

## *AUDIT AND STANDARDS COMMITTEE AGENDA*

**Monday, 25 April 2022 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	<b>Apologies for Absence</b>
2	<b>Minutes</b> (Pages 3 - 6)  The Committee is asked to approve as a correct record the minutes of the meeting held on 7 March 2022.
3	<b>Declarations of Interest</b>  Members of the Committee are invited to declare interests in any agenda items.
4	<b>Grant of Dispensations</b> (Pages 7 - 8)  Report of the Strategic Director, Corporate Services and Governance
5	<b>External Auditor: Audit Strategy Memorandum Year Ending 31 March 2022</b> (Pages 9 - 46)  Report of the Strategic Director, Resources and Digital
6	<b>Internal Audit Charter, Strategy Statement and Annual Plan 2022/23</b> (Pages 47 - 76)  Report of the Strategic Director, Resources and Digital
7	<b>Corporate Risk Management 2021/22 Quarter 4 Update</b> (Pages 77 - 80)  Report of the Strategic Director, Resources and Digital
8	<b>Exclusion of the Press and Public</b>  The Committee may wish to exclude the press and public from the meeting during consideration of the following agenda in accordance with paragraph 7 of Schedule 12A to the Local Government Act 1972.
9	<b>Internal Audit Plan 2021/22 Quarterly Monitoring Report to 31 March 2022</b> (Pages 81 - 88)  Report of the Strategic Director, Resources and Digital

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**Date and time of next meeting**

Monday 20 June 2022 at 10.00am

Contact: Helen Conway - Tel: 0191 433 3993 - Email: [helenconway@gateshead.gov.uk](mailto:helenconway@gateshead.gov.uk)  
Date: Friday, 15 April 2022

## GATESHEAD METROPOLITAN BOROUGH COUNCIL AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 7 March 2022

- PRESENT:** Councillor M Charlton (Chair)
- Councillors: L Green, S Green, H Kelly J McElroy and J Reay and I Dormer (Independent Member)
- APOLOGIES:** Councillor R Beadle and L Bowler (Independent Member)

### ASC372 MINUTES

The minutes of the last meeting held on 31 January 2022 were approved as a correct record.

### ASC373 DECLARATIONS OF INTEREST

There were no declarations of interest.

### ASC374 ANNUAL GOVERNANCE STATEMENT 2021/22 - ASSURANCE FRAMEWORK

The Committee received an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) 2021/22 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

The assurance framework supports the AGS and provides councillors with information on the Council's control environment and governance arrangements. It maps the Council's strategic objectives to risks and controls and seeks assurance from a number of sources of Council activity.

The process of preparing the AGS should itself add value to the effectiveness of the Governance Assurance Framework. The assurance process will demonstrate four aspects:

- **Identify** – what do we want assurance on