

# AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 24 June 2019 at 10.00 am in the Blaydon Room - Civic Centre

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From the Chief Executive, Sheena Ramsey

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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

**3 Declarations of Interest**

Members of the Committee are invited to declare interests in any agenda items.

**4 Constitution**

The constitution of the Committee, including the appointment of the Chair and Vice Chair, was approved by the Council at its meeting on Friday 17 May 2019 as follows:

**Chair**

Councillor Marilyn Charlton

**Vice Chair**

Councillor Dot Burnett

**Councillors**

Linda Green, Stuart Green, John McClurey, John McElroy and Neil Weatherley

**Independent Members**

Mr Stuart Bell, Mr George Clark and Mr Brinley Jones

**5 Role and Remit (Pages 11 - 14)**

Report of the Strategic Director, Corporate Services and Governance

**6 Audit and Standards Committee Work Programme 2019-2020 (Pages 15 - 16)**

The Committee is invited to review and note the current work programme.

**7 Mazars Audit Progress Report - June 2019 (Pages 17 - 28)**

The Committee will be given a verbal update.

**8 Oversight of Management Processes 2018/19 (Pages 29 - 40)**

Report of the Strategic Director, Corporate Resources

- 9** **Members' Assurance Statements 2018/19** (Pages 41 - 42)  
Report of the Strategic Director, Corporate Resources
- 10** **Managers' Assurance Statements 2018/19** (Pages 43 - 48)  
Report of the Strategic Director, Corporate Resources
- 11** **Review of the Effectiveness of Internal Audit 2018/19** (Pages 49 - 60)  
Report of the Strategic Director, Corporate Resources
- 12** **Corporate Risk Management Annual Report 2018/19** (Pages 61 - 74)  
Report of the Strategic Director, Corporate Resources
- 13** **Treasury Annual Report 2018/19** (Pages 75 - 88)  
Report of the Strategic Director, Corporate Resources
- 14** **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 [insert] of Schedule 12A to the Local Government Act 1972.
- 15** **Annual Counter Fraud Update 2018/19** (Pages 89 - 96)  
Report of the Strategic Director, Corporate Resources
- 16** **Internal Audit Annual Report 2018/19** (Pages 97 - 104)  
Report of the Strategic Director, Corporate Resources
- 17** **Re-admittance of the Press and Public**  
The Committee is asked to readmit the press and public to the meeting
- 18** **Annual Governance Statement 2018/19** (Pages 105 - 120)  
Report of the Strategic Director, Corporate Resources
- 19** **Date and time of next meeting**  
The next meeting will be held on Monday 22 July 2019 at 10.00 am in the Blaydon Room

*Contact: Helen Conway, Email: [helenconway@gateshead.gov.uk](mailto:helenconway@gateshead.gov.uk),  
Tel: 0191 433 3993, Date: Friday, 14 June 2019*

## GATESHEAD METROPOLITAN BOROUGH COUNCIL AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 29 April 2019

**PRESENT:** Councillor H Haran (Chair)  
Councillor(s): J Green, J McClurey, J McElroy, Mr Stuart Bell (Independent Member), G Clark and B Jones

**IN ATTENDANCE:** Councillor(s):

**APOLOGIES:** Councillor(s): L Green, J Turnbull and N Weatherley

### **ASC193 MINUTES**

RESOLVED - That the minutes of the last meeting held on 4 March 2019 be approved as a correct record.

### **ASC194 DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **ASC195 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME**

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

### **ASC196 AUDIT AND STANDARDS COMMITTEE - INDUCTION AND TRAINING**

The Committee received a report setting out the proposals for induction and training plans for the Audit and Standards Committee.

The Committee, at its last meeting on 4 March 2019 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. A copy of the form (Appendix 1) was appended to the main report for information. It was also agreed that an outline development plan (Appendix 2) was also appended to the main report and should be circulated with this form.

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.

No comments were received on the outline development plan.

The proposals were outlined to the Committee as follows:-

### **Induction**

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.

In addition, all newly appointed members of the Committee (including councillors and independent members) 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 covers 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**

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.

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.

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. 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.

- RESOLVED -
- i) That the information be noted.
  - ii) The Committee endorsed the approach to induction and training and agreed to receive a detailed training programme at the next

- meeting.
- iii) The Committee were also reminded to return the needs assessment forms as soon as possible.

## **ASC197 LOCAL GOVERNMENT ETHICAL STANDARDS REPORT**

The Committee were advised 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.

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

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.

The Committee proposed that 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

The full 110 page report can be viewed at:

<https://www.gov.uk/government/publications/local-government-ethical-standards-report>

The Committee makes 26 recommendations (Appendix 1 – attached to main report). 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.

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

The Audit and Standards Committee were advised that 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.

- RESOLVED -
- i) That the information be noted
  - ii) The Committee agreed to receive regular update reports on the implementation of the recommendations

### **ASC198 QUARTERLEY STANDARDS UPDATE**

The Committee received a report which provided the quarterly update highlighting national and local standards issues.

Headline issues with links to further reading was presented to the Committee, and were summarised as follows:-

- Intimidation in Public
- Artificial Intelligence and Public Standards – Review
- Minutes of Committee Meetings
- Electoral Reform
- Electoral integrity pilots May 2019
- Electoral Commission
- Association for Public Service Excellence (APSE)
- Ministry of Housing, Communities and Local Government
- Centre for Public Scutiny (CfPS)

- RESOLVED -
- i) That the information be noted
  - ii) That further updates will be presented to the Committee on a quarterly basis
  - iii) It was noted that the content of the update will vary depending on the local and national picture at that time

### **ASC199 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT**

The Committee received a report outlining the Audit Progress Report of the External Auditor against planned work.

The report summaries the following:

- 2018/19 audit progress.
- National publications and technical updates

The external auditor's report was attached as an appendix to the main report and the

Chair requested that the “Local Auditor Reporting in England 2018, NAO, January 2019” and “Local Authorities – Governance, NAO, January 2019” publications be provided as hard copies to members of the Committee.

- RESOLVED -
- i) That the information be noted.
  - ii) That hard copies of two national publications be provided to members of the Committee, at the request of the chair.
  - iii) That relevant case studies be provided to the Committee detailing examples of audit findings from other local authorities.

## **ASC200 INTERNAL AUDIT CHARTER, STRATEGY STATEMENT AND ANNUAL PLAN 2019/20**

The Committee received a report which set out the proposed Internal Audit Charter, Strategy Statement and Annual Plan of work to be undertaken by the Internal Audit & Risk Services in 2019/20.

The Committee were advised that 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).

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.

The Internal Audit Charter was attached to the main report as an appendix. 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 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.

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS).

In accordance with the PSIAS, the input of senior management must be considered in this process and all Service Directors were given the opportunity to contribute towards the plan.

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.

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.

The plan for 2019/20 also includes two dedicated Corporate Fraud posts. These officers will continue to develop and embed the Council's Fraud and 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.

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 engagement and audit support across the Council.

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.

The Audit Strategy Statement and the Annual Plan for 2019/20 are attached were appended to the main report as 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.

- RESOLVED -
- i) That the information be noted
  - ii) That the report be noted and the opinion that the Internal Audit Charter continues to comply with Public Sector Internal Audit Standards.
  - iii) That the Audit Strategy Statement and the Annual Plan of work to be provided by the Internal Audit & Risk Service for 2019/20 be agreed.
  - iv) That the Committee agreed to receive quarterly monitoring reports showing progress made against the plan.

**ASC201 CORPORATE RISK MANAGEMENT 2018/19 QUARTERLY REPORT TO 31 MARCH 2019**

The Committee received a report providing an update 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.

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.

The Committee were advised that 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.

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.

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.

The Committee were advised that an updated version of the Strategic Risk Register was appended to the main report for information.

The Committee were updated that ongoing work was underway with regards to Operational Risk, Business Continuity and Critical IT systems.

The Committee were also advised that at its meeting in April the Risk and Resilience Group discussed the following:

- 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.

RESOLVED -     i)    That the information be noted  
                  ii)    That further updates be provided to future meetings where appropriate.

## **ASC202    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.

**ASC203 INTERNAL AUDIT PLAN 2018/19 QUARTERLY MONITORING REPORT TO 31 MARCH 2019**

A report was presented outlining the progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2018/19 and summaries the main findings arising from audit activity throughout the period 1 January 2019 to 31 March 2019.

From the reviews carried out to 31 March 2019 audit work was found to be complying with PSIAS and the Audit Manual.

The year to date performance information is as follows:

- 100% of audits were completed within budgeted time against a target of 90%.
- Productive or chargeable time was recorded at 76% of overall time was recorded at 76% of overall time.
- The average score of the customer satisfaction questionnaires returned is 3.59 against a target of 3.4 (85%)
- The target for implementation of audit recommendations due is 100% for high priority recommendations and 90% for medium priority and best practice recommendations. The current rate of implementation of all recommendations due is 100%, with 100% of all high priority and 100% of all medium priority and best practice recommendations having been implemented. Further information was appended to the main report at Appendix B and the implementation of best practice recommendations is being monitored with effect from 1 November 2018.

RESOLVED - That the information be noted.

**ASC204 DATE AND TIME OF NEXT MEETING**

Monday 24 June 2019 at 10.00 am in the Blaydon Room, Civic Centre

**Chair.....**



**AUDIT AND STANDARDS  
COMMITTEE**

24 June 2019

**TITLE OF REPORT: Remit of the Audit and Standards Committee**

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

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**1. Purpose of the Report**

To advise the Audit and Standards Committee that it has delegated power to:

- (i) consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements;
- (ii) seek assurances, and satisfy itself, that action is being taken on risk-related issues identified by auditors and inspectors;
- (iii) satisfy itself that the Council's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- (ii) approve the Council's Statement on Internal Control and Annual Governance Statement;
- (iii) approve, but not direct, the Council's internal audit strategy and audit plan, and monitor its performance;
- (iv) review reports on internal audit activity and the main issues arising, and seek assurances that action has been taken where necessary;
- (v) consider the annual audit report on internal audit activity;
- (vi) consider the reports of external audit and inspection agencies;
- (vii) review the scope and depth of external audit work, inspection agencies and other relevant bodies, and ensure that they provide value for money;
- (viii) raise the profile of audit, risk management and the internal control environment;

- (ix) review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;
- (x) consider the Council's arrangements for Corporate Governance and agreeing necessary actions to ensure compliance with best practice;
- (xi) consider treasury management performance reports;
- (xii) promote and maintain high standards of conduct by councillors and co-opted members;
- (xiii) assist the councillors and co-opted members to observe the Members' Code of Conduct;
- (xiv) advise the Council on the adoption or revision of the Members' Code of Conduct;
- (xv) monitor the operation of the Members' Code of Conduct;
- (xvi) advise, train or arrange to train councillors and co-opted members on matters relating to the Members' Code of Conduct;
- (xvii) grant dispensations to councillors and co-opted members from requirements relating to interests set out in the Members' Code of Conduct so far as not delegated to the Monitoring Officer including holding hearings as appropriate undertaken by a standards sub-committee set up for the purpose;
- (xviii) assist and advise parish councils in the Borough, if requested and as appropriate, in relation to their discharge of functions (xiv)-(xix) above on request of their parish councillors;
- (xix) in accordance with the approved delegations, deal with written allegations that a councillor or co-opted member (or former councillor or co-opted member) of the Council or a parish councillor or former parish councillor in the Borough has failed, or may have failed, to comply with the Members' Code of Conduct;
- (xx) set from time to time appropriate allowances and expenses payable to the statutory Independent Persons;
- (xxi) amend from time to time as it considers appropriate the arrangements to be followed in the initial consideration, investigation or hearing of any complaint of a breach of the Code of Conduct;
- (xxii) take any of the actions in respect of any member who after investigation the Committee decides, following a recommendation from a standards sub-committee, has failed to comply with the Code of Conduct;

- (xxiii) promote and maintain high standards of conduct by officers;
- (xxiv) assist officers to observe the Code of Conduct for Employees;
- (xxv) monitor the operation of the Code of Conduct for Employees.

### **Standards Sanctions**

On a finding that a member has failed to comply with the Code of Conduct, the following actions have been delegated to the Committee:

- Issue a formal censure.
- Recommend to full Council (or to the Parish Council) the issue of a formal censure by the Council (or by the Parish Council).
- Refer its findings to full Council (or the Parish Council) for information.
- Publish its findings by such means as the Committee thinks fit.
- Recommend to the Council (or the Parish Council) that the member be removed from any or all Committees or Sub-Committees (subject to the approval of the member's Group if applicable).
- Recommend to the Council (or the Parish Council) that the member be removed from being the chair or vice –chair of any Committees or Sub-Committee.
- Recommend to the Leader of the Council that the member be removed from the Cabinet, or from particular portfolio responsibilities.
- Recommend to the Council (or the Parish Council) that the member be removed from one or more outside appointments to which s/he has been appointed or nominated by the Council (or the Parish Council).
- Instruct the Monitoring Officer to offer training to the member or recommend that the Parish Council should do so.

## **2. Recommendation**

The Committee is asked to note this information.

