019 the Public Administration and Constitutional Affairs Committee launched a new inquiry examining the case for comprehensive reform of electoral law.
18. The PACAC's enquiry will cover three issues:
- a. How urgently comprehensive electoral reform is required
 - b. What should be prioritised
 - c. Whether it needs to go beyond the Law Commission's (LC) proposals outlined in their 2016 interim report.
 - i. The LC report found the existing legal framework to be "complex, voluminous and fragmented"
 - ii. The LC report set out a comprehensive range of recommendations for simplifying and updating electoral law
19. Written submissions can be submitted by 20 May 2019.
20. A summary of the inquiry can be found at:
<https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-and-constitutional-affairs-committee/news-parliament-2017/electoral-law-inquiry-launch-17-19/>

Electoral integrity pilots May 2019

21. Ten local authorities across England will be taking part in Voter ID pilots for the 2019 local elections which is an integral part of the wider government agenda to deliver a clear and secure democracy:
- a. Baintree District Council
 - b. Broxtowe Borough Council
 - c. Craven District Council
 - d. Derby City Council
 - e. Mid-Sussex District Council
 - f. North Kesteven District Council
 - g. North-West Leicestershire District Council
 - h. Pendle Borough Council
 - i. Watford Borough Council
 - j. Woking Borough Council
22. Voters will be required to present personal identification before casting their ballot – either one form of photo ID or up to two forms of non-photo ID.
23. The pre-pilot equality considerations have been published by the Cabinet Office and can be found at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/783662/Voter_ID_Pilots_2019_Pre_Pilot_Equality_Considerations.pdf

Voter ID legal challenge:

23. **Coughlan, R (On the Application Of) v The Minister for the Cabinet Office [2019] EWHC 641 (Admin) (20 March 2019)**
24. A High Court judge dismissed a legal challenge brought by a former councillor over plans to hold Voter ID pilots for the 2019 local elections.
25. The former Baintree councillor Neil Coughlan argued that the requirements would “*serve to further disenfranchise the poor and vulnerable who already struggle to have their voices heard*”.
26. The Judge noted that whilst the scheme was controversial, it was not the role of the court to determine the merits of the scheme. The court was only concerned with whether the scheme was legal. The Judge found that Mr Coughlan’s grounds to challenge the lawfulness of the scheme pursuant to s.10(2)(a) Representation of the People Act 2000 (which empowers orders in respect of approved pilot schemes for voting in local government elections) were not made out.
27. The case report can be found at:
<http://www.bailii.org/ew/cases/EWHC/Admin/2019/641.html>

Electoral Commission

28. In February 2019 the Electoral Commission published the report ‘Reining in the Political Wild West: Campaign Rules for the 21 Century’.
29. The report notes that despite recent scandals, online political campaigning remains an “almost entirely unregulated Wild West”, with implications for the principles of transparency, fairness and the notion of a level playing field that are supposed to govern elections.
30. Proposals made in the report include:
 - a. In the short term, extending the imprint requirement to online campaign materials and improving how campaigners report funding and spending are two of the most readily achievable solutions. The government seems to recognise this and its consultation on imprints was a welcome and important first step in this regard.
 - b. The creation of a single online database of political adverts, which would be publicly available and easily searchable, would similarly increase transparency and allow voters to identify who has produced a piece of content.
 - c. Those charged with enforcing the rules should have sufficient enforcement powers and resources. That must involve strengthening the fines or sanctions so they can act as a meaningful deterrent against wrongdoing. The ICO’s powers were increased considerably in the past year, showing what can be achieved if there is political will.

- d. Parties and the government must properly engage in efforts to establish a statutory code of practice for political parties and campaigners without delay.
- e. More broadly, there is a call for a comprehensive review and overhaul of our electoral law, which needs to be updated and future-proofed for the digital age. The fundamental principle must be to ensure that the public have faith in the democratic process. Alongside efforts to improve the quality of public debate itself, this could transform the murky world of online campaigning into a force for good.

31. The full 60 page report can be found at:
<https://www.electoral-reform.org.uk/wp-content/uploads/2019/02/Reining-in-the-Political-Wild-West-Campaign-Rules-for-the-21st-Century.pdf>

Association for Public Service Excellence (APSE)

32. In January 2019 APSE published their Risk & Commercialisation Report: A Guide for Scrutiny Councillors.

33. The document looks at some of the more common approaches towards commercialisation and it discusses ways in which scrutiny can engage with issues arising from those activities.

