

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 19 October 2020

PRESENT: Councillor M Charlton (Chair)

Councillor(s): L Green, J McElroy, Mr Stuart Bell
(Independent Member), D Burnett, S Green, H Kelly and
R Beadle

APOLOGIES: Councillor(s): G Clark and B Jones

ASC283 MINUTES

The minutes of the last meeting held on 20 July 2020 were approved as a correct record.

With regard to minute ASC270 the Committee received an update from Ged Morton, Service Director, Legal and Democratic Services on the response from the Committee to the LGA on the Code of Conduct consultation 2020, which had been sent to the LGA on 17 August 2020.

The Committee broadly welcomed the draft code and recognise that there is a need to modernise the approach addressing conduct issues, for example by addressing new areas of behaviour such as the use of social media.

The Committee considered that under current arrangements official capacity was not uniformly applied, nor was it necessarily understood by the public. The Committee's view was that broadly councillors should be presumed to be acting in an official capacity, including when using publicly accessible or open social media.

Of concern to the Committee, was that updated sanctions have not really been addressed within the model code. Current sanctions available to the Council remain in the Committee's view insufficient. The Committee recognised that the code cannot include new sanctions without legislative change, but suggests that the LGA could take this opportunity to request government to provide new powers for local authorities to introduce more proportionate sanctions, including as recommended by the Committee on Standards in Public Life the ability (where appropriate) to suspend councillors for a period of up to six months.

The Committee considered that a failure to introduce meaningful sanctions alongside the draft code will risk the code being perceived by the public as ineffective, which is a criticism of the current sanctions' regime. The desired impact

of the new code of improving public confidence in local democracy could well be lost as a result of a lack of robust sanctions. Ineffectiveness damages public confidence in the standards system and leaves Council with no means of enforcing lower level sanctions, nor of addressing serious or repeated misconduct.

The Committee also express the view that the processes to be followed when making a conduct complaint needed to be clear, accessible and decided upon in a timely way. Current codes are often criticised as being too legalistic or bureaucratic and not therefore accessible to members of the public and the processes of investigation slow to reach a conclusion.

The Council are still awaiting a response from the LGA following on from receipt of the Committee's feedback, as soon as a response is received an update will be provided to the Audit & Standards Committee.

ASC284 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC285 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2020 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2019/20

The Committee received a report providing an update on the outcome and findings of the audit of Gateshead's Statement of Accounts 2019/20 by the Council's external auditor Mazars.

The Committee were advised that as a result of COVID-19, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 extended the statutory deadlines for 2019/20. The publication date for final, audited accounts moved from 31 July 2020 to 30 November 2020.

The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2019/20 and the Council's external auditors, Mazars has issued its report, subject to the completion of outstanding work.

The Committee were informed that the Audit Completion Report covered:

- The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
- The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.

The external auditor's report was attached at Appendix 1 to the main report and the Council's Statement of Accounts was attached at Appendix 2 for information.

The Committee were also asked to note that although Mazars anticipate completing their work in October, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of

Accounts, and disclosures in relation to the Council's interest in the airport. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

The Committee were advised that an update position will be presented to the Committee by Mazars. A follow up letter will be provided, prior to signing the auditor's report.

Audit Completion Report

Mazars' Audit Completion Report was attached to the main report at Appendix 1 and the key messages were:

- Audit Opinion – at the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion on the financial statements, including drawing attention to the Valuer's material uncertainty statement on property, plant and equipment (PPE)
- Identified misstatements – the auditor's work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is set out in detail further on. Further work is ongoing in relation to the valuation of PPE.
- Value for Money – at the time of issuing the report Mazars anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- Whole of Government Accounts (WGA) – the timetable for the Council's submission has not yet been published by MHCLG. Audit work will be completed as soon as possible once these details have been clarified.
- Internal control recommendations in relation to the note 10 on grants, Beacon properties records, review of bad debt provisions, and sign off of Housing Rents.

The Committee were advised that in order to provide a full picture of the economic and financial activities of the Council and its exposure to risk, the accounting statements of material subsidiaries and associate companies were consolidated with those of the Council. In 2019/20 the only material subsidiary was TGHC due to the pension liability.

The Committee were advised that the Statement of Accounts was materially consistent with the 2019/20 revenue and capital outturn reports considered by Cabinet on 23 June 2020. Along with minor adjustments and presentational changes, significant findings and misstatements to the Statement submitted for audit on 7 July 2020 have been identified through the audit process.

The Committee also received details of the significant findings, issues discussed with management, unadjusted misstatements, adjusted misstatements and disclosure amendments within the body of the main report for information and noting.

- RESOLVED -
- i) That the information be noted
 - ii) That the contents of the external auditor's Audit Completion Report and any update reports be noted
 - iii) That the Statement of Accounts 2019/20 and their contents be noted
 - iv) That the Committee agree to the submission to the Accounts Committee for consideration in due course

ASC286 TREASURY MANAGEMENT PERFORMANCE TO 30 SEPTEMBER 2020

The Committee has reviewed the Treasury Management Performance for the six months to 30 September 2020 covering investments and borrowing. This is consistent with approved performance management arrangements.

The report covers:

- Investment Performance
- The Economy
- Rate of Return
- Borrowing
- PWLB Government Intervention

The projected net impact of investment and borrowing activity on the revenue budget in 2020/21 is an underspend of £0.576m, comprising of £0.327m General Fund and £0.249m HRA.