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## AUDIT AND STANDARDS COMMITTEE

### WORK PROGRAMME

Committee Meeting Date and Time	Items to be considered
24 June 2019 10.00am	<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Role and Remit</li> <li>• Work Programme</li> <li>• Treasury Annual Report 2018/19</li> <li>• Mazars Audit Progress Report</li> <li>• Oversight of Management Processes</li> <li>• Members' Assurance Statements 2018/19</li> <li>• Managers' Assurance Statements 2018/19</li> <li>• Review of the Effectiveness of Internal Audit 2018/19</li> <li>• Corporate Risk Management – Annual Report 2018/19</li> <li>• Internal Audit Annual Report 2018/19 (exempt item)</li> <li>• Annual Governance Statement 2018/19</li> </ul>
22 July 2019 10.00am	<ul style="list-style-type: none"> <li>• Work Programme</li> <li>• Standards Update</li> <li>• Audit Completion Report Year Ended 31 March 2019 and Gateshead Council Statement of Accounts 2018/19</li> <li>• Annual Report to Cabinet and Council 2018/19</li> <li>• Corporate Risk Management 2018/19 – Quarterly Report to 30 June 2019</li> <li>• Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 June 2019 (Exempt Item)</li> </ul>
28 October 2019 10.00am	<ul style="list-style-type: none"> <li>• Work Programme</li> <li>• Standards Update</li> <li>• Results of the 2018/19 CIPFA Audit Benchmarking</li> <li>• Corporate Risk Management 2019/20 - Quarterly Report to 30 September 2019</li> <li>• Treasury Management – Performance to 30 September 2019</li> <li>• Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 September 2019 (Exempt Item)</li> <li>• Counter Fraud and Corruption Arrangements Update Report (Exempt Item)</li> </ul>
27 January 2020 10.00am	<ul style="list-style-type: none"> <li>• Work Programme</li> <li>• Standards Update</li> <li>• Local Code of Governance</li> <li>• Mazars Audit Progress Report</li> <li>• Mazars – Results of Certification Work 2018/19</li> <li>• Corporate Risk Management 2019/20 – Quarterly Report to 31 December 2019</li> </ul>

	<ul style="list-style-type: none"> <li>• Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2019 (Exempt Item)</li> </ul>
<p>9 March 2020 10.00am</p>	<ul style="list-style-type: none"> <li>• Work Programme</li> <li>• Training and Induction</li> <li>• Treasury Policy Statement and Treasury Strategy</li> <li>• Annual Governance Statement (Assurance Framework)</li> <li>• External Quality Assessment of Internal Audit (Exempt Item)</li> </ul>
<p>27 April 2020 10.00am</p>	<ul style="list-style-type: none"> <li>• Work Programme</li> <li>• Standards Update</li> <li>• Mazars Audit Progress Report</li> <li>• Internal Audit Charter, Strategy Statement and Annual Plan 2020/21</li> <li>• Corporate Risk Management 2019/20 Quarterly Report to 31 March 2020</li> <li>• Internal Audit Plan 2019/20 Quarterly Monitoring Report to 31 March 2020 (exempt item)</li> </ul>

**Title of Report: Oversight of Management Processes 2018/19**

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

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### **Purpose of the Report**

- 1 This report details how the Audit and Standards Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

### **Background**

- 2 The external auditor is required by auditing standards to develop a good understanding of the Council's management processes. This is a requirement as part of their work in respect of auditing the Council's financial statements and value for money conclusion.

### **Oversight of Management Processes**

- 3 The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee is detailed in Appendix A.

### **Recommendation**

- 4 The Committee is asked to consider the evidence in Appendix A and any other areas that members have knowledge of arising from their Council duties and agree that on this basis an effective level of oversight is in place.

<b>Contact name: Craig Oakes Ext 3711</b>
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Oversight of Management Processes 2018/19 – Response to External Auditor

Question	Response
<p><b>What processes are in place to:</b></p> <p>1. Undertake an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</p>	<ul style="list-style-type: none"> <li>• The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Based on the 2018/19 plan, key systems were allocated 2,250 productive hours which represents 14% of the planned hours for Gateshead’s Groups and Services. Audits completed in 2018/19: <ul style="list-style-type: none"> <li>○ AGS Assurances 2017/18 – Operating Well</li> <li>○ Budgetary Control – Operating Well</li> <li>○ Business Rates – Operating Well</li> <li>○ Council Tax – Operating Well</li> <li>○ Capital Accounting System and Programme – Operating Well</li> <li>○ Corporate Creditors – Satisfactory</li> <li>○ Corporate Debtors – Operating Well</li> <li>○ Corporate Asset Management – Operating Well</li> <li>○ Main Accounting System – Operating Well</li> <li>○ Housing Revenue Account (HRA) – Operating Well</li> <li>○ Local Council Tax Support Scheme and Housing Benefits – Operating Well</li> <li>○ Treasury Management – Operating Well</li> <li>○ VAT Arrangements – Operating Well</li> </ul> </li> <li>• Managers Assurance Statements first line of defense</li> <li>• Revenue and Capital budget monitoring</li> </ul>

	<ul style="list-style-type: none"> <li>• Multiple review process within closedown timetable and year-end working papers</li> <li>• Analytical review process</li> </ul>
<p>2. Identify and respond to risks of fraud?</p>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Biannual update to Audit and Standards Committee on fraud and irregularity investigations</li> <li>• Internal audit of key financial systems</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Council Counter Fraud and Corruption Arrangements</li> <li>• Proactive approach e.g. Single Person Discount use of Datatank</li> <li>• Whistleblowing Policy</li> <li>• Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group</li> </ul>
<p>3. Communicate to employees the Council's views on business practice and ethical behavior (for example by updating, communicating and monitoring against relevant codes of conduct)?</p>	<ul style="list-style-type: none"> <li>• Employee induction</li> <li>• Regular employee and team briefings</li> <li>• Regular Management and Supervision meetings</li> <li>• Employee Appraisal and Development including corporate values.</li> <li>• Employees' Code of Conduct (incorporated into employees' contracts of employment)</li> <li>• Protocol on Councillor / Officer Relations</li> <li>• Employee handbook</li> <li>• KnowledgeNet (source of training and development materials)</li> <li>• Corporate bulletins to raise awareness</li> </ul>

	<ul style="list-style-type: none"> <li>• Intranet content</li> </ul>
<p>4. Communicate to the Audit and Standards Committee the processes for identifying and responding to fraud or error?</p>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Biannual Counter Fraud Update reported to Audit and Standards Committee, October and April, including National Fraud Initiative and fraud and irregularity investigations</li> <li>• Internal audit of key financial systems</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Attendance at North East Fraud Forum</li> </ul>
<p>5. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2018/19?</p>	<ul style="list-style-type: none"> <li>• Contribution to and compliance with internal assurance processes ie <ul style="list-style-type: none"> <li>○ Service assurance assessment</li> <li>○ Local Code of Governance</li> <li>○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2018/19. No significant internal control issues during the financial year 2018/19 that have resulted in: <ul style="list-style-type: none"> <li>▪ A need to take formal reporting action;</li> <li>▪ A need for a full investigation relating to a member's conduct;</li> <li>▪ Significant damage to the reputation of the Council; or</li> <li>▪ An inability by the Council to meet its lawful objectives.</li> </ul> </li> <li>○ Annual Governance Statement</li> </ul> </li> <li>• Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Corporate Resources on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria,</li> </ul>

rationale and considerations on which decisions are based”. - Protocol 3 – Report Formats and Preparing Reports).

- Annual (at least ) review of the Constitution which takes into account legislative changes
- The Council’s Financial Regulations, which are part of the Council’s Constitution, provide the framework for managing the Council’s financial affairs.

#### **13.04 Functions of the Chief Finance Officer**

By law, the Strategic Director, Corporate Resources as Chief Finance Officer, will have the following responsibilities:

##### **(a) Ensuring lawfulness and financial prudence of decision-making**

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function, and the Council’s external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

- Legal officers fully trained in accordance with continuing professional development principles, and able to ‘horizon scan’ through:
  - Legal section subscribe to Westlaw UK and Practical Law, an on-line legislation and research resource including updates
  - Legal section membership of Lawyers in Local Government, a national group (with links to the Law

	<p>Society) which provides training and special interest groups ( two led by Gateshead lawyers ) along with a topical discussion forum</p> <ul style="list-style-type: none"> <li>○ Regular training is provided through the North East legal services framework arrangements</li> <li>○ All solicitors receive Solicitors' Gazette weekly</li> <li>● Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory</li> <li>● Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer</li> <li>● Guidance issued to all Directors when new legislation requires changes to Council procedures</li> <li>● Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors.</li> </ul>
<p>6. Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal staff provide annual (and where required ongoing) updates on litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.</p>
<p>7. What controls are in place to: identify; authorise, approve, account for and disclose related party transactions and relationships? For any new related parties (i.e. any not already disclosed in the 217/18 audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year ended 31 March 2019?</p>	<p>Guidance issued to all Councillors and Strategic Directors and requirement for signed declarations. Evidence will be available as part of the 2018/19 working papers.</p>

Questions in relation to fraud:	Response
<p>8. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2018 – 31 March 2019 (if 'yes', please provide details)?</p>	<p>Yes, there were 145 fraud allegations reported to the Corporate Fraud Team during 2018/19, these are as follows:</p> <ul style="list-style-type: none"> <li>• Procurement Fraud: 0 allegations</li> <li>• Payroll and employee contract fraud: 0 allegations</li> <li>• Theft of equipment, cash or data: 0 allegations</li> <li>• Other: 145 allegations</li> </ul> <p>Of the 145 allegations, for the most part they were of a trivial nature or unproven. The most significant referrals related to suspected fraudulent claims for Right to Buy Discounts totaling £127,000, for which prosecutions are ongoing.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee.</p>
<p>9. Do you suspect fraud may be occurring within the organisation?</p>	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p>
<p>10. Have you identified any specific fraud risks within the Council?</p>	<p>The counter fraud and corruption strategy for local government 'Fighting Fraud and Corruption Locally' identifies nationally those areas that are at a high risk of fraud and this has formed the basis of the proactive fraud work allocated within the audit plan. These areas include council tax discounts and exemptions; council tax benefits; non-domestic rates relief; blue badge scheme misuse; procurement fraud; tenancy fraud (domestic and commercial); employee corporate fraud; direct payments and insurance fraud. At this point no specific fraud risks have been identified.</p>

11. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)?	Yes, controls in place include e.g. <ul style="list-style-type: none"> <li>• Internal Audit assurance, in particular annual key systems audits</li> <li>• Service Directors Assurance Statement</li> <li>• Functionality of systems, including Agresso and online banking</li> </ul>
12. If not where are the risk areas?	
13. How do you encourage staff to report their concerns about fraud?	Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasize both their role in preventing fraud and their responsibilities for reporting suspected fraud, along with options available to report concerns. The Council's Counter Fraud Arrangements, including Counter Fraud and Corruption Strategy and Policy and the Fraud Response Plan are available to all employees via the intranet. Link to documents referred to in these are also on the Council website and Intranet, including the Council's Whistleblowing Policy, reference to the fraud reporting email address <a href="mailto:fraudreporting@gateshead.gov.uk">fraudreporting@gateshead.gov.uk</a> , the online fraud referral form and telephone hotline.
14. What concerns about fraud are staff expected to report?	Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the relevant employee guidance regarding counter fraud and corruption. Specific policies include: <ul style="list-style-type: none"> <li>• Whistleblowing Policy</li> <li>• Code of Conduct</li> <li>• Counter Fraud and Corruption Policy</li> <li>• Statement on Prevention of Bribery</li> </ul>
15. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers
16. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	All Members and Senior Officers complete related parties disclosures annually. Register of Interests

	Internal Audit declarations of Independence
17. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.
18. Are there particular balances in the accounts where fraud is more likely to occur?	Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker
19. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	No. Items are only excluded on the grounds of materiality. Reliance on 3 <sup>rd</sup> party data e.g. Actuarial calculations for pensions
20. Could a false accounting entry escape detection? If so, how?	All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring
21. Are there any external fraud risk factors, such as collection of revenues?	Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank
22. Are you aware of any organisational or management pressure to meet financial or operating targets?	All Services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.
23. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	No

24. What arrangements has the Council put in place in response to the Bribery Act 2010?

Employee counter fraud and corruption guidance has been updated to reflect the Bribery Act 2010, this is made available to all employees via the intranet.

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**Title of Report: Oversight of Management Processes 2018/19**

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

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### **Purpose of the Report**

- 1 This report details how the Audit and Standards Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

### **Background**

- 2 The external auditor is required by auditing standards to develop a good understanding of the Council's management processes. This is a requirement as part of their work in respect of auditing the Council's financial statements and value for money conclusion.

### **Oversight of Management Processes**

- 3 The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee is detailed in Appendix A.

### **Recommendation**

- 4 The Committee is asked to consider the evidence in Appendix A and any other areas that members have knowledge of arising from their Council duties and agree that on this basis an effective level of oversight is in place.