34. The report identifies:

- a. 5 key areas in which scrutiny can make a difference:
 - i. Helping drive forward cultural transformation
 - ii. Helping make judgements about the rationale underpinning commercial activity
 - iii. A focus on risk
 - iv. Oversight of governance itself
 - v. Oversight of performance monitoring
- b. 7 scrutiny questions to assist with the scrutiny process
- c. 3 main principles of involving scrutiny
 - i. Early engagement
 - ii. Streamlining scrutiny
 - iii. Having a strategic approach

35. The report can be found at:
<http://www.apse.org.uk/apse/assets/File/Risk%20and%20Commercialisation.pdf>

Ministry of Housing, Communities and Local Government

36. On 7 March 2019 the Government published a letter from Local Government Minister Rishi Sunak to leaders of local authorities highlighting the changes the government has introduced to the rules applying to local government elections in terms of the requirement to publish councillors' and candidates' home addresses. This change came about following a recommendation of the Committee on Standards in Public Life in the "Review of Intimidation in Public Life", which found that candidates may be deterred from standing for office because they believe the process risks their safety or makes them vulnerable to abusive activity.

37. The change to secondary legislation removes the requirement that each candidates' home address must be published during the election process and be included on the ballot paper. The new rules allow all candidates in local government elections in England to request that their home address is not made public.
38. The letter, which includes links to the statutory instruments which made the necessary amendments to the legislation, can be found at:
<https://www.gov.uk/government/publications/publication-of-councillors-and-candidates-home-addresses-letter-to-local-authorities>

Centre for Public Scrutiny (CfPS)

Scrutiny Frontiers 2019 Report

39. The CFPS has published the second edition of Scrutiny Frontiers, with the first published in 2007. The report looks at experiences from the “scrutiny frontline”.
40. The findings suggest what makes good scrutiny has not actually changed over the last 12 years. The key components of good communication, strong relationships and open dialogue remain as important as ever, alongside a mindset of constructive challenge supported by shared values of openness, transparency and a guiding aim to improve the lives of citizens and the local area.
41. In the forward to the report it is noted *“It is clear that public engagement, access to information, strong cross party working, and essentially, an organisational culture that is supportive of and open to scrutiny are key elements that contribute to the scrutiny work shared in this publication. Effective scrutiny may look different in each individual authority but the key is that each authority is clear on the purpose of scrutiny, the methods they can use to carry out scrutiny and the positive impact it can have on the lives of citizens and their locality.”*
42. The 20 page report can be found at:
<https://www.cfps.org.uk/wp-content/uploads/CfPS-Scrutiny-Frontiers-2019-v3-WEB-SINGLE-PAGES.pdf>

Future Updates

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

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

Contact: Angela Simmons-Mather Ext: 2662

Title of Report: External Auditor: Audit Progress Report

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's progress against planned work.

Background

- 2 The report summarises the following:
 - 2018/19 audit progress.
 - National publications and technical updates.
- 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 report.

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Audit Progress Report

Gateshead Council

April 2019





CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to Gateshead Council. It has been prepared for the sole use of the Audit and Standards Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Standards Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Our 2018/19 audit work is continuing however overall we are on track.

Details of work completed and on-going are shown below.

- held internal planning meetings as part of our planning process for the 2018/19 audit;
- held update meetings with finance officers in respect of planning for the 2018/19 interim and final audit visits;
- completion of walkthroughs of key information systems: there are no significant issues arising to bring to the attention of Members however some internal control recommendations have been identified and will be reported to management.
- completion of auditor's IT risk assessment: including testing of IT general controls (e.g. logical access and change management); Work is ongoing in this area. If appropriate, we will report any significant issues identified to Members.
- early testing: we have carried out early testing of income and expenditure transactions, with no significant issues arising. We have also carried out other early testing where possible e.g. testing of journals and opening balances.
- early testing: Property, Plant and Equipment. Work is on-going in this area; this is a risk area where successful early work is key to achieving the accounts deadline.
- value for money (VfM) significant risk testing – level of savings required over the period of the Medium-Term Financial Strategy; this work is on-going.
- On-going review of agendas and minutes.

Our work is on track, and there are no significant matters arising from our work to report to you at this stage.

Final accounts workshop

As in previous years, we held a final accounts workshop for local government bodies, designed to help ensure the final accounts process goes as smoothly as possible. The local workshop was held in January 2019 and finance officers from the Council attended the event, which was free of charge.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
National Audit Office (NAO)		
1.	Local auditor reporting in England 2018	Main findings reported by auditors in 2017/18.
2.	Local authorities - governance	Consideration of VfM and financial sustainability in local authorities.
Public Sector Audit Appointments Ltd (PSAA)		
3.	Local quality audit forum	December 2018 forum slides available online.
4.	Oversight of audit quality, quarterly compliance reports	No significant issues.
Chartered Institute of Public Finance & Accountancy (CIPFA)		
5	Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018	An overview of the different processes for budgeting and performance reporting.
6	Streamlining the Accounts: Guidance for Local Authorities, CIPFA, January 2019	The publication covers a range of issues relating to streamlining both the financial statements and the accounts closure processes.

2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.
- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.
- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.
- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.
- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.
- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:
 - half of the bodies (51) said that the auditor's report identified issues that they already knew about;
 - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
 - twenty-six (25%) did not respond at all to the NAO's request.
- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.