Investment returns are likely to remain relatively low during 2020/21 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

The current approach to borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which at present is outweighed by the savings achieved from avoiding external borrowing. The additional element of interest rate risk will continue to be monitored.

- RESOLVED - That the Treasury Management Performance to 30 September 2020 be noted, prior to its submission to Cabinet.

ASC287 ACHIEVEMENT OF GOING CONCERN STATUS

The Committee received a report outlining the assessment of the Council's status as a going concern in line with best practice.

The provisions in the Accounting Code on the going concern accounting

requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that local authorities have no ability to cease being a going concern as described by IAS 1 Presentation of Financial Statements. As local authorities cannot be dissolved without statutory prescription, it would not be appropriate for the Council's financial statements to be prepared on any other than a going concern basis.

Although the financial context continues to be challenging and uncertain the Council has a track record of meeting its financial obligations and maintaining financial sustainability. In the past 8 years the Council has delivered an outturn within its original budget. A Council wide approach to the budget, which is priority driven and over a medium term planning horizon will ensure that this continues to be the case.

The Annual Audit Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter issued in relation to 2018/19 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Details of the Current Position 2019/20, Future Position 2020/21 Budget and Future Position – Medium Term Financial Strategy (MTFS) were tabled for information to the Committee.

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

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

ASC288 ANNUAL REPORT TO CABINET AND COUNCIL 2019/20

The Committee received the Annual Report to Cabinet and Council 2019/20, which allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:

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

Appendix 1 which was attached to the main report included the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.

Based on the evidence presented during the year and at the meeting of the

Committee on 20 July 2020 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2019/20, which accompanies the Statement of Accounts.

- RESOLVED -
- i) That the information be noted.
 - ii) The Committee agreed the draft report to Cabinet and Council at Appendix 1.

ASC289 ANNUAL GOVERNANCE STATEMENT 2019/20 - INTERNAL AUDIT REVIEW OF MANAGERS' ASSURANCES

The Committee received a report informing them of the outcome of the work by the Internal Audit Service in reviewing the assurances provided by Service Directors to inform the 2019/20 Annual Governance Statement.

Service Directors were asked to build on the work carried out in previous years and complete a self-assessment assurance statement detailing the level of assurance they felt they could place on their key control and governance processes. They were required to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance. There was also a requirement to detail the evidence to support this assessment.

Internal Audit undertake an annual review of the assurance statements to ensure:

- Where key controls are not providing a sufficient level of assurance action has been taken to address these areas.
- Where key controls are providing a good level of assurance, evidence exists to support this assessment.

The 2019/20 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- IT/Cyber Security
- Covid19 Assessment

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

The overall conclusion of this work, as included in the Quarter Two update from Internal Audit report elsewhere on this agenda, is that the systems and processes for the completion of the Managers' Assurance Statements are operating well and that they provided a good level of assurance for the 2019/20 Annual Governance Statement.

RESOLVED – That the information be noted.

ASC290 CORPORATE RISK MANAGEMENT 2020/21 QUARTER 2 UPDATE

The Committee received a report providing an update on Corporate Risk Management developments during the period 1 July to 30 September 2020 in line with the principles of good corporate governance.

The report included updates on:

- Strategic risk management
- Operational risk management
- Business continuity management
- Corporate Risk and Resilience Group

RESOLVED - i) That the information be noted.
 ii) The Committee endorsed the effectiveness of the Council's risk management arrangements

ASC291 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.

ASC292 MID-YEAR COUNTER FRAUD UPDATE 2020/21

The Committee received a report which provided an update on activity undertaken since 1 April 2020 by the Internal Audit and Risk Service in relation to the work of the Corporate Fraud Team. It also updated on action taken to raise awareness of the risk of fraud and corruption, details the cases of potential fraud and irregularity, updates on any proactive counter fraud work and progress of the Council's participation in the National Fraud Initiative.

RESOLVED – That the information be noted.

ASC293 INTERNAL AUDIT PLAN 2020/21 QUARTERLY MONITORING REPORT TO 30 SEPTEMBER 2020

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2019/20 and summarises the main findings arising from audit activity throughout the period 1 July 2020 to 30 September 2020.

A total of 17 assignments were completed during the period. Of the work completed the conclusion in 2 cases was operating well, 12 satisfactory and 3 significant weakness.

All indicators are either on or exceeding targets, with the exception of productive or chargeable time, which was 62% against a target of 71%, which is due to the relatively high instances of annual leave during the period.

The other exception at this stage is the target for implementation of audit recommendations which is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendations is 79%, with 81% of all medium priority and 83% of all high priority recommendations having been implemented.

The Committee were advised that due to the ongoing COVID emergency audit work was suspended between April and late July, which included the follow up of recommendations. Officers are now working through the backlog created which has distorted the implementation of recommendations performance figures recorded above and also in Appendix B. Additionally many Council Services are still under a great deal of pressure to fulfil front line delivery which has impacted on the availability of staff to respond to audit challenge. It is anticipated that this position will improve over the next quarter and officers expect implementation levels to be nearer target levels of 100%.

RESOLVED – That the information be noted.

ASC294 DATE AND TIME OF NEXT MEETING

The next meeting of the Committee will be held on Monday 25 January 2021 at 10.30 am.

Chair.....