<b>Contact name: Craig Oakes Ext 3711</b>
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Oversight of Management Processes 2018/19 – Response to External Auditor

Question	Response
<p><b>What processes are in place to:</b></p> <p>1. Undertake an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</p>	<ul style="list-style-type: none"> <li>• The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Based on the 2018/19 plan, key systems were allocated 2,250 productive hours which represents 14% of the planned hours for Gateshead’s Groups and Services. Audits completed in 2018/19: <ul style="list-style-type: none"> <li>○ AGS Assurances 2017/18 – Operating Well</li> <li>○ Budgetary Control – Operating Well</li> <li>○ Business Rates – Operating Well</li> <li>○ Council Tax – Operating Well</li> <li>○ Capital Accounting System and Programme – Operating Well</li> <li>○ Corporate Creditors – Satisfactory</li> <li>○ Corporate Debtors – Operating Well</li> <li>○ Corporate Asset Management – Operating Well</li> <li>○ Main Accounting System – Operating Well</li> <li>○ Housing Revenue Account (HRA) – Operating Well</li> <li>○ Local Council Tax Support Scheme and Housing Benefits – Operating Well</li> <li>○ Treasury Management – Operating Well</li> <li>○ VAT Arrangements – Operating Well</li> </ul> </li> <li>• Managers Assurance Statements first line of defense</li> <li>• Revenue and Capital budget monitoring</li> </ul>

	<ul style="list-style-type: none"> <li>• Multiple review process within closedown timetable and year-end working papers</li> <li>• Analytical review process</li> </ul>
<p>2. Identify and respond to risks of fraud?</p>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Biannual update to Audit and Standards Committee on fraud and irregularity investigations</li> <li>• Internal audit of key financial systems</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Council Counter Fraud and Corruption Arrangements</li> <li>• Proactive approach e.g. Single Person Discount use of Datatank</li> <li>• Whistleblowing Policy</li> <li>• Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group</li> </ul>
<p>3. Communicate to employees the Council's views on business practice and ethical behavior (for example by updating, communicating and monitoring against relevant codes of conduct)?</p>	<ul style="list-style-type: none"> <li>• Employee induction</li> <li>• Regular employee and team briefings</li> <li>• Regular Management and Supervision meetings</li> <li>• Employee Appraisal and Development including corporate values.</li> <li>• Employees' Code of Conduct (incorporated into employees' contracts of employment)</li> <li>• Protocol on Councillor / Officer Relations</li> <li>• Employee handbook</li> <li>• KnowledgeNet (source of training and development materials)</li> <li>• Corporate bulletins to raise awareness</li> </ul>

	<ul style="list-style-type: none"> <li>• Intranet content</li> </ul>
<p>4. Communicate to the Audit and Standards Committee the processes for identifying and responding to fraud or error?</p>	<ul style="list-style-type: none"> <li>• Annual Audit Plan includes allocation for proactive fraud work and reactive investigations</li> <li>• Biannual Counter Fraud Update reported to Audit and Standards Committee, October and April, including National Fraud Initiative and fraud and irregularity investigations</li> <li>• Internal audit of key financial systems</li> <li>• Service Directors Assurance Statements</li> <li>• National Fraud Initiative (NFI) data matching</li> <li>• Attendance at North East Fraud Forum</li> </ul>
<p>5. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2018/19?</p>	<ul style="list-style-type: none"> <li>• Contribution to and compliance with internal assurance processes ie <ul style="list-style-type: none"> <li>○ Service assurance assessment</li> <li>○ Local Code of Governance</li> <li>○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2018/19. No significant internal control issues during the financial year 2018/19 that have resulted in: <ul style="list-style-type: none"> <li>▪ A need to take formal reporting action;</li> <li>▪ A need for a full investigation relating to a member's conduct;</li> <li>▪ Significant damage to the reputation of the Council; or</li> <li>▪ An inability by the Council to meet its lawful objectives.</li> </ul> </li> <li>○ Annual Governance Statement</li> </ul> </li> <li>• Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Corporate Resources on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria,</li> </ul>

rationale and considerations on which decisions are based”. - Protocol 3 – Report Formats and Preparing Reports).

- Annual (at least ) review of the Constitution which takes into account legislative changes
- The Council’s Financial Regulations, which are part of the Council’s Constitution, provide the framework for managing the Council’s financial affairs.

#### **13.04 Functions of the Chief Finance Officer**

By law, the Strategic Director, Corporate Resources as Chief Finance Officer, will have the following responsibilities:

##### **(a) Ensuring lawfulness and financial prudence of decision-making**

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function, and the Council’s external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

- Legal officers fully trained in accordance with continuing professional development principles, and able to ‘horizon scan’ through:
  - Legal section subscribe to Westlaw UK and Practical Law, an on-line legislation and research resource including updates
  - Legal section membership of Lawyers in Local Government, a national group (with links to the Law

	<p>Society) which provides training and special interest groups ( two led by Gateshead lawyers ) along with a topical discussion forum</p> <ul style="list-style-type: none"> <li>○ Regular training is provided through the North East legal services framework arrangements</li> <li>○ All solicitors receive Solicitors' Gazette weekly</li> <li>● Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory</li> <li>● Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer</li> <li>● Guidance issued to all Directors when new legislation requires changes to Council procedures</li> <li>● Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors.</li> </ul>
<p>6. Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal staff provide annual (and where required ongoing) updates on litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.</p>
<p>7. What controls are in place to: identify; authorise, approve, account for and disclose related party transactions and relationships? For any new related parties (i.e. any not already disclosed in the 217/18 audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year ended 31 March 2019?</p>	<p>Guidance issued to all Councillors and Strategic Directors and requirement for signed declarations. Evidence will be available as part of the 2018/19 working papers.</p>

Questions in relation to fraud:	Response
8. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2018 – 31 March 2019 (if 'yes', please provide details)?	<p>Yes, there were 145 fraud allegations reported to the Corporate Fraud Team during 2018/19, these are as follows:</p> <ul style="list-style-type: none"> <li>• Procurement Fraud: 0 allegations</li> <li>• Payroll and employee contract fraud: 0 allegations</li> <li>• Theft of equipment, cash or data: 0 allegations</li> <li>• Other: 145 allegations</li> </ul> <p>Of the 145 allegations, for the most part they were of a trivial nature or unproven. The most significant referrals related to suspected fraudulent claims for Right to Buy Discounts totaling £127,000, for which prosecutions are ongoing.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee.</p>
9. Do you suspect fraud may be occurring within the organisation?	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p>
10. Have you identified any specific fraud risks within the Council?	<p>The counter fraud and corruption strategy for local government 'Fighting Fraud and Corruption Locally' identifies nationally those areas that are at a high risk of fraud and this has formed the basis of the proactive fraud work allocated within the audit plan. These areas include council tax discounts and exemptions; council tax benefits; non-domestic rates relief; blue badge scheme misuse; procurement fraud; tenancy fraud (domestic and commercial); employee corporate fraud; direct payments and insurance fraud. At this point no specific fraud risks have been identified.</p>

11. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)?	Yes, controls in place include e.g. <ul style="list-style-type: none"> <li>• Internal Audit assurance, in particular annual key systems audits</li> <li>• Service Directors Assurance Statement</li> <li>• Functionality of systems, including Agresso and online banking</li> </ul>
12. If not where are the risk areas?	
13. How do you encourage staff to report their concerns about fraud?	Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasize both their role in preventing fraud and their responsibilities for reporting suspected fraud, along with options available to report concerns. The Council's Counter Fraud Arrangements, including Counter Fraud and Corruption Strategy and Policy and the Fraud Response Plan are available to all employees via the intranet. Link to documents referred to in these are also on the Council website and Intranet, including the Council's Whistleblowing Policy, reference to the fraud reporting email address <a href="mailto:fraudreporting@gateshead.gov.uk">fraudreporting@gateshead.gov.uk</a> , the online fraud referral form and telephone hotline.
14. What concerns about fraud are staff expected to report?	Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the relevant employee guidance regarding counter fraud and corruption. Specific policies include: <ul style="list-style-type: none"> <li>• Whistleblowing Policy</li> <li>• Code of Conduct</li> <li>• Counter Fraud and Corruption Policy</li> <li>• Statement on Prevention of Bribery</li> </ul>
15. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers
16. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	All Members and Senior Officers complete related parties disclosures annually. Register of Interests

	Internal Audit declarations of Independence
17. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.
18. Are there particular balances in the accounts where fraud is more likely to occur?	Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker
19. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	No. Items are only excluded on the grounds of materiality. Reliance on 3 <sup>rd</sup> party data e.g. Actuarial calculations for pensions
20. Could a false accounting entry escape detection? If so, how?	All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring
21. Are there any external fraud risk factors, such as collection of revenues?	Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank
22. Are you aware of any organisational or management pressure to meet financial or operating targets?	All Services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.
23. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	No

24. What arrangements has the Council put in place in response to the Bribery Act 2010?

Employee counter fraud and corruption guidance has been updated to reflect the Bribery Act 2010, this is made available to all employees via the intranet.

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**Title of Report**    **Members' Assurance Statements 2018/19**

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

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**Purpose of the Report**

1. To inform the Committee of the opinion of Members of the Cabinet on the effectiveness of the Council's governance arrangements to feed into the Annual Governance Statement.

**Background**

- 2 The Audit and Standards Committee agreed on 4 March 2019 an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from Members of the Cabinet on the effectiveness of the Council's governance arrangements are fundamental within the framework.

**Governance Framework**

- 3 The Council adopted a Local Code of Governance in 2007, which set out how it complies with best practice in relation to its governance arrangements. This Code was fully redrafted and agreed by the Audit and Standards Committee on 29 January 2018 to ensure compliance with and to get best value from the revised approach to local governance issued by CIPFA/SOLACE, Delivering Good Governance in Local Government: Framework. An updated version of the Local Code was approved by the Committee on 28 January 2019. The seven 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; and
  - Implementing good practices in transparency.
- 4 The Council's governance framework is consistent with these principles which ensure they are fully integrated in the conduct of the Council's business.

- 5 The Council's Constitution sets out the role of the Cabinet as follows:
- To lead change and make recommendations for change to the Council, in consultation with a range of stakeholders;
  - To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
  - To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role; and
  - To provide a public face on specific issues.
- 6 Assurance was sought from Councillors who served in the Cabinet during 2018/19, in the form of a self assessment statement, on the effectiveness of the Council's corporate governance arrangements, by reference to the principles set out above.
- 7 All Cabinet Members considered that governance arrangements are effective.

#### **Overall Opinion**

- 8 Based on the evidence identified in the assurance statements from Members of Cabinet governance arrangements are considered to be effective.

#### **Recommendation**

- 9 The Committee is asked to note the assurances of Members of Cabinet and the evidence on oversight and endorse the opinion that the Council's governance arrangements are effective.

**Contact name: Craig Oakes Ext. 3711**



**Title of Report: Managers' Assurance Statements 2018/19**

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

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**Purpose of the Report**

1. To inform the Committee of the assurance which Service Directors have placed on their control systems to feed into the Annual Governance Statement.

**Background**

- 2 The Accounts and Audit Regulations 2015 require Authorities to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness.
- 3 The Audit and Standards Committee agreed on 4 March 2019 an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from senior managers on the effectiveness of controls they have in place are fundamental within the framework.
- 4 Service Directors were asked to complete self-assessments which took the form of a questionnaire covering the processes in place to manage their key control and governance processes. This included a requirement to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance in 18 key areas, with a requirement to detail the evidence to support their assessment.
- 5 The process demonstrates 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?
- 6 Where managers agreed that they had in place effective controls they could still identify further system enhancements where considered appropriate.

- 7 If managers felt that they did not have sufficient evidence to agree with a statement they were required to identify actions for improvement which would strengthen systems in place to an effective level.

### **Overall Opinion**

- 8 Based on evidence arising from the self-assessments for 2018/19, managers agreed that necessary controls were in place in key processes to allow them to achieve their service objectives and therefore the objectives of the Council.
- 9 All assessments issued have been returned detailing satisfactory evidence. A summary of returns is attached at Appendix A showing each process being assessed. The most common areas of improvement identified by managers were in relation to strengthening and testing of business continuity arrangements.
- 10 An audit of managers' assurances for 2017/18 has been progressed during the year and an update was reported to the Audit and Standards Committee on 23 July 2018 as part of the Internal Audit quarterly monitoring report. The overall conclusion of this work was that the systems and processes for the completion of the Managers' Assurance Statements were operating well and that they provided a good level of assurance for the 2017/18 Annual Governance Statement.
- 11 Internal Audit has time in the 2019/20 audit plan to review the evidence and actions identified by managers on their assurance statements for 2018/19, including any actions managers have identified to enhance controls.

### **Recommendation**

- 12 The Committee is asked to note the assurances provided by senior managers.

Contact name: Craig Oakes Ext. 3711
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## Service Directors' Assurance 2018/19

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
1. Mechanisms are in place to ensure employees are aware of and comply with relevant legal requirements, the Council's Constitution and corporate policies.	All 19 managers agreed that effective controls are in place.
2. Financial Regulations are understood and complied with by all employees.	18 managers agreed that effective controls are in place.  One manager agreed partial compliance and identified actions for further improvement including ensuring all relevant employees are made aware of the revised Financial Regulations once approved by Cabinet in May.
3. A clear up to date business plan is in place which is completed in accordance with Corporate guidance.	18 managers agreed that effective controls are in place.  One manager agreed partial compliance and identified actions for improvement including updating the Service's plan in line with the Thrive agenda to be finalised in May.
4. There are effective data quality and performance management processes with relevant, accurate and adequate performance information generated. These are reported on a timely basis, with appropriate action taken to address performance issues.	18 managers agreed that effective controls are in place.  One manager agreed partial compliance and identified actions for improvement including Quality and Standards function carrying out audit of all processes throughout the Service.
5. There are well defined reporting arrangements to Councillors and senior management, including a clear reporting structure with adequate, accurate and timely information being provided, to ensure that decisions, including key decisions, are taken with reference to relevant consultation, information and data.	All 19 managers agreed that effective controls are in place.
6. Management and staffing structures are clearly defined and responsibilities including job descriptions are clearly established. There is a competent and adequately trained workforce to deliver the objectives and priorities of the Service, including up to date A&D reviews for all employees, effective management of	18 managers agreed that effective controls are in place.  One manager agreed partial compliance and identified actions for improvement including

<b>Area of Assurance</b>	<b>Number That Agree / Disagree That Effective Controls Are In Place</b>
succession planning and retention/recruitment of appropriate skills.	assessing options for increasing staff retention.
7. All Partnership Arrangements are included in the Council's Corporate Partnership Register and have been established in compliance with the Council's Guide to Partnership Working Strategy.	17 managers agreed that effective controls are in place.  Two managers stated this question was not applicable to their Service.
8. Standards of conduct within the Service are in accordance with corporate codes and policies.  Controls are in place to deter, prevent, detect, and reduce the risk of fraud and corruption (including bribery), such as employee training/awareness sessions.  Controls are in place to ensure employees are fully aware of the Council's Counter-Fraud Arrangements and Whistleblowing Policy and all suspected frauds and financial irregularities are referred to Internal Audit.  All employees promote the values of the Council and uphold high standards of conduct and behaviour.	All 19 managers agreed that effective controls are in place.
9. There are effective financial planning and budgetary control procedures in place.  Budgetary decisions are linked to planned outcomes and the Service objectives which support the Council Plan.	All 19 managers agreed that effective controls are in place.
10. The Service can evidence that it has clear and effective plans in place to deliver the Service's savings targets, and risks around achievement are identified.	All 19 managers agreed that effective controls are in place.
11. Where applicable, the Service can demonstrate that the effective application of the Council's Commissioning Framework has resulted in the delivery of improved outcomes, the achievement of value for money and that, where this has been delivered via a procurement process, compliance with the Council's Contract Procedure Rules can be evidenced.	18 managers agreed that effective controls are in place.  One manager stated this question was not applicable to their Service.
12. Trading opportunities have been considered in accordance with the Governance Framework for Decision Making on Traded Activities.	17 managers agreed that effective controls are in place.  Two managers stated this question was not applicable to their Service.