2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019 (continued)

Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

2. Local authorities - governance, NAO, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues.

Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's Audit Committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

<https://www.nao.org.uk/report/local-authority-governance-2/>

2. NATIONAL PUBLICATIONS

3. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all local authorities and police bodies in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and Auditors in helping to maintain resilience and sustainability.

<https://www.psa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/>

4. Oversight of audit quality, quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

5. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government and health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication, which is only available online, should assist members fulfil their role scrutinising the financial statements effectively.

<https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances>

2. NATIONAL PUBLICATIONS

6. Streamlining the Accounts: Guidance for Local Authorities, CIPFA, January 2019

CIPFA has released its publication on Streamlining local authorities' accounts. The publication covers a range of issues relating to streamlining both the financial statements and the accounts closure processes and includes information provided by local authorities who are already driving change in this area. These local authorities report that clearer and shorter financial statements that are code compliant, can be prepared to a high standard, with a reduction in the time and resources required to complete them.

The publication is split into 2 parts as follows:

Streamlining financial statements

This involves streamlining the presentation of financial statements by ensuring that local authorities have identified the needs of the users of the financial statements and that financial statements convey key messages clearly, concisely and efficiently. In this part of the publication, CIPFA considers three aspects of streamlining the presentation of local authority financial statements and these include:

- *materiality* - using materiality to avoid key messages in the financial statements being obscured by excessive detail;
- *accounting policies* - reviewing accounting policies so that only relevant information is disclosed; and
- *presentation and layout* – considering the presentation of the financial statements so that the layout is such that it allows readers to navigate through the statement and focus on key messages.

Streamlining year-end closure

In the publication, CIPFA summarises the key elements to streamlining the accounts closure process as effective planning and project management – focusing on what is important and starting the process early to promote a “right first time” culture.

CIPFA has also included several examples of good practice in the publication, but also notes that these examples should be tailored to each individual authority's circumstances.

Members may wish to familiarise themselves of CIPFA's suggestions for streamlining the accounts to assist their scrutiny of the financial statements.

https://www.cipfa.org/~media/files/policy%20and%20guidance/panels/local%20authority%20accounting%20panel/streamlining_guidance_pre_publication_version.pdf?la=en

CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300

Mobile: 0781 375 2053

Email: cameron.waddell@mazars.co.uk

Manager: Jim Dafter

Phone: 0191 383 6300

Mobile: 07815 876 042

Email: jim.dafter@mazars.co.uk

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Title of Report: Internal Audit Charter, Strategy Statement and Annual Plan
2019/20

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. The report sets out the proposed Internal Audit Charter, Strategy Statement and Annual Plan of work to be undertaken by the Internal Audit & Risk Service in 2019/20.

Background

2. The terms of reference for Internal Audit are laid down in Financial Regulations, which forms part of the Council's Constitution and the Internal Audit Charter.
3. The Internal Audit & Risk 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.
4. The Strategic Director, Corporate Resources has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require Councils 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 or guidance*".
5. The Chief Internal Auditor manages the Internal Audit & Risk Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a systematic review and evaluation of all aspects of the internal control environment.
6. The principal objective of the Internal Audit & Risk Service is to assist service managers in delivering the priorities of the Council and its partners, through the assessment of exposure to risk and the continuous improvement of the control environment.

Internal Audit Charter

7. 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).

- 8 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.’
- 9 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.
- 10 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.
- 11 The Internal Audit Charter is attached at Appendix A. It was last presented to Committee in October 2018, where it was agreed that in future years the timing of the review would be revised to April, to be reported with the Internal Audit Strategy Statement and Annual Plan. The report seeks comments on and approval of the Internal Audit Charter in line with best practice.
- 12 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.

Basis for the Plan

- 13 Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). PSIAS state that the Chief Internal Auditor “*must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals*”.
- 14 In accordance with the PSIAS, the input of senior management must be considered in this process, all Service Directors were given the opportunity to contribute towards the plan.
- 15 The Chief Internal Auditor forms an annual assurance opinion based on the programme of audit work as well as assurance obtained from other means. Combined assurance aims to optimise the assurance coverage obtained from management, and both internal and external assurance providers.
- 16 In addition to audit, the Chief Internal Auditor considers any issues identified through counter fraud and irregularities or developing systems and processes

insofar as they impact of the effective operation of governance, risk management or internal controls.

- 17 The plan for 2019/20 also includes two dedicated Corporate Fraud posts. These officers will continue to develop and embed the Council's Fraud & Corruption Strategy as well as conducting any fraud and irregularity investigations. Updates in relation to Counter Fraud activity will be presented bi-annually to the Committee.
- 18 The plan includes allocation for advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and its partners. Time is allocated to support developing systems, ensuring early engagement and audit support across the Council.
- 19 Rather than a traditional cyclical-based approach, the plan focusses on the main risks to the Council. It provides a balanced approach to traditional compliance work with advisory work as a catalyst for service improvement and to sharpen focus on emerging risks. The plan is flexible and is reviewed and adjusted throughout the year as necessary in response to changes in policies, systems, processes, risks and controls across the Council.
- 20 The Audit Strategy Statement and the Annual Plan for 2019/20 are attached at Appendix B. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to the Council, retaining flexibility to reprioritise assurance activities as required.