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>13. IT systems used by the Service are secure and operate satisfactorily for their purpose.</p> <p>Mechanisms are in place to ensure employees are fully aware of the IT Security Policy and their responsibilities including how to minimise exposure to risk of a cyber-attack by taking necessary anti-virus precautions and adhere to the Policy.</p>	<p>All 19 managers agreed that effective controls are in place.</p>
<p>14. There are effective business continuity arrangements in place which are reviewed and tested on a regular basis.</p> <p>There are effective plans in place to manage change and ensure business continuity during any transition period.</p>	<p>17 managers agreed that effective controls are in place.</p> <p>Two managers agreed partial compliance and identified actions for improvement including:</p> <ul style="list-style-type: none"> <li>• Strengthening and testing of business continuity arrangements</li> <li>• Strengthening of Corporate Disaster Recovery Plans</li> </ul>
<p>15. Recommendations from relevant external Inspectorates and Internal Audit reports are monitored by management and are implemented by the agreed date.</p>	<p>All 19 managers agreed that effective controls are in place.</p>
<p>16. Effective mechanisms are in place to ensure compliance with relevant statutory requirements such as Health and Safety and Safeguarding.</p>	<p>All 19 managers agreed that effective controls are in place.</p>
<p>17. There is effective management of Operational risk within the Service including the effective identification, recording, control and ongoing monitoring of risks associated with the achievement of Service objectives, with appropriate oversight by Group Management Teams.</p> <p>Strategic risks are also regularly reviewed to ensure they remain valid and support the achievement of the Council Plan.</p>	<p>18 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for improvement including completion of revised operational risk register.</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>18. The Service has identified its sources and flows of information including rights of access.</p> <p>Threats and risks to information assets owned by the Service have been assessed and recorded with corresponding action plans for reducing risks where appropriate.</p> <p>All staff have received appropriate training in relation to data security and GDPR. Any data breaches are formally reported and where a data breach has occurred a review of the incident is carried out and, where appropriate, additional training is provided and systems and procedures assessed to identify any improvements to the controls to prevent future data breaches.</p>	<p>All 19 managers agreed that effective controls are in place.</p>

**Title of Report: Review of the Effectiveness of Internal Audit 2018/19**

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

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### **Purpose of the Report**

1. To ask the Committee to review the effectiveness of internal audit within the Council for 2018/19.

### **Background**

- 2 The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best practice highlights that “internal audit”, in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2018/19.
- 3 The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.
- 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.
- 5 The review of the effectiveness of the system of Internal Audit for 2018/19 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Corporate Resources and Corporate Services and Governance. This review is based upon the following:
  - Self-assessment against Public Sector Internal Audit Standards (PSIAS).
  - Self-assessment against the CIPFA Statement on the Role of the Head of Internal Audit.
  - Reliance placed upon Internal Audit by the Council’s external auditor.
  - Assessment of the effectiveness of the Audit and Standards Committee.
  - Relevant performance information.

### **Self-assessment against PSIAS**

- 6 The PSIAS require an external assessment of internal audit functions to be completed every five years. In compliance with PSIAS the Internal Audit Service

was assessed against current Internal Audit practices and compliance with professional standards by external auditors, Mazars during 2014/15.

- 7 The standards have 4 areas as detailed below:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards; and
  - Performance Standards.
- 8 As previously reported to Audit and Standards Committee on 26 January 2015, the outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with the standards in all significant aspects and that there are no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the system of internal control.

#### **Self-Assessment against the CIPFA Statement on the Role of the Head of Internal Audit**

- 9 This assessment requires an evaluation of how the five principles of this statement are embedded within the Council and the Chief Internal Auditor's skills and personal experience. The statement has common themes with the PSIAS. The self-assessment found arrangements to be compliant with the statement and a copy is attached at Appendix A.

#### **Reliance Placed Upon Internal Audit by the Council's External Auditor**

- 10 A joint working protocol is in place between Internal Audit and the Council's external auditor, Mazars. Wherever possible the external auditor will seek to rely upon the work of Internal Audit in discharging their own responsibilities. During 2018/19 Mazars did not place specific reliance on any of Internal Audit's work but through regular monthly meetings work has been co-ordinated wherever possible and intelligence shared.

#### **Assessment of the Effectiveness of the Audit and Standards Committee**

- 11 CIPFA's guidance "Audit Committees – Practical Guidance for Local Authorities (2018)" includes a checklist for measuring the effectiveness of the Council's Audit and Standards Committee. This assesses in more detail some of the areas examined in the assessment against PSIAS.
- 12 A review, based on this guidance, was carried out by the Council's Internal Control Group on 14 May 2019. This covered the following areas:
- Purpose and Governance
  - Functions of the Committee
  - Membership and Support
  - Effectiveness of the Committee
- 13 Evidence includes the Constitution and the Audit and Standards Committee's overseeing of risk management, counter-fraud arrangements and the Annual

Governance Statement. This review found the Audit and Standards Committee to be operating effectively with some minor areas for action. A copy of the assessment is attached at Appendix B.

### **Performance Information**

- 14 Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole. During 2018/19 the following key performance indicators are relevant:
- 100% of audits were completed within budgeted time against a target of 90%.
  - Productive or chargeable time was recorded at 76% of overall time against an annual target of 73% of overall time.
  - The average score of the customer satisfaction questionnaires returned is 3.59 (90%) against a target of 3.4 (85%).
  - The target for implementation of audit recommendations is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendation is 100%, with 100% of all medium priority and 100% of all high priority recommendations having been implemented.
- 15 As previously reported to the Audit and Standards Committee on 1 October 2018, benchmarking continues to highlight the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The net cost per chargeable day for Gateshead Council was £184 compared to an average of £293, with 176 chargeable days compared to the average of 176 days demonstrating that the Council is receiving value for money from its Internal Audit Service.

### **Opinion of the Effectiveness of Internal Audit**

- 16 Based on the review detailed above the Council's Internal Control Group concluded that the Council's System of Internal Audit is operating effectively.

### **Recommendations**

- 17 The Committee is asked to consider and endorse the opinion that the Council's system of internal audit is operating effectively.

Contact name: Craig Oakes Ext. 3711
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**Appendix A – 2018-19  
Self-Assessment Against the CIPFA Role of the Head of  
Internal Audit (HIA) Statement**

The Statement sets out what CIPFA considers to be best practice for HIAs

	<b>Principle Definition</b>	<b>The Organisation: Governance Requirements</b>	<b>The Role: Core HIA Responsibilities</b>	<b>The Individual: Personal Skills/ Professional Standards</b>
<b>1</b>	The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments	<p>CIA's role in the organisation's governance is set out in the Audit Charter which comply with PSIAS. The ToR establishes:</p> <p>The responsibility &amp; objectives of IA;</p> <ul style="list-style-type: none"> <li>• Organisational independence;</li> <li>• Accountability &amp; reporting lines;</li> <li>• The contribution made by the CIA to the internal control environment (including an assessment of its effectiveness) which in turn contributes to the Annual Governance Statement;</li> <li>• The access to all records, assets, personnel premises;</li> <li>• The requirement of the HIA to provide an annual audit opinion on the internal control environment.</li> </ul>	<p>CIA helps promote good governance through an annual risk based audit programme, quarterly progress reports to the Audit and Standards Committee and an annual audit opinion report. CIA leads an Internal Audit section which contributes to major projects, both on an ongoing or an ad-hoc basis, through a programme of proactive systems development and project work through agreed consultancy arrangements.</p> <p>Role of the Internal Audit Service are defined in the scope of the Audit Charter which is reviewed annually</p>	<p>The Internal Audit Strategy is reviewed by the CIA annually and revised as necessary to reflect any prevailing risks to client organisations.</p> <p>CIA undertakes consultation exercises with Senior Management Teams to feed into annual plan.</p> <p>CIA regularly identifies and disseminates 'best practice' through audit provision across several clients both in and outside of the public sector.</p>
<b>2</b>	The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.	<p>Established through the Audit Charter the CIA has clear lines of responsibility to the Strategic Director, Corporate Resources and the Audit and Standards Committee.</p> <p>CIA produces an annual Audit Strategy and Plan which is approved by the Audit and Standards Committee.</p> <p>Protocols that define IA working relationships are also set out in Financial Regulations.</p>	<p>CIA produces an Annual Audit Opinion Report which gives assurance to the Council on the effectiveness of the system of internal control.</p> <p>CIA liaises regularly with those discharged with the organisation's external audit responsibilities. CIA ensures that audit work is not driven by priorities of EA. As a minimum 'managed audit' requirement CIA ensures that audits of the key financial systems are performed on an annual basis.</p>	<p>CIA reports both in detail or in summary on all principal audit findings and control / system weaknesses to the Audit and Standards Committee (or equivalent) without interference or influence from the Council or auditees.</p> <p>All audit findings are evaluated and assessed against the risk to the organisation.</p>

**Appendix A – 2018-19  
Self-Assessment Against the CIPFA Role of the Head of  
Internal Audit (HIA) Statement**

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	<b>Principle Definition</b>	<b>The Organisation: Governance Requirements</b>	<b>The Role: Core HIA Responsibilities</b>	<b>The Individual: Personal Skills/ Professional Standards</b>
			<p>CIA produces an Internal Audit Strategy which is reviewed annually to reflect the organisation's key risks. The strategy and plan are flexible, supportive, challenging, prioritised and timely which ensures the plan maintains focus on emerging risks.</p> <p>Risk based Audit Plan developed in consultation with all Service Directors</p> <p>The annual audit planning process is aligned (as closely as possible) to the Corporate / Service risks. To place reliance on the risk registers the CIA must regularly evaluate and assess the organisation's risk maturity and risk appetite.</p> <p>CIA liaises regularly and where necessary with other external bodies including those with inspection/assurance responsibilities such as CQC, External Auditor, Home Office &amp; HMIC.</p>	<p>CIA ensures that recommendations presented are realistic, pragmatic and risk based with a focus on added value.</p> <p>CIA ensures that all high and medium recommendations are followed up on a regular and timely basis and that the progress in actioning these is reported regularly to the Audit and Standards Committee.</p>
<b>3</b>	<p>The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.</p>	<p>Internal Audit Charter outlines terms of reference and management structure.</p> <p>CIA line managed by Deputy Strategic Director, Corporate Resources but with direct line of reporting to Strategic Director, Corporate Resources and Chief Executive.</p>	<p>CIA liaises and consults with key Council stakeholders in, both, revising the annual audit strategy and in the drafting of the annual audit plan for each organisation.</p> <p>CIA provided with an unfettered opportunity to escalate any significant concerns through reports or direct submissions to the Audit and Standards Committee, through senior management teams.</p>	<p>CIA has developed and maintained effective professional working relationships with a range of internal &amp; external stakeholders.</p> <p>CIA attends and reports to each meeting of the Council's Audit and Standards Committee.</p>

**Appendix A – 2018-19  
Self-Assessment Against the CIPFA Role of the Head of  
Internal Audit (HIA) Statement**

The Statement sets out what CIPFA considers to be best practice for HIAs

	<b>Principle Definition</b>	<b>The Organisation: Governance Requirements</b>	<b>The Role: Core HIA Responsibilities</b>	<b>The Individual: Personal Skills/ Professional Standards</b>
		<p>CIA has clear lines of responsibility and reporting to the Audit and Standards Committee.</p> <p>The CIA has access to the senior management/leadership teams within the Council as required.</p> <p>As established within the Audit Charter the CIA leads an audit function which has unrestricted access to all people, systems and records within the organisation including, where applicable, access rights under significant partnership arrangements.</p>		<p>CIA ensures that all audit plans are flexible in nature and reflect the developing needs and emerging risks facing the Council.</p> <p>CIA networks both internally and externally.</p>
4	<p>The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.</p>	<p>All internal auditors are fully or partially qualified (CCAB &amp; AAT) or are currently undergoing professional training.</p> <p>Monthly local performance targets produced which are reported into Audit and Standards Committee.</p> <p>Client Questionnaire are circulated electronically which are incorporated into the CIA's quality control function.</p> <p>Plan is developed on risk based approach prior to looking at resource implications.</p>	<p>CIA ensures that the IA service is resourced to be fit for purpose through:</p> <ul style="list-style-type: none"> <li>• Training support to undertake professional qualifications;</li> <li>• On the job/in-house training (e.g. Risk Management);</li> <li>• Regular A&amp;Ds and client surveys which are used to identify training and development needs;</li> <li>• Reviewed job profiles to ensure all staff responsibilities are clearly defined and recognised.</li> <li>• Internal Audit Development Plan.</li> </ul> <p>CIA regularly attends conferences, courses and other networking opportunities (e.g., NEFF, NEGF, TWHIAG), keeping up</p>	<p>Internal Audit strategies comply with PSIAS.</p> <p>Annual planning involves extensive consultation with all stakeholders, including Committee members and senior managers.</p> <p>Client questionnaires are circulated electronically for feedback in relation to audits performed. These aim to enhance customer focus.</p> <p>Innovative arrangements to manage skills gaps i.e. Newcastle IT audit arrangement.</p> <p>Works in partnership where appropriate with other audit providers e.g. Newcastle Council IT auditor</p>

**Appendix A – 2018-19  
Self-Assessment Against the CIPFA Role of the Head of  
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		The service has undergone external assessment against PSIAS and was assessed as substantially compliant	to date with recent audit developments and current best practice in the public sector.  Internal Audit always represented in recruitment process for Corporate Finance	
<b>5</b>	The HIA in a public service organisation must be professionally qualified and suitably experienced.	CIA has 27 years local authority experience and has been CIPFA qualified for 24 years.  The core responsibilities of the CIA role are clearly defined in the job profile, the Internal Audit Charter and the respective Financial Regulations.  CIA has the appropriate experienced and qualified resources (see above) within the audit section to fulfil the audit provision across the current client base.		CIA is CIPFA qualified and takes personal responsibility for continuous professional development (CPD) in accordance with institute requirements.  CIA manages an Internal Audit Section which operates according to PSIAS and has been externally assessed as substantially compliant.  CIA has 22 years' experience in the Council, 11 of which in Internal Audit.  CIA is an affiliate member of the Chartered Institute of Internal Auditors

Audit and Standards Committee - Self-Assessment of Good Practice 2018-19

Audit committee purpose and governance	YES	PARTLY	NO	Comments
1. Does the authority have a dedicated audit committee?	YES			Merged with Standards Committee reported to Cabinet 13 May 2014
2. Does the audit committee report directly to full council?	YES			Annual Report to Cabinet 18 September 2018 and Council 20 Sept 2018
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	YES			Set out in Constitution
4. Is the role and purpose of the audit committee understood and accepted across the authority?	YES			Some minor areas in relation to independence from executive and attendance at committee by Chief Executive
5. Does the audit committee provide support to the authority in meeting the requirements of good governance?	YES			
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?	YES			Annual report to Cabinet 18 Sept 2018 and Council 20 Sept 2018 outlining activity during previous year
Functions of the committee	YES	PARTLY	NO	
7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
☑☑ - good governance	YES			
☑☑ - assurance framework, including partnership and collaboration arrangements	YES			
☑☑ - internal audit	YES			
☑☑ - external audit	YES			
☑☑ - financial reporting	YES			Statement of Accounts reviewed by Audit & Standards Committee prior to Accounts Committee
- risk management	YES			
☑ - value for money or best value	YES			
☑ - counter-fraud and corruption.	YES			

- supporting the ethical framework	YES			The Committee receives update reports on local government ethical standards and Committee Terms of Reference include promoting and maintaining high standards of conduct by co-opted members and councillors.
8. Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	YES			Evidenced by this self-assessment and annual report to Cabinet. Annual evaluation to assess this will also be an annual item on the Committee Agenda.
9. Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	YES			Now merged with Standards Committee. Treasury Management Strategy, six-month progress and year end performance reported. Wider areas to be considered at a future agenda.
10. Where coverage of core areas has been found to be limited, are plans in place to address this?	YES			Subject to minor areas in question 4
11. Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	YES			
<b>Membership and support</b>	<b>YES</b>	<b>PARTLY</b>	<b>NO</b>	
12. Is an effective audit committee structure and composition of the committee been selected? This should include:				
<input checked="" type="checkbox"/> - separation from the executive	YES			Chair and Vice Chair non-Cabinet members. Two Cabinet members serve on the Audit & Standards Committee but the Council welcomes this as a balance between separation and the inclusion and awareness of the Committee's activities by the Executive
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> - an appropriate mix of knowledge and skills among the membership	YES			Committee membership to consider skills audit to identify training gaps.
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> - a size of committee that is not unwieldy	YES			
<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> consideration has been given to the inclusion of at least one independent member (where it is not a mandatory requirement)	YES			The Committee has three independent members
13. Have independent members appointed to the committee been recruited in an open and transparent way and approved				The last independent vacancy was advertised in the local press and on the Council's website as well as circulated to the Council's partners.

	YES			The interview panel consisted of Chair and Vice Chair, and Service Directors of Legal and Corporate Finance. A report to full Council 21/9/17 set out the appointment of Stuart Bell for a period of four years and the reappointment of Bryn Jones and George Clark for the same period.
by the full council?				
14. Does the chair of the committee have appropriate knowledge and skills?	YES			
15. Are arrangements in place to support the committee with briefings and training?		Partly		A framework for Audit Committee Knowledge and Skills Assessment and a Development Plan was reported for endorsement to the April 2019 Committee following consultation with Committee members. This will be used to inform a training programme.
16. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		Partly		Assessment needs to be considered as above.
17. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	YES			Strategic Director of Finance met Chair 18 June 2018 and attended Committee 23 July 2018.
18. Is adequate secretariat and administrative support to the committee provided?	YES			
<b>Effectiveness of the committee</b>	<b>YES</b>	<b>PARTLY</b>	<b>NO</b>	
19. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	YES			Not proactively sought but mechanism exists through annual report to Cabinet
20. Are meetings effective with a good level of discussion and engagement from all the members?	YES			
21. Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	YES			The Committee Terms of Reference provide for this facility

22. Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	YES			The Committee Terms of Reference set out that the Committee consider reports on audit activity and the Council's arrangements for Corporate Governance and raise the profile of audit, risk management and the internal control environment.
23. Has the committee evaluated whether and how it is adding value to the organisation?	YES			Not proactively sought but mechanism exists through annual report to Cabinet
24. Does the committee have an action plan to improve any areas of weakness?		Partly		A framework for Audit Committee Knowledge and Skills Assessment and a Development Plan was reported for endorsement to the April 2019 Committee following consultation with Committee members. This will be used to inform a training programme.
25. Does the committee publish an annual report to account for its performance and explain its work?	YES			Annual Report to Cabinet 18 September 2018 and Council 20 Sept 2018

**Title of Report:** Corporate Risk Management – Annual Report 2018/19

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

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### **Purpose of the Report**

1. The assurance derived from risk management forms part of the evidence to inform the Annual Governance Statement. This report presents to the Committee the arrangements that exist within the Council for managing risk, the impact that these have had and also the plans for further development of risk management arrangements.
2. The Committee is asked to consider the Corporate Risk Management Annual Report for 2018/19 and agree the adequacy of the Council's risk management arrangements contained therein.

### **Background**

3. Robust risk management arrangements are a key element of a sound system of internal control and therefore essential to the Council being able to demonstrate that it has good systems of corporate governance. It also provides evidence to inform the Annual Governance Statement, which is reviewed annually and accompanies the Statement of Accounts.
4. Quarterly reports to the Audit and Standards Committee have updated on progress throughout 2018/19.

### **Proposal**

5. The report recommends that the Committee consider the Corporate Risk Management Report for 2018/19 attached at Appendix 1 as the basis for assessing the effectiveness of risk management arrangements. The report outlines the prevailing arrangements that exist within the Council for managing risk, the impact that these have had on the Council's operations and also the plans for further development of risk management arrangements.

### **Recommendations**

6. It is recommended that the Committee note the Corporate Risk Management Annual Report 2018/19 as shown in Appendix 1 and agree that the Council has effective risk management arrangements in place.
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**Contact:** Stephanie Humble ext 3731

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## Corporate Risk Management

### Annual Report 2018/19

#### Background

1. Risk management is “the identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objectives of an organisation.”
2. Risk management enables the Council to effectively manage strategic decision making, service planning and delivery both to safeguard the well being of its stakeholders and increase the likelihood of achieving objectives. The aim is to manage risks that cannot be economically eliminated or transferred.
3. Effective risk management, which is integrated into policies and procedures, is an essential element of a sound internal control system and therefore necessary if the Council is to demonstrate that it has good systems of Corporate Governance. It also provides evidence to inform the Annual Governance Statement, which is reviewed annually and accompanies the Statement of Accounts.

#### Current Position

4. The structures and processes, which are employed within the Council to manage risk, are described below.
5. The Chief Executive and the Corporate Management Team are essential to the embedding of risk management within the Council by promoting a culture of risk management being practised throughout the organisation as an integral part of normal activities and fostering the sharing of best practice between Groups and Services.
6. Under the Council's Constitution, The Strategic Director, Corporate Resources has responsibility for Risk Management, and the key rules in relation to Risk Management are set out in Financial Regulation 17.
7. Strategic and Service Directors who have ownership for the management of operational risks which impact on their Service(s), are required to incorporate risk management principles into the service planning process and ensure that the risk management process is embedded in all operations, major projects, partnership working, arrangements with key suppliers and change management initiatives.
8. All managers are required to understand risk and its potential impact on the achievement of the Council's targets and objectives and be able to anticipate, assess and manage risks that relate to their areas of responsibility.
9. The Deputy Strategic Director, Corporate Finance provides both strategic support to the Strategic Director, Corporate Resources on risk management issues and operational guidance to the Risk Management Team, which fulfils the

role of the Corporate Risk Management function in the delivery of Corporate Risk Management objectives.

10. The role of the Corporate Risk Management function is to:
  - Formulate strategies to manage the corporate risk process;
  - Develop, implement, monitor and review an action plan to minimise corporate strategic risks;
  - Support and develop Service Risk Management Co-ordinators through the Corporate Risk and Resilience Group;
  - Co-ordinate risk management and business continuity planning activity through the Corporate Risk and Resilience Group;
  - Review Service risk management action plans for relevance and consistency;
  - Monitor implementation of Service risk management plans;
  - Report to the Audit and Standards Committee, and
  - Co-ordinate risk management activity, ensuring that it is joined up with business continuity management, emergency and resilience planning.
11. The Corporate Risk Management Team, which is an integral part of the Council's Corporate Resources Group, co-ordinates risk management activity and delivers technical support, advice, guidance and training to all Groups and Services either directly or via Service Risk Management Co-ordinators.
12. Each Group has a Risk Co-ordinator. The role of the Group Risk Co-ordinator is to act as a risk management champion within the Group, providing guidance and support to service managers in the administration of risk management activities in addition to acting as the channel of communication between the Corporate Risk Management function and the Group Management Team.
13. The principal forum for risk management development is the Corporate Risk and Resilience Group, which consists of the Corporate Risk Management Team, Group Risk Co-ordinators and a representative of the Council's Emergency and Resilience Planning, IT and Health & Safety functions.
14. The role of the Corporate Risk and Resilience Group with regards to risk management is to:
  - Engage with Strategic Groups in relation to risk management and resilience to ensure it is consistently updated and embedded throughout the Council and within governance arrangements.
  - Identify opportunities for improvements and best practice in relation to risk management and resilience.
  - Co-ordinate and oversee the implementation and embedding of identified changes and improvements.
15. The Council's Internal Audit Service assists in the risk management process by reviewing risk management systems and verifying compliance by Services direct to the Strategic Director, Corporate Resources and the Audit and Standards Committee. In addition, risks are identified in the execution of the annual audit plan, which are fed in to the relevant risk action plans.
16. The Corporate Risk Management structure is set out in diagrammatical form at Appendix 2.

## **Major Developments in 2018/19**

17. As part of the ongoing work to refresh the operational risk management framework revised guidance was circulated to Service Directors and Service Risk Coordinators, supported where requested by the Corporate Risk Management Team. Aligning operational risk management to Service objectives will assist with focussing risk management activity on Council priorities and achievement of key outcomes.
18. The fulfilment of the Council's responsibilities under the Civil Contingencies Act 2004 requires that the organisation has a sound business continuity planning framework at the heart of which is the Business Continuity Planning Policy approved by Council in October 2008. The existing Policy was reviewed and approved by Cabinet in June 2013 and updated in 2018/19 to reflect organisational changes. The Business Continuity Plan template, scoring assessment and the service impact assessments were all reviewed and updated this year to ensure CIPFA best practice recommendations are incorporated within Council processes. These new templates were used in the annual review.
19. In November 2018 Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. As part of the iterative nature of the Register, risk owners are asked to provide updates as part of the quarterly reviews which are reported to Committee as part of the quarterly updates. The latest Strategic Risk Register can be seen in Appendix 3.
20. 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. 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. Since then, colleagues within IT have worked across the Council to ensure all systems had been captured. 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.
21. The Audit and Standards Committee have received quarterly risk management reports and risk management training is available for councillors.
22. Corporate Risk Management officers will continue to participate in benchmarking on a national basis through the ALARM/CIPFA Risk Management Benchmarking Club.

## **How well has the Council managed Risk?**

23. The overall risk management structure which is reviewed annually, as outlined in paragraphs 4 to 16 and shown at Appendix 2, provides a joined-up approach to the identification, assessment, mitigation and management of the numerous risks which could threaten the achievement of the Council's policy objectives.

24. Progress has been made against the risk management developmental objectives for 2018/19 identified in the Corporate Risk Management Annual Report 2017/18 as shown at Appendix 4.
25. The Council has in place a formalised ISO 22301 compliant business continuity framework to mitigate key risks for all services and a Corporate Continuity Plan, which can facilitate the prioritisation of action in response to a large scale event without inhibiting any response to Emergency Response Arrangements should the event be related to a civil emergency. This supports the Council's resilience planning to meet the requirements of the Civil Contingences Act 2004.
26. The Council suffered no major service interruptions in 2018/19 which further demonstrates how corporate risk management arrangements support service delivery.
27. The Council participates in the ALARM/CIPFA Risk Management Benchmarking Club and uses the outcome of the performance assessment to further develop risk management performance and enable comparison with other public sector organisations.
28. Membership of the Club provides access to a performance measurement tool designed to test the organisation's performance against the major risk management standards, expectations of inspection bodies and criteria that inform the risk management element of the Annual Governance Statement. The model breaks down risk management activity into seven strands, (leadership & management, policy & strategy, people, partnership & resources, processes, risk handling & assurance and outcomes & delivery) and aims to provide an in-depth picture of the maturity of risk management within the organisation.
29. Scores of levels 1 to 5 are awarded for each strand to identify the level of maturity that the organisation has reached with level 5 being the highest possible score. The categories are as follows:-
- 1 Engaging
  - 2 Happening
  - 3 Working
  - 4 Embedded and Integrated
  - 5 Driving
30. The latest benchmarking results for Gateshead over the seven strands were as follows:-
- |                               |   |                         |
|-------------------------------|---|-------------------------|
| • Leadership and Management   | 4 | Embedded and Integrated |
| • Policy and Strategy         | 4 | Embedded and Integrated |
| • Partnership and Resources   | 5 | Driving                 |
| • People                      | 4 | Embedded and Integrated |
| • Processes                   | 4 | Working                 |
| • Risk Handling and Assurance | 4 | Embedded and Integrated |
| • Outcomes and Delivery       | 3 | Working                 |

31. The Council has maintained the same scores as the last assessment for six of the seven strands, with the score for the Processes strand increasing from 3 (working) to 4 (embedded and integrated).
32. The improved score for the Processes strand reflects work undertaken by Corporate Risk Officers to assist managers with the operational risk management process, which has included the production and circulation of improved guidance to managers.