Recommendations

- 21 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.
 - Agree the Audit Strategy Statement and the Annual Plan of work to be provided by the Internal Audit & Risk Service for 2019/20; and
 - Agree to receive quarterly monitoring reports showing progress made against the plan.

Contact name: Craig Oakes – Ext. 3711

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Internal Audit Service**Internal Audit Charter 2019/20****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 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 all Council premises and land at reasonable times;
- Access all records, documents, data and correspondence relating to all transactions of the Council, or unofficial funds operated by an employee as part of their duties;
- Receive all explanations as are necessary concerning any matter under examination
- Require any employee of the Council to produce cash, stores or any other property under their control belonging to the Council or held as part of the employee's duties.

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 and Service Directors 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 2020

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The Internal Audit Strategy Statement & Annual Plan 2019/20

Craig Oakes
Chief Internal Auditor
Internal Audit & Risk Service – Corporate Resources

Introduction

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2019/20 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the pledges within 'Making Gateshead a place where everyone thrives'.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service which is based within the Corporate Finance Service within Corporate Resources.

Purpose

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2019/20.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
 - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers;
 - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
 - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and
 - Support the Strategic Directors of Corporate Resources and Corporate Services & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.

Key Outputs Statement

5. The Internal Audit & Risk Service will deliver key responsibilities as follows:
 - To provide ongoing assurance to management on the Council's control environment comprising systems of governance, risk management and internal control;
 - To support the Council's values and expected standards of behaviour;
 - To be responsive to transformational change and service demands;

- To work together with the Council's external auditors to ensure reliance can always be placed on audit work where appropriate;
- To continue to develop joint working relationships with other related regional and national groups and bodies;
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Council;
- To ensure agreed management actions to audit recommendations made are fully implemented;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
- To continue to develop and have a lead role in the Council's corporate governance arrangements including the review and the production of the Annual Governance Statement; and
- To provide an effective corporate counter fraud and corruption service and response in accordance with the Council's Counter Fraud and Corruption Arrangements and the Local Government Fraud Strategy - "Fighting Fraud and Corruption Locally".

Key Characteristics of the Annual Plan

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2019/20:
 - The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council's structure with ongoing activity to identify and deliver savings across all areas of Council services. The implementation of changes and public service reform with a reduced workforce and reduced funding, whilst delivering business as usual and achieving priorities remains a key challenge and risk for the Council during 2019/20 and beyond.
 - Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified.
 - Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The significant reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the proposed plan includes time for advice and consultancy to support officers and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit's work will be challenging and advisory, rather than design of controls which are a management responsibility.
 - The plan includes time to reflect the work the Corporate Counter Fraud Team will be doing in relation to further developing and embedding the Council's counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.

- The plan also includes time for audits brought-forward from 2018/19 for completion in early 2019/20 to allow for the finalisation of workload that spanned year-end.
- The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
 - a. Provide assurance on the effectiveness of internal controls operating within the Council.
 - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
 - d. Investigate suspected or detected frauds or irregularities.
 - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

2019/20 Annual Planning Process

7. The approach to audit planning in the Council for 2019/20 has been based on the following:
 - The Council's priorities;
 - The risks documented in the Council's strategic and operational risk registers;
 - Consultation with Service Directors and the external auditors;
 - Changes in legislation;
 - The scope of planned external audit work;
 - The implications of external inspection reports;
 - Findings and outcomes from audit and investigation work in 2018/19 and earlier years;
 - Consultation with colleagues across the region; and
 - Time elapsed since the previous audit.
8. Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as high, medium or low priority which dictates where they will be audited within a 3-year cycle. High priority areas are audited on an annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.
9. The audit plan for 2019/20 is based on resources of 13.5 full time equivalent employees (FTE) (14.5 FTE's for 2018/19). Auditor's time has been allocated on the basis of an

estimate of 74% productive hours after allowing for non-productive time including annual leave, sickness absence and training.

10. On this basis, the plan for 2019/20 has been broken down into 19,325 productive hours (20,500 productive hours for 2018/19) as shown below in paragraph 14.

Plan Structure

11. Based on the above, the Chief Internal Auditor considers that assurance is best obtained through a combination of different “types” of audits. This is not an uncommon approach but reflects a changing emphasis for the approach to the plan tailored to the specific needs of the Council during a period of significant change.
12. There are five different types of audit activity in the plan:
 - **Assurance review** – to provide assurance that systems and controls are operating as intended and defined by risk profiles of each audit area. The risk based approach also takes into consideration the views of Strategic and Service Directors.
 - **Advice and Consultancy** – early involvement of Internal Audit in new initiatives, ways of working or systems, particularly through periods of significant change, can help to maintain a robust control environment.
 - **Key systems** – assurance on core financial systems that are considered high risk requiring regular assurance. This work is important in providing annual assurance to the Council.
 - **Grant Certification** – assurance on grant returns and compliance with grant determinations.
 - **Counter Fraud**– proactive and reactive audit work on counter fraud and irregularity issues.
13. A balanced approach of using different types of audit and other work is considered the most effective way to deliver the Strategy for Internal Audit.

Plan Content

14. Following the planning process outlined above and the principles of the PSIAS, a draft plan has been developed. As outlined, the plan needs to remain flexible and will be subject to continuous review in consultation with Strategic and Service Directors and the Audit and Standards Committee. A summary of the draft plan is shown below with further detail in Appendix C.

Groups and Services	Audit Hours
Care, Wellbeing and Learning	2,151
Communities and Environment	1,096
Corporate Resources	4,326
Corporate Services and Governance	801
Office of the Chief Executive	243
Schools	1,061
Corporate	
Counter Fraud	3,125
Grant Certification	400
Audit Planning and Management	1,405
External Bodies	
Trading Companies	144
Gateshead Housing Company	1,838
Northumbria Police	2,735
Total Productive	19,325
Non-productive	6,820
Total Hours	26,145

Audit Type	Audit Hours
Advice and Consultancy	700
Assurance Review	6,835
Key Systems	2,143
Grant Certification	400
Audit Planning and Management	1,405
Counter Fraud	3,125
Non-productive	6,820
Total Council Plan	21,428
External Bodies	
Trading Companies	144
Gateshead Housing Company	1,838
Northumbria Police	2,735
Total Hours	26,145

15. Audit Planning and Management covers other audit activities including involvement in corporate initiatives, preparation of audit committee reports, audit planning, preparation of the Annual Governance Statement, liaison with the external auditors and development and support for new financial and internal audit management systems.

How the service will be provided

16. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle City Council for IT auditing. This arrangement will be kept under review on an annual basis.
17. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activity have the required mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants, qualified Association

of Accounting Technicians or equivalent, Accredited Counter Fraud Specialists or studying for professional qualifications.

18. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:

- The complexity of the areas to be reviewed;
- Factors such as number of locations, number and frequency of transactions; and
- Assurance that can be brought forward from previous audits and other internal and external reviews carried out.

19. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

Performance Management

20. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of the most recent external assessment against PSIAS was reported to the Audit and Standards Committee on 26 January 2015. A number of actions were identified and will be continuously reviewed and reported to the Audit and Standards Committee. Further examples include:

- Internal self-assessments by the Chief Internal Auditor.
- Customer satisfaction questionnaires.
- Annual CIPFA benchmarking information.
- External assessment every five years by a recognised, qualified and independent assessor.

21. To achieve the planned coverage for 2019/20, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	74%
Actual hours against planned hours achieved in year	97.25%
Number of audit recommendations implemented:	
High	100%
Medium and Best Practice	90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Average score (maximum 4)	3.4 (85%)
Average cost per chargeable day	Lower than average

Appendix C

Care, Wellbeing and Learning			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	100
	Total Advice and Consultancy		50
Assurance Review	Adoption Services	High	50
	Children with Disabilities	High	70
	Children's Care Homes	High	100
	Commissioning Adult Services	High	100
	Commissioning of Children's Services	High	100
	Learning Skills	High	100
	Primary Care	High	100
	Promoting Independence Centres	High	70
	Public Health Contract Monitoring	High	100
	Safeguarding - Adult Services	High	75
	Safeguarding Children	High	100
	Adult Care Provision	New	100
	Carers Service	New	75
	CCG Recharges	New	60
	Children's Assessments	New	75
	Children's Care Provision	New	100
	Children's Services Transitions	New	75
	Gateshead Access to Employment Service	New	80
	Shared Lives	New	75
	Independent Supported Living Schemes	Medium	70
	Specialist Support Services - Domestic Abuse	Medium	40
	Specialist Support Services - Family Support	Medium	40
	Specialist Support Services (YOT)	Low	30
	Audit Follow Up Contingency	N/A	150
	Audits brought forward from 2018/19	N/A	116
		Total Assurance Review	
Total Audit Hours			2,151

Schools			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	Advice and Consultancy	N/A	70
	Total Advice and Consultancy		70
Assurance Review	School Audits	Low	850
	Audit Follow Up and Additional Contingency	N/A	130
	Audits brought forward from 2018/19	N/A	11
	Total Assurance Review		991
Total Audit Hours			1,061