### **Development Objectives 2019/20**

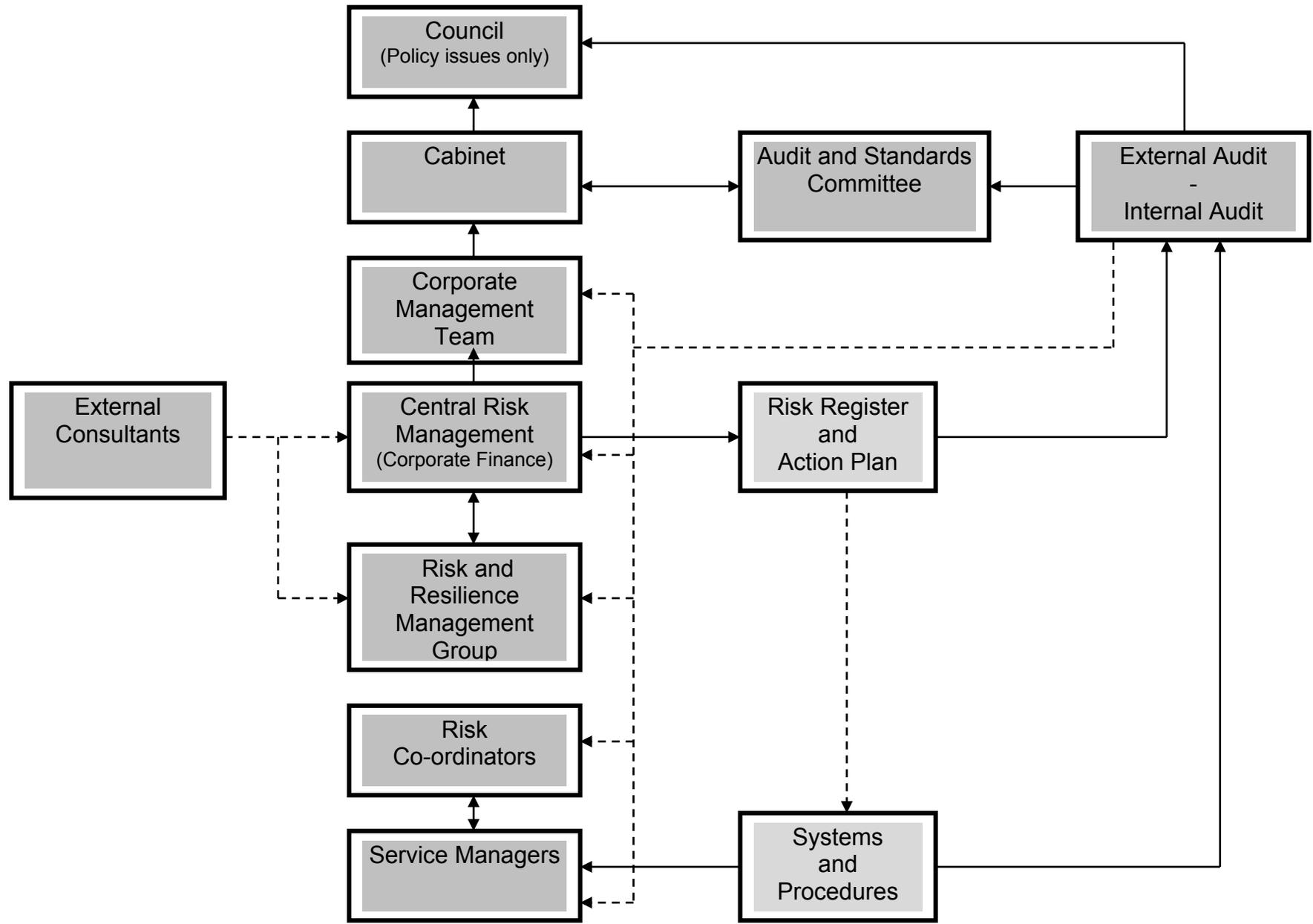
33. The Corporate Risk Management Team will continue to develop service understanding and the awareness of Risk Management by way of best practice through the Risk and Resilience Group (Risk champions) and directed training on request. This will help embed effective risk management.
34. Work will continue to prioritise Critical IT systems and the links to Critical service functions identified through the revised Business Continuity process.
35. Risk management performance will be assessed by completion of the ALARM/CIPFA benchmarking club indicators.
36. Business Continuity Plans will be updated, enhanced and, where appropriate, formal testing against incident scenarios and best practice requirements will be carried out.
37. The Operational and Strategic Risk Registers will be subject to periodic review for updates and revisions to evidence links to objectives and Thrive agenda.

### **Conclusion**

38. This report outlines the arrangements for managing risk within the Council, their effectiveness and the steps, which are being taken to ensure continuous improvement of the function and minimisation of loss.
39. On the basis of these arrangements and evidence of their operation it can be concluded that arrangements for managing risk within the Council are effective.

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# Gateshead Council Corporate Risk Management Structure



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## Strategic Risk Register as at 30 April 2019

\*Ranked in order of Gross Risk

Ref	Risk	Risk owner	*Gross Risk	Current risk		
				Likelihood	Impact	Score
8 (New)	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities	CMT	16	Likely	Medium	12
9 (New)	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	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



### 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 and annual report.
7	Review and update the Tackling Tax Evasion and the Money Laundering Risk Assessments for any new or emerging risks	April 2019	Annual review commenced April 2019.

**Title of Report:** Treasury Annual Report 2018/19

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

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### **Purpose of the Report**

1. This report asks the Audit and Standards Committee to review the proposed Treasury Annual Report prior to consideration by Cabinet.

### **Background**

2. In line with what the Government defines as best practice and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council must consider a Treasury Annual Report each year.
3. The attached Treasury Annual Report has been prepared taking into account 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 document is also consistent with the Council's approved Treasury Management Policy and Strategy, which require an annual report to be presented to Council prior to the end of September each year.

### **Proposals**

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

### **Recommendation**

5. The Committee is asked to review the content of the Treasury Annual Report and submit any comments to Cabinet.

For the following reason:

To ensure that the Council fully complies with the requirements of Financial Regulations and good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management.

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**CONTACT:** Clare Morton, ext. 3591

## Policy Context

1. The proposals in this report are consistent with Council priorities and in particular the priority of ensuring a sustainable Gateshead through ensuring the best use of its resources. The proposals are consistent with the framework for achieving the Council's new strategic approach "Making Gateshead a Place Where Everyone Thrives". The Council recognises there are huge financial pressures on not just Council resources but those of partners, local businesses and residents.

## Background

2. The Council fully complies with the requirements of good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and its Prudential Code for Capital Finance and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Authority Investments, which include the:
  - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
  - Creation and maintenance of Treasury Management Practice Statements which set out the manner in which the Council will seek to achieve those policies and objectives;
  - Receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year;
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
  - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to Audit and Standards Committee and receipt of a mid-year review report to Council.
3. Comprehensive details of procedures in place to ensure compliance with the Code are included within the Council's Treasury Management Practices and these procedures are followed without exception.
4. Treasury Management in this context is defined as:
 

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
5. Taking into account the annual reporting requirements stipulated in the Code of Practice, this Annual Treasury Report covers:
  - The strategy for 2018/19 (including investment and borrowing strategies);
  - Treasury Management approach to risk;
  - Outturn 2018/19 performance measurement (including market interest rates, investment and borrowing performance and compliance with treasury limits set prior to the start of the financial year as Prudential Indicators);
  - Any restructuring and repayment; and
  - Summary of Treasury Management performance for the year 2018/19.

## **Consultation**

6. Consultation on the production of the Treasury Annual Report has taken place with the Council's treasury advisors Link Asset Services. The outcome of the consultation process, along with guidance issued by CIPFA, has informed the format and content of the annual report.

## **Alternative Options**

7. There are no alternative options, as the Treasury Annual Report is required in order to comply with CIPFA's Code of Practice on Treasury Management.

## **Implications of Recommended Option**

### **8. Resources:**

- a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that there are no direct financial implications associated with this report. The Annual Report sets out a financial summary of Treasury Management activity for the 2018/19 financial year end and compares this to budget.
- b) **Human Resources Implications** - There are no human resources implications arising from this report.
- c) **Property Implications** - There are no property implications arising from this report.

### **9. Risk Management Implications**

The Treasury Annual Report has been prepared to report on performance against the annual Treasury Policy and Strategy. These are prepared with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.

### **10. Equality and Diversity Implications**

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

### **11. Crime and Disorder Implications**

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

### **12. Sustainability Implications**

There are no sustainability implications arising from this report.

### **13. Human Rights Implications**

There are no human rights implications arising from this report.

### **14. Area and Ward Implications**

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

## 15. **Background Information:**

The following documents have been relied on in the preparation of the report:

- Local Government Act 2003
- MHCLG Guidance on Local Government Investments (2018)
- CIPFA's Prudential Code for Capital (2017)
- CIPFA's Code of Practice on Treasury Management (2017)
- Council's approved Treasury Policy & Strategy Statements 2018/19 to 2022/23
- Council's approved Treasury Management Practice Statements

## Treasury Management Annual Report 2018/19

### The Strategy for 2018/19

1. The 2018/19 to 2022/23 Treasury Management Strategy was approved by Council on 22 March 2018.
2. The formulation of the 2018/19 to 2022/23 Treasury Management Strategy involved determining the appropriate borrowing and investment decisions with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.
3. The Treasury Management Strategy fully complies with the requirements of CIPFA's Treasury Management Code of Practice and covered the following:
  - prospects for interest rates;
  - treasury limits in force including prudential indicators;
  - the borrowing strategy;
  - the extent of debt rescheduling opportunities; and
  - the investment strategy.

### Investment Strategy

4. Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest. These investment regulations came into force on 1 April 2004 and in conjunction with supplementary guidance are considered best practice.
5. Investments are managed in-house using counterparties listed in an approved lending list. Investments are placed over a range of periods and are dependent on the assessed security of the counterparty, the liquidity requirements of the cash flow, interest rate expectations and the interest rates actually on offer.
6. The expectation for interest rates within the Treasury Management Strategy for 2018/19 to 2022/23 anticipated a low, steady Bank Rate, with rate increases expected in May 2018 and November 2018. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

## **Borrowing Strategy**

7. The borrowing strategy for 2018/19 was as follows:

- When Public Works Loan Board (PWLB) rates fall back to the following target rates borrowing should be considered, 2.70% Q1, 2.80% Q2, 2.90% Q3 and 3.00% Q4. Preference is given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -  
10 years – 2.60%  
25 years – 3.05%  
50 years – 2.85%
- The use of short-term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.
- External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.
- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

Potential opportunities for repaying debt before the maturity date to reduce borrowing costs was monitored and assessed throughout the year. In November 2018 the Council was approached by the Royal Bank of Scotland (RBS) who indicated that loans they had previously provided to the Council were no longer a fit for its business model. RBS offered favourable rates to the Council which allowed the repayment of £72m of Lender Option Borrower Option loans. The Council anticipates that a saving in the region of £13m over the remaining term of the loans will be achieved as a consequence of this refinancing exercise.

## **Treasury Management Approach to Risk**

8. The primary objective is to safeguard the Council's assets. Procedures have been put in place to ensure this takes place and these are fully documented in the Council's Treasury Management Practice Statements (TMPS), which are constantly kept under review. These procedures are followed without exception. The Internal Audit report of 22nd November 2018 concluded that Treasury Management control systems and procedures are operating well. All funds were safeguarded in 2018/19.

## **Outturn 2018/19 – Performance Measurement**

9. It should be noted that procedures in relation to the Prudential Code were effective from 1 April 2004 and continue to apply to this report on 2018/19 performance. However, in December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Full implementation of the revised Codes of Practice is not expected until the 2019/20 budget cycle across all authorities.
10. The performance, against limits in respect of borrowing set prior to the start of the financial year as Prudential Indicators, will be reported to Cabinet on 25 June 2019 as part of the Capital Monitoring process. None of the approved Prudential Indicators set

for 2018/19 were breached in the year. For completeness the Prudential Indicators are shown at Appendix 4.

## Market Interest Rates

11. Performance must be considered in conjunction with actual rate movements over the financial year which were as follows:
  - **Shorter-term interest rates** – The Monetary Policy Committee (MPC) at its quarterly Inflation Report meeting of 2 August 2018 agreed to increase Base Rate to 0.75% and it remained at that level for the rest of the year.
  - **Longer-term interest rates** – At their 7 February 2019 meeting, the MPC repeated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; they have quoted a Bank Rate of around 2.50% in ten years' time but have declined to give a medium-term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit.

## Investment Performance

12. The major issue for treasury management in 2018/19 has been ensuring the security of investments whilst generating a reasonable rate of return. Due to the difference between the cost of borrowing and investment interest and the reduction in suitable counterparties the Council has continued to use investment balances to temporarily fund the capital programme. This has delivered a saving on borrowing costs.
13. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 20 March 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.) The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
14. There has been a continued use of a range of investment instruments in order to increase flexibility, spread risk, maximise liquidity and obtain attractive rates. There has been an increased use of Notice Reserve accounts, and money market funds with high rated banks to maintain the security of the funds and enhance the rate of return on investments.
15. A summary of the year's activity is shown at Appendix 3. The investment interest earned in the year was £0.693m (2017/18 £0.470m) with an average interest rate of 0.80% (2017/18 0.51%). Interest earned on loans to third parties, agreed as part of the capital programme, increased total interest to £2.320m which was £0.585m more than the original budget of £1.735m. This includes £0.886m interest relating to Newcastle International Airport.
16. The overall return for the year of 0.80% exceeds the accepted benchmark for 2018/19, which was 0.51%. This benchmark is the 7-day London Interbank Bid Rate (LIBID), which is traditionally linked to the base rate.
17. Furthermore, the Council is a member of Link Asset Services Investment Benchmarking Group which assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return. This is used for comparison across other local authorities who also subscribe to this service across a

number of groups. The Council achieved an average return of 0.92% on its investments for Quarter 4 2018/19 which is in line with the risk adjusted expectations (0.83% to 0.99%) defined in the Benchmarking Report for our group.