Communities and Environment			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Assurance Review	Commercial Contracts	High	80
	Housing Company Monitoring	High	90
	Waste Management Partnership	High	100
	Bus Lane Enforcement	New	50
	Technical Services	New	70
	Economic Growth	Medium	60
	Hire of Plant and Equipment	Medium	40
	Licencing	Medium	100
	Pre-Contractual Procedures	Medium	80
	Neighbourhoods and Communities	Low	60
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2018/19	N/A	286
	Total Assurance Review		1,046
Total Audit Hours			1,096

Office of the Chief Executive			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	30
			50
Key System	Partnership Arrangements	High	70
	Performance Indicators and Data Quality	High	60
	Audits brought forward from 2018/19	N/A	63
	Total Key System		190
Assurance Review	Audit Follow Up Contingency	N/A	20
	Total Assurance Review		20
Total Audit Hours			243

Corporate Resources			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	400
	Total Advice and Consultancy		400
Key System	Annual Governance Statement Assurances	High	100
	Budgetary Control	High	40
	Business Rates	High	75
	Capital Accounting System and Programme	High	80
	Corporate Creditors	High	120
	Corporate Debtors and Income	High	120
	Corporate Payroll and Human Resources System	High	120
	Council Tax	High	75
	Counter Fraud Arrangements	High	80

	Local Council Tax Support Scheme and Housing Benefits	High	120
	Main Accounting System	High	70
	Risk Management and Business Continuity	High	80
	Service Creditors	High	80
	Service Debtors	High	80
	Service Payroll and Human Resources Administration	High	100
	Treasury Management	High	80
	VAT Arrangements	High	40
	Audits brought forward from 2018/19	N/A	415
	Total Key System		1,875
Assurance Review	Housing Revenue Account (HRA)	High	80
	IT Security	High	90
	Leisure Centres	High	90
	Artwork and Sculptures	New	40
	Money Laundering	New	50
	BACS	Medium	40
	Children's Financial Assessments and Direct Payments	Medium	75
	Customer Services	Medium	70
	Exchequer Services	Medium	70
	Facilities Management	Medium	80
	IT Resilience	Medium	90
	IT Service and Support	Medium	90
	IT Systems Monitoring	Medium	90
	Leasing	Medium	60
	PCI Compliance	Medium	70
	Resident's Private Cash	Medium	40
	School Budget Support	Medium	80
	Services to Schools	Medium	60
	Events	Low	70
	Trinity Square	Low	50
	Audit Follow Up Contingency	N/A	100
Audits brought forward from 2018/19	N/A	566	
	Total Assurance Review		2,051
Total Audit Hours			4,326

Corporate Services and Governance			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Key System	Audits brought forward from 2018/19	Medium	75
	Total Key System		75
Assurance Review	Corporate Procurement	High	100
	Information Governance	High	60
	Mayor's Charity Fund	Annual	15
	Data Protection	Medium	80

	Gateshead Members Allowances	Medium	50
	Litigation	Medium	60
	Complaints	Low	60
	Transparency Agenda	Low	50
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2018/19	N/A	171
	Total Assurance Review		676
Total Audit Hours			801

Grant Certification			
Audit Type	Audit Area		Hours
Grant Certification	Grant Certification Contingency	Annual	180
	School Fund Audit Certification	Annual	200
	Certification brought forward from 2018/19		20
	Total Grant Certification		400
Total Audit Hours			400

Counter Fraud			
Counter Fraud	Counter Fraud Awareness	Annual	125
	Counter Fraud Development	Annual	200
	Fraud Investigation	Annual	1,125
	Fraud Referrals	Annual	275
	National Fraud Initiative	Annual	100
	Proactive Fraud Work	Annual	1,300
Total Hours			3,125

Non-productive			
Non-productive	Leave (annual, public holidays, sickness etc.)	N/A	4,520
	Training and Development	N/A	1,155
	Staffing and Supervision	N/A	1,145
Total Hours			6,820



**Title of Report: Corporate Risk Management 2018/19
Quarterly Report to 31 March 2019**

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report updates the Committee on developments in Corporate Risk Management during the period 1 January 2019 to 31 March 2019 in compliance with the requirements of good corporate governance.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy, last approved by Council on 21 May 2013, which is kept under review, and whilst it has been amended to reflect changes in Senior Officer titles since that time, it remains relevant and fit for purpose.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2018/19 as cited in the Corporate Risk Management Annual Report 2017/18 and any other risk management issues emerging within the quarter under consideration.

Development Objectives

4. The Action Plan for the delivery of the Developmental Objectives for 2018/19 incorporating progress to date is shown at Appendix 1, work is progressing as per the plan.

Strategic Risk Management

5. In November 2018 Cabinet and Council approved the revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018.
6. The Register has now been adopted and will be monitored and actions reported quarterly to Audit and Standards Committee with any significant amendments reported to Cabinet.
7. A new risk in relation to cyber attack has been documented which details how the Council could have its confidentiality, integrity and availability of information and systems effected by such an event. Work is ongoing to assess how cyber risks could be built into operational risk registers and on raising the awareness and general profile of the risk of a cyber security attack. Plans for maintaining service provision in the

event of such a business interruption will be considered as part of Business Continuity Planning.

8. A risk in relation to UK exit from the EU has also been documented to monitor the potential local impact of EU exit planning, considering the implications for Gateshead and assessing the Council's readiness to respond until a final agreement is known. The Council's Risk and Resilience Group has also been meeting on a more frequent basis to inform Council preparedness for EU exit.
9. The updated version of the Strategic Risk Register is attached in Appendix 2.

Operational Risk

10. To help to ensure operational risks are aligned with Service objectives and reduce the number of generic operational risks which are currently included within the Operational Risk Register, revised guidance has been circulated to Service Directors, supported where requested with Training from the Corporate Risk Management Team.
11. By aligning operational risk to Service priorities, it will help to focus risk management activity on key areas within a Service which can then be managed and used to support decision making and the achievement of key outcomes.

Business Continuity

12. The new Business Impact Assessment and Business Continuity templates have been used in the annual review of Business Continuity which commenced in February. All Services are now actively working on refreshing and updating their impact assessments and business continuity plans.
13. Once all the information has been received these plans will be collated to inform the Corporate Continuity Plan.

Critical IT systems

14. Corporate Management Team agreed to a review of all critical IT systems to enable the Council to corporately identify priority systems for recovery in the event of a system failure/disruption.
15. As part of this work, all Service Directors, in their capacity as Information Asset and Business System Owners were asked to complete a template to prioritise key systems and software applications within their Service. This included information regarding the length of time that the Service could operate without the systems being available and how frequently data would need to be backed-up.
16. Since then, colleagues within IT have worked across the Council to ensure all systems had been captured.
17. The critical systems list will be cross referenced against Business Continuity Plans to ensure consistency and to assist the prioritising of all critical systems onto a corporate priority list.

Risk and Resilience Group

18. The Risk and Resilience Group meeting in April discussed:
- the latest position in relation to UK exit from the EU
 - the issues, challenges and outcomes from the work which has taken place during the previous quarter, including the revised Risk Management and Business Continuity guidance.
 - Any lessons learned, or good practice identified from reviews of Operational Risk Registers to ensure consistent application across the Council.

Recommendation

19. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

CONTACT: Stephanie Humble extension: 3731

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Corporate Risk Management: Developmental Objectives 2018/19

Ref:	Objective	Target Implementation Date	Progress to date
1	Business Continuity Plans will be updated, enhanced and, where appropriate, formal testing against incident scenarios and best practice requirements will be carried out.	April 2019	The Business Continuity Plan template, scoring assessment and the service impact assessment have all been reviewed and updated to ensure all requirements necessary to deliver a Service in the event of an incident occurring have been considered. These returns will inform the Corporate Continuity Plan.
2	The review of the Strategic Risk Register will be completed and the revised register agreed.	Completed November 2018, however this is a continuous process and the register will continue to evolve over time.	In November 2018 Cabinet and Council approved the revised Strategic Risk Register. Quarter 4 updates have been captured and documented in the updated version attached.
3	The Operational Risk Register will be refreshed to ensure consistency with the revised Strategic Risk Register.	April 2019	The annual review of the Operational Risk Registers with refreshed guidance commenced January 2019 and is ongoing.
4	The Council's Risk Management and Business Continuity Policies will be reviewed and updated to ensure they comply with best practice and are responsive to the challenges facing the Council.	February 2019	The annual review has commenced and is ongoing.

Ref:	Objective	Target Implementation Date	Progress to date
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	March 2019	Risk management training delivered to Early Health, Public Health and Grove House and as a result new operational guidance produced. Other training on request.
6	Assess the risk management performance indicators obtained through the participation in the ALARM/CIPFA benchmarking club to identify any areas of best practice that can be incorporated into the Council's Risk Management arrangements.	February 2019	The results were summarised in the Quarter 3 report.
7	Review and update the Tackling Tax Evasion and the Money Laundering Risk Assessments for any new or emerging risks	April 2019	Ongoing with annual review due April 2019.

Strategic Risk Register as at 19 April 2019

*Ranked in order of Gross Risk

Ref	Risk	Risk owner	*Gross Risk	Current risk		
				Likelihood	Impact	Score
9 (New)	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities (Assessment attached)	CMT	16	Likely	Medium	12
10 (New)	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems. (Assessment attached)	CMT	16	Moderate	High	12
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	16	Likely	Medium	12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	16	Moderate	Medium	9
3	Failure to safeguard vulnerable children and adults	CMT	16	Unlikely	High	8
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	16	Moderate	Low	6
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	12	Moderate	Medium	9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	12	Likely	Low	8

7	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.	CMT	8	Unlikely	Medium	6
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New Assessments

Risk No	Risk Description	Risk Owner
9	The implications of UK Exit from the EU potentially affecting the availability of Council's resources to deliver services which may impact on communities	Corporate Management Team

Details of the risk	<p>On the 14th of November 2018, the UK and EU provisionally agreed the terms of the UK's withdrawal from the EU. At the time of writing (8 April 2019), it is still very unclear as to when or what the final outcome of EU Exit will be. Leaving the EU will result in several changes that will affect, for example, businesses, individual citizens, the local economy, workforce, regulatory services and communities.</p> <p>However, until the final outcome is known it is difficult to determine its exact impact. Due to the ongoing high degree of uncertainty businesses, organisations and citizens will need to be prepared for all eventualities (including a no deal exit) at national, regional and local levels</p>
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Likelihood	Impact	Gross risk without controls
4	4	16

Existing Controls		Responsibility for existing controls
1	The Council's Corporate Risk and Resilience Group is monitoring the potential local impact of EU Exit planning, analysing risk and considering the implications for Gateshead whilst assessing the Council's readiness to respond until a final agreement is known.	Corporate Risk and Resilience Group and all groups and services within the council
2	The Council's Corporate Risk and Resilience Group is identifying any relevant mitigations and controls using existing Business Continuity; Resilience and Emergency Planning; Financial Plans and processes	Corporate Risk and Resilience Group and all groups and services within the council
3	Full engagement and involvement with the Northumbria Local Resilience Forum with Category 1 and 2 multi-agency partner organisations to ensure collaboration with regular reporting by exception to MHCLG	Emergency Planning, Resilience and Response Manager to coordinate
4	A Local Authority information and reporting network has been established led by the Chief Executive from South Tyneside with links into national policy	Emergency Planning, Resilience and Response Manager to coordinate

5	Regular monitoring and reporting by exception on key issues for example, a Cabinet Report was presented on 19 March 2019 of the current position statement	Emergency Planning, Resilience and Response Manager to coordinate

Likelihood	Impact	Net risk after controls
4	3	12

Planned Controls		Responsibility for proposed controls	Target date	Progress
1	Review of the Corporate Continuity Plan and individual service Business Continuity plans to improve response and mitigate the impact of any potential service disruption.	Deputy Strategic Director, Corporate Resources and all Service Directors	April 2019	In progress
2	Future Corporate Resources Overview and Scrutiny Committee review of plans and preparations	Emergency Planning, Resilience and Response Manager	June 2019 onwards	Included on OSC work programme for 2019/2020
3	Identify any lessons learnt following the de-brief process of the approach to planning and preparation	Emergency Planning, Resilience and Response Manager and relevant Service Directors	TBC	TBC

Risk No	Risk Description	Risk Owner
10	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	Corporate Management Team

Details of the risk	A successful cyber-attack run against the Council could affect the confidentiality, integrity and availability of all information and systems potentially leading to significant fines and the inability to provide a suitable service to stakeholders.
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Likelihood	Impact	Gross risk without controls
4	4	16

Existing Controls		Responsibility for existing controls
1	An approach has been taken to identify baseline technology builds and processes for ensuring the correct configuration management has been implemented. Where possible, unnecessary system functionality is removed or disabled, and known vulnerabilities are mitigated, generally via patching.	Service Directors
2	Appropriate architectural and technical controls have been implemented at all critical access points into the Council's network i.e. to and from the Internet and partner networks. Best practises are followed for all network design and policy implementation.	Service Director – IT Services
3	Users are provided with only the necessary system privileges or data access rights to perform their roles. All elevated permission sets above the norm must be appropriately authorised.	Service Directors
4	Effective policies relating to the appropriate use of IT systems are reviewed annually and issued to all users. All users must confirm that they have read and understood the IT Security Policy before they can log in to the network (A 2-week grace period is generally granted).	Service Directors
5	Best of breed anti-malware technologies are implemented	Service Director – IT Services

	on all endpoints and at relevant gateways as a 'defence in depth' approach.	
6	A protective monitoring solution is in place which aims to help detect actual or attempted attacks on systems and Council Services.	Service Director – IT Services
7	Mobile working and Agile device policies are available for all relevant users. Technical controls are in place using Citrix and Microsoft Intune to reduce the risk of compromise or loss of data.	Service Directors
8	All critical services are appropriately backed up to avoid a significant loss of data.	Service Directors

Likelihood	Impact	Net risk after controls
3	4	12

Planned Controls		Responsibility for proposed controls
1	New User IT Induction to be centred around the Council's IT Security Policy.	Service Directors – IT. Legal and HR
2	Cyber Risks to be built into Operational Risk register	Service Directors
3	Update the existing protective monitoring solution to give greater visibility.	Service Director – IT Services
4	Implement a council wide programme of Cyber Security awareness best practice process, procedures and ways of working including advice on information classification and control.	Service Directors IT Services and Legal

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

Document is Restricted

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