### **Heritable Bank**

18. The Council had a deposit of £2.792m at risk in Heritable Bank, a wholly owned subsidiary of an Icelandic bank, Landsbanki, when it entered administration in October 2008. The full deposit in Heritable was due to mature by the end of 2008/09 with interest.
19. To date dividends totalling £2.736m (98.00p in the £) have been received.
20. The most recent update from the administrators, Ernst and Young, in March 2019, provided detail of all dividends received to date and advised that no further dividend is expected until the administration is concluded. Ernst and Young intend to issue a further report early within the next accounting period.

### **Borrowing Performance**

21. The total external borrowing at 31 March 2019 was £670.567m, which was within the operational borrowing limit of £850.000m. This is a net increase of £20.226m from the opening figure of £650.341m. The increase is represented by £121.700m of new borrowing offset by £101.474m repayment of borrowing.
22. Investment returns/interest rates were low during 2018/19 and were well below long term borrowing rates. Therefore, value for money considerations indicated that best value could be obtained by delaying new external borrowing by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). At the end of the financial year 2018/19 the Council had internal borrowing of £19.558m. Any short-term savings gained from adopting this approach was weighed against the potential for incurring additional long-term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

23. The Council's underlying need to borrow for capital expenditure and long term liabilities is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Council and the resources applied to fund the capital spend, as follows:

	<b>31 March 2018 Actual £m</b>	<b>31 March 2019 Actual £m</b>
<b>Capital Financing Requirement for General Fund excluding PFI</b>	320.153	346.741
<b>Capital Financing Requirement for HRA excluding PFI</b>	345.505	345.505
<b>Total Capital Financing Requirement excluding PFI</b>	665.658	692.246

24. The details of the borrowing taken during 2018/19 are as follows:

<b>Date</b>	<b>Term (years)</b>	<b>Amount £m</b>	<b>Interest Rate (%)</b>	<b>Source</b>
31/05/2018	48	5.000		PWLB
15/10/2018	1 month (s)	5.000		London Borough of Havering
14/11/2018	46.5	10.000		PWLB
14/11/2018	48	10.000		PWLB
23/11/2018	44.5	20.000		PWLB
23/11/2018	45.5	10.000		PWLB
23/11/2018	3 months	10.000		West of England CA
23/11/2018	47.5	5.000		PWLB
23/11/2018	50	15.000		PWLB
13/12/2018	44	5.000		PWLB
28/01/2019	12	5.000		PWLB
05/02/2019	12.5	5.000		PWLB
19/02/2019	12	5.000		PWLB
12/03/2019	9.5	5.000		PWLB
31/03/2019	2	6.700		NELEP
		<b>121.700</b>		

25. At 31 March 2019 £610.867m of the total borrowing was from the PWLB and £59.700m was in the form of market loans. The average interest rate on borrowing has reduced from 4.12% in 2017/18 to 3.56% during 2018/19 which will reduce borrowing costs.
26. There was £15.000m of short-term borrowing taken during 2018/19 primarily to manage cash flow timing, with £10.000m being repaid prior to year-end. The majority of PWLB long term loans taken in 2018/19 were over 44 years which lengthens the life of the debt portfolio and provides long term security in terms of borrowing costs by securing loans at historically low rates.
27. The overall revenue cost of borrowing in 2018/19 was £25.209m. As a consequence of the level of capital expenditure and the application of the Treasury Management Strategy this was £2.862m less than the budget.

## Debt Restructuring & Repayment

28. Due to the reintroduction of redemption rates on the early repayment of PWLB debt it was anticipated that there would be little scope to restructure PWLB debt.
29. The rates payable on the early redemption of debt was monitored throughout the year. The cost of early repayment of PWLB loans outweighed any savings and therefore there was no early redemption of PWLB debt.
30. The Royal Bank of Scotland offered favourable rates to the Council allowing the redemption of £72m Lender Option Borrower Option loans. The Council anticipates that a saving in the region of £13m over the remaining term of the loans will be achieved as a consequence of this refinancing exercise.

## Summary of Treasury Management Performance for the Year 2018/19

31. Total interest income was £0.585m more than the budget, this reflects the impact on gross investment interest of an increase in base rate on 3 August 2018 as well as increased balances due to unexpected receipts.
32. Borrowing costs were £2.862m less than budget due to a delay in taking borrowing and being taken at lower interest rates than estimated and the decision to temporarily fund the capital programme from cash balances.
33. In 2018/19 the Royal Bank of Scotland offered favourable rates to the Council which allowed the repayment of £72m of Lender Option Borrower Option loans. The Council anticipates that a saving in the region of £13m over the remaining term of the loans will be achieved as a consequence of this refinancing exercise.
34. Overall Treasury Management performance against budget for 2018/19 generated net savings of £3.447m, this is summarised in the following table:

	<b>Budget</b>	<b>2018/19</b>	
	<b>£m</b>	<b>Actual</b>	<b>Saving</b>
		<b>£m</b>	<b>£m</b>
Cost of Borrowing	28.071	25.209	(2.862)
Interest Income	(1.735)	(2.320)	(0.585)
<b>Net Position</b>	<b>26.336</b>	<b>22.889</b>	<b>(3.447)</b>

Treasury Management remained challenging throughout 2018/19 with one of the lowest bank interest rates in history and continuing pressure on available counterparties.

## Investment Activity

	2017/18	2018/19
Number of investments made in 2016/17 maturing in 2017/18	14	n/a
Number of investments made in 2017/18 maturing in 2017/18	23	n/a
Number of investments made in 2017/18 maturing in 2018/19	n/a	19
Number of investments made in 2018/19 maturing in 2018/19	n/a	28
Total number of investments maturing in year	37	47
Number of investments made in 2018/19 maturing in 2019/20	n/a	18
Average duration of investments (including overnight)	11 days	12 days
Average duration of investments (excluding overnight)	118 days	143 days
Non-specified investments:		
Rated non-high		
Approved limit	75%	75%
Maximum level invested	4.92%	6.92%
Not Rated		
Approved limit	0%	0%
Maximum level invested*	0.03%	0.04%
Investments greater than 364 days		
Approved limit	£15m	£15m
Maximum level Invested	£5m	£5m

\*Relates to the impaired investment with Heritable Bank.

### PRUDENTIAL INDICATORS 2018/19

The 2018/19 Prudential Indicators were agreed by Council on 22 February 2018 (column 1). This is now compared with the 2018/19 actual outturn position as at the 31 March 2019 (column 2).

Certain Treasury Management indicators must be monitored throughout the year on a regular basis in order to avoid breaching agreed limits. The capital expenditure and capital financing requirement indicators have been revised in line with the revised budget and none of the other approved Prudential Indicators set for 2018/19 have been breached.

<b>Capital Expenditure</b>		
	2018/19 £000 Reported Indicator	2018/19 £000 Actual
Non-HRA	74,582	55,429
HRA	28,280	31,835
<b>Total</b>	<b>102,862</b>	<b>87,264</b>
To reflect the reported capital monitoring agreed by Council during the year		

<b>Ratio of Financing Costs to Net Revenue Stream</b>		
	2018/19 Reported Indicator	2018/19 Actual
Non-HRA	15.41%	12.08%
HRA	45.60%	48.08%

<b>Capital Financing Requirement</b>		
	2018/19 £000 Reported Indicator	2018/19 £000 Actual
Non-HRA	377,862	346,741
HRA	345,505	345,505

There were no breaches to the Prudential Indicators set for 2018/19.

<b>Authorised Limit for External Debt</b>	
	2018/19 £000 Reported Indicator
Borrowing	875,000
Other Long Term Liabilities	0
<b>Total</b>	<b>875,000</b>
Maximum YTD 31/03/2019 £670.567m	

<b>Operational Boundary for External Debt</b>	
	2018/19 £000 Reported Indicator
Borrowing	850,000
Other Long Term Liabilities	0
<b>Total</b>	<b>850,000</b>
Maximum YTD 31/03/2019 £670.567m	

The Council's actual external debt at 31 March 2019 was £670.567m. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

#### ***Estimated Incremental Impact on Council Tax and Housing Rents***

This indicator is set at the time the Council's budget is set. Therefore, there is no requirement for this Indicator to be monitored on a quarterly or annual basis.

#### ***Adherence to CIPFA code on Treasury Management***

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

<b>Upper / Lower Limits for Maturity Structure of Fixed Rate Borrowing</b>				
	<b>2018/19 £000 Reported Indicator</b>		<b>2018/19 £000 Actual Position</b>	
	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual Percentage</b>	<b>Maximum YTD</b>
Under 12 months	30%	0%	3.85%	5.49%
12 months to 24 months	30%	0%	7.54%	13.14%
24 months to 5 years	40%	0%	7.38%	17.08%
5 years to 10 years	40%	0%	8.67%	9.57%
10 years to 20 years	40%	0%	11.74%	12.86%
20 years to 30 years	40%	0%	1.16%	1.21%
30 years to 40 years	50%	0%	27.43%	27.71%
40 years to 50 years	50%	0%	30.73%	37.75%
50 years and above	30%	0%	0.00%	2.31%
All within agreed limits.				

<b>Upper / Lower Limits for Maturity Structure of Variable Rate Borrowing</b>				
	<b>2018/19 £000 Reported Indicator</b>		<b>2018/19 £000 Actual Position</b>	
	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual Percentage</b>	<b>Maximum YTD</b>
Under 12 months	30%	0%	1.49%	4.61%
12 months to 24 months	15%	0%	0.00%	0.00%
24 months to 5 years	15%	0%	0.00%	0.00%
5 years to 10 years	15%	0%	0.00%	0.00%
10 years to 20 years	15%	0%	0.00%	0.00%
20 years to 30 years	15%	0%	0.00%	0.00%
30 years to 40 years	15%	0%	0.00%	0.00%
40 years to 50 years	15%	0%	0.00%	0.00%
50 years and above	15%	0%	0.00%	0.00%
All within agreed limits.				

On 8 March 2007, Council agreed to the placing of investments for periods of longer than 364 days in order to maximise investment income before forecasted cuts in interest rates. An upper limit was set and agreed as a new Prudential Indicator.

<b>Upper Limit on amounts invested beyond 364 days</b>			
	<b>2018/19 £000 Reported Indicator</b>	<b>2018/19 £000 Actual Position</b>	<b>2018/19 £000 Maximum YTD</b>
	Investments	<b>15,000</b>	<b>5,000</b>

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

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24 June 2019



**Title of Report: Annual Governance Statement 2018/19**

**Report Of: Darren Collins, Strategic Director, Corporate Resources**

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### **Purpose of the Report**

- 1 The Committee are asked to review the evidence of assurances provided on the Council's internal controls, risk management and governance arrangements, and approve the Annual Governance Statement 2018/19, attached at Appendix A.

### **Background**

- 2 The Accounts and Audit Regulations 2015 require Councils to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness. This accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and the Chief Executive.
- 3 The Audit and Standards Committee agreed on 4 March 2019 the assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances were required in the following areas:
  - Governance arrangements
  - Councillors
  - Senior Managers
  - The system of internal audit
  - Risk management arrangements
  - Counter Fraud Arrangements
  - Performance management and data quality
  - Views of the external auditor and other external inspectorates
  - The legal and regulatory framework
  - Financial controls
  - Partnership arrangements and governance
  - Other sources of assurance

## **Governance Arrangements**

- 4 The Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committees in April 2007. This was last updated and agreed by the Audit and Standards Committee on 28 January 2019. This Code defines how the Council complies with the principals of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework.
- 5 The effectiveness of the Council's governance arrangements will be considered through the assessment of assurances below.

## **Councillors**

- 6 As in the previous year assurance has been sought from Members of the Cabinet on the effectiveness they feel can be placed on the Council's corporate governance arrangements. A report elsewhere on this agenda sets out the evidence to show that effective governance arrangements are in place.

## **Senior Managers**

- 7 All Service Directors have completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes and governance arrangements. The conclusion of this exercise is reported elsewhere on this agenda and found that managers agreed that effective control systems were in place.

## **The System of Internal Audit**

- 8 The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition the Council has a framework of assurance available to satisfy that its risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service, for example, the Health and Safety team. These other assurance sources have been assessed as part of the Audit Plan.
- 9 The system of Internal Audit, which includes the Audit and Standards Committee, has been reviewed and found to be operating effectively by the Council's Internal Control Group which met on 4 May 2019.
- 10 Based on evidence arising from planned internal audit activity during 2018/19, the overall opinion of the Chief Internal Auditor for the year which is reported elsewhere on this agenda in the Internal Audit Annual Report 2018/19, is that internal control systems and governance arrangements are considered to be effective.

### **Risk Management Arrangements**

- 11 The Strategic Director, Corporate Resources reports elsewhere on this agenda that risk management arrangements during the year were effective.

### **Counter Fraud Arrangements**

12. The Strategic Director, Corporate Resources reports elsewhere on this agenda that Counter Fraud Arrangements during the year were effective.

### **Performance Management and Data Quality**

13. The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
14. In addition, performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
15. The evidence arising from the performance management framework process for 2018/19 was presented to the Council's Internal Control Group on 4 May 2019. Based on this evidence the Group found that effective controls are in place.

### **Views of the External Auditor and other External Inspectors**

16. Mazars, the Council's external auditor, issued an Annual Audit Letter in August 2018 covering the financial year 2017/18. This comprised of two elements:
  - the audit of the Council's Statement of Accounts – an unqualified opinion was issued and presented to the Council's Accounts Committee on 23 July 2018.
  - Value for Money Conclusion - the conclusion was that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
17. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

### **The Legal and Regulatory Framework**

18. Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with

established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body. This evidence supporting an effective Legal and Regulatory Framework was presented to the Council's Internal Control Group on 4 May 2019.

### **Financial Controls**

19. Assurance has been obtained from the Strategic Director, Corporate Resources, who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit. This evidence supporting effective financial controls was presented to the Council's Internal Control Group on 4 May 2019.

### **Partnership Arrangements & Governance**

20. Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.
21. Based on evidence arising from partnerships for 2018/19 effective controls are in place. This evidence was presented to the Council's Internal Control Group on 4 May 2019.

### **The Annual Governance Statement**

22. As reported to the Audit and Standards Committee on 4 March 2019, a corporate group uses the findings of the above sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements. Using evidence from this assessment the Group prepares the Annual Governance Statement for approval by this Committee, which will then accompany the Statement of Accounts.
23. This Group, the Internal Control Group, which is chaired by the Strategic Director, Corporate Resources and includes the Strategic Director, Corporate Services and Governance along with representatives of the Chief Executive, Internal Audit and Corporate Risk Management has reviewed the evidence from the sources of assurance above and prepared the Annual Governance Statement for 2018/19 which is attached at Appendix A.

24. Based on the review of the Council's governance arrangements during 2018/19, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.
25. The Annual Governance Statement therefore reflects this opinion and gives details of the evidence obtained to achieve it, actions taken to improve governance following the previous AGS, and an action plan for the next year.

**Recommendation**

26. The Committee is asked to approve the Annual Governance Statement to accompany the Statement of Accounts 2018/19 prior to it being passed to the Leader of the Council and Chief Executive for signature.

**Contact name: Craig Oakes Ext. 3711**

**Gateshead Council and Group**

**Annual Governance Statement 2018/19**

**Scope of Responsibility**

**Subject to review and approval by Audit and Standards Committee on 24 June 2019**

- 1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions and which includes arrangements for the management of risk.
- 3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework*. A copy of the Code is on the Council's website at:  
  
<https://www.gateshead.gov.uk/article/3696/Local-Code-of-Governance>
- 4 This statement explains how the Council and Group has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

**The Purpose of the Governance Framework**

- 5 The Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services. Good governance combines robust systems and processes, such as risk management, financial management, performance management and internal controls, with effective leadership based on openness and strong ethical standards to create a culture that underpins the delivery of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.
- 6 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

- 7 The Governance Framework has been in place at the Council for the year ended 31 March 2019 and approval of the Statement of Accounts 2018/19.

### **The Governance Framework**

- 8 The Council continually reviews and improves its Governance Framework and during 2018/19, it has been updated to take account of amendments to some of the references evidencing how the Council demonstrates compliance, and reference has also been made to the Health and Wellbeing Board's remit to recognise the Council's responsibility for Public Health as this covers the wider detriments such as economic, social and environmental issues.
- 9 The Council continues to face a number of challenges managing significant budgetary pressures, whilst meeting increasing demand as a consequence of demographic changes and a rapidly changing policy context. It is anticipated that the scale and depth of these changes will continue until at least 2020, so the Council needs to ensure it can adapt with pace and purpose to continue to provide the best possible services to its residents.

### **Organisational Structures**

- 10 The Council's objectives are set out in the strategic approach, Making Gateshead a Place Where Everyone Thrives, which provides a framework to demonstrate how the Council will work and make decisions which will be policy and priority led. These are translated into more specific aims and objectives in the Service business plans which each Council Service prepares annually. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.
- 11 The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The Council's Corporate Management Team are leading on performance management with the continued development of a balanced scorecard for the Council, which will be scrutinised every two months. Performance is also monitored by Group Management Teams and SMG (Services and Performance) before being scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who invite portfolio holders into OSC for performance discussions as per Council Protocol 28. A composite report is then presented to Cabinet for approval. The six month performance reports are published online on the Council's website.
- 12 The Localism Act, 2011 introduced a duty on Councils to promote and maintain high standards of behaviour by members of the Council. While the Act removed the requirement to have a Standards Committee, the Council has set up a politically balanced Committee to deal with any such issues and this was combined with the Audit Committee during 2014/15 as part of the changes to the decision making structures. Employees are also subject to a Code of Conduct and a number of specific policies as set out in the Employee Handbook.

- 13 Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution. This sets out, among other things, where responsibility lies for developing and delivering policy, and for taking decisions. The Constitution provides for extensive delegation to officers but within a policy framework laid down by the Council, and with the more significant executive decisions being taken by the Leader and Cabinet. The Constitution is subject to an annual review which ensures it is up to date in terms of changes to Council policy, revised delegations and legislative changes.
- 14 Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. The Audit and Standards Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.
- 15 The Strategic Director, Corporate Resources is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety and budget issues; giving financial information; and acting as the Council's money laundering reporting officer. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 16 The Audit and Standards Committee reviews and approves the Council's Local Code of Governance; the original code was reviewed by the Audit and Standards Committees and approved by the full Council following referral from the Cabinet. The terms of reference for the Audit and Standards Committee state it will "*consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements*". The Committee reviews internal control and governance issues relating to the Council and submits an annual report to the Cabinet and Council, based on its activity over the year including the approval of the Annual Governance Statement.
- 17 Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every report submitted to a decision-making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making. This includes acting as the Council's Senior Information Risk Owner with overall responsibility for the Council's Information Governance procedures.
- 18 The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective

use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2014/15, the Internal Audit Services was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant and identified no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the Council's system of internal control. There were some minor areas for improvement which were not considered material to impact on the overall scope of operation of the Service and were actioned in 2015/16. The results of the assessment were reported to the Audit and Standards Committee on 26 January 2015.

- 19 The Council is committed to the training and development of all its councillors. All councillors are encouraged to take the opportunity to draw up a Personal Development Plan (PDP) which is monitored on an annual basis. The PDP helps to identify areas where individuals would like extra training or development. Councillors are also encouraged to attend training courses on specific issues including Ethics and Probity and Risk Management. In addition, a development pool has been established into which councillors can nominate themselves, to further develop their chairing skills. The Council has for many years, provided an induction programme for new councillors, giving the opportunity to meet with the Chief Executive and senior officers of the Council. The aim of the programme is to give an insight into how the Council works and the different services it provides to residents.
- 20 A Corporate Partnership Register is maintained which is updated by Strategic/Service Directors in a timely manner and then reviewed on an annual basis. A guidance document is available to Strategic/Service Directors to support the maintenance of the register. Examples of partnerships on the register include the Gateshead Health and Care System, Physical Disability and Sensory Impairment Partnership, Local Safeguarding Children Board, Health and Wellbeing Board and the South Tyne & Wear Waste Management Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.
- 21 The Gateshead Housing Company, the Council's arms length management organisation, is responsible for managing Council housing stock on behalf of the Council. They play a significant role in delivering the Council's priority outcomes. The Council and Housing Company share most core systems of control including the finance system, and their internal audit services are provided by the Council. The Company has its own Board, Audit Committee and Strategic Risk Register. The main features of their governance and internal control arrangements are assessed each year and reported to the Company's Audit Committee by way of a Report of the Managing Director on the Statement of Internal Control, and their accounts have been consolidated into the Council's group accounts on a line by line basis.

## Review of Effectiveness

- 22 The Accounts and Audit Regulations 2015 and the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework have established requirements that all local authorities must adhere to in relation to governance arrangements. The Council must ensure that it has a sound system of internal control which:
- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - Ensures that the financial and operational management of the Council is effective; and
  - Includes effective arrangements for the management of risk.
- 23 The Council must, each financial year, conduct a review of the effectiveness of the system of internal control and to include the results in an Annual Governance Statement which accompanies the Statement of Accounts.
- 24 The review of the effectiveness of governance arrangements is informed by:
- The opinion of the Members of the Cabinet;
  - The work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment;
  - An assessment of the Systems of Internal Audit, incorporating a review of the Internal Audit Service and the Audit and Standards Committee, and the Chief Internal Auditor's annual report;
  - Corporate Risk Management arrangements;
  - The robustness of Performance Management and Data Quality information;
  - Views of the external auditor and other external inspectorates;
  - Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
  - Assurance from the Strategic Director, Corporate Resources on the operation of the Council's financial controls;
  - Partnership governance arrangements; and
  - Counter fraud and corruption arrangements.
- 25 The Council's Constitution sets out the role of the Leader and Cabinet as follows:
- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;
  - To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
  - To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role; and
  - To provide a public face on specific issues.
- 26 The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 28 January 2019. Assurance was sought from Councillors who served on the Cabinet during 2018/19, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance

arrangements. A report was presented to the Audit and Standards Committee on 24 June 2019 in which all Members of the Cabinet considered that governance arrangements are effective.

- 27 Service Directors have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 24 June 2019 which concluded that, based on the self- assessments, Service Directors agree that effective controls were in place.
- 28 The Chief Internal Auditor reports to the Council's Strategic Director, Corporate Resources, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 24 June 2019. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon. CIPFA issued an updated Statement on the Role of the Head of Internal Audit in April 2019, which will be referenced in 2019/20 when evaluating the Council's organisational arrangements for internal audit and considering the extent to which they align with the principles of the updated CIPFA statement.
- 29 The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 24 June 2019. This opinion is based on 89 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in 15 cases where significant weaknesses were identified. These weaknesses were in specific areas and as such there are no areas for improvement disclosed in this statement for 2018/19 as a result of the work of the Internal Audit Service.
- 30 The Council's Chief Internal Auditor is also the Chief Internal Auditor for the Gateshead Housing Company, and on this basis provides an independent opinion on the adequacy of the Company's internal control systems based on the Internal Audit reviews carried out during the year. Based on evidence arising from Internal Audit activity during 2018/19, the opinion of the Chief Internal Auditor reported to the Housing Company's Audit Committee 3 July 2019 is that the Company's internal control systems are considered to be effective. This opinion forms part of the Company's Managing Director's report on the Statement of Internal Control to the Audit Committee on 3 July 2019.
- 31 The Annual Risk Management Report was presented to the Audit and Standards Committee on 24 June 2019 which concluded that risk management arrangements are effective.

- 32 The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 24 June 2019 which concluded that counter fraud arrangements are effective.
- 33 Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year in accordance with the Council's performance management framework. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.
- 34 The Council has instigated a review of governance, oversight and monitoring in respect of its housing service provided by The Gateshead Housing Company in response to a Regulatory Notice received from the Regulator of Social Housing in April 2019. An action plan is in place to strengthen Council arrangements for oversight and performance monitoring in this area in 2019/20. No other work undertaken by external bodies or inspectorates during the year identified weaknesses in internal controls or governance arrangements.
- 35 Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Corporate Services and Governance, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. No areas of significant non-compliance have occurred during 2018/19.
- 36 Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Corporate Resources (Chief Financial Officer) who is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972. Effective systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 37 Service Directors review partnerships within their business plans on an annual basis. As partners are key to the delivery of the Council's objectives, assurance of their control and governance systems is required. The corporate guidance on managing partnerships effectively was updated in 2014 and is reviewed on an annual basis. The consensus amongst Service Directors was that all Partnership Arrangements have been established in compliance with the Council's Guide to Partnership Working. In addition the most recent review of this area by the Internal Audit Service found it to be satisfactory.

## Actions Taken to Improve Governance Following Previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council approach to managing the risk of Fraud and Corruption	Delivery of Counter Fraud Communication Strategy and strengthen with awareness training where beneficial	Communication and awareness strategy was developed and delivered to publicise the work of the Corporate Fraud Team, raising awareness of the counter fraud culture and highlighting the Council's commitment to preventing and reporting fraud and corruption.	None
	Develop Fraud Management System	A fraud management system is in place and will go live once the necessary Data Processing Agreements are agreed with partners.	None
Reviewing Governance arrangements to maximise support for Making Gateshead a Place Where Everyone Thrives	Review of Performance Management Framework in line with the new Thrive agenda	The corporate suite of strategic performance indicators has been reviewed to enable effective monitoring of the Council's strategic approach "Making Gateshead a Place Where Everyone Thrives".	None
Ensure the Risk Management Strategy continues to contribute to delivery of the Council's Strategic objectives	Review and develop risk management arrangements to consider risk appetite and support for Making Gateshead a Place Where Everyone Thrives	Strategic and Operational risks have been and will continue to be reviewed in the context of impact of delivery of objectives contributing to Thrive.	None
		The Council's Risk Management Policy and Framework references risk	None

		<p>appetite (tolerance), which will vary at any point in time and will depend upon a number of variables such as cost, reputation and effects on service delivery. The Council may be prepared to take large risks in some areas and none in others, and the relevant factors are considered to inform decision making.</p>	
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### Action Plan for 2019/20

<b>Governance Issue</b>	<b>Planned Action</b>	<b>Responsible Officer</b>
Strengthen Council arrangements for oversight and performance monitoring of The Gateshead Housing Company.	The Council will work with both the Regulator of Social Housing and The Gateshead Housing Company (TGHC) to improve governance, oversight and performance monitoring of TGHC to ensure compliance with relevant Regulations and provide assurance for tenants.	Strategic Director, Corporate Services and Governance
Updated CIPFA Statement on the Role of the Head of Internal Audit	The Council's organisational arrangements for internal audit to be evaluated to consider the extent to which they align with the principles of the updated CIPFA guidance in this area.	Strategic Director, Corporate Resources

## **Opinion on Governance Arrangements**

- 38 Based on the review of the Council's governance arrangements during 2018/19, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

## **Joint Statement by the Leader of the Council and the Chief Executive**

- 39 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 24 June 2019 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

**Signed:**

**Signed:**

**Councillor Martin Gannon**

**Sheena Ramsey**

**Leader of the Council**

**Chief Executive**

**Dated:**

**Dated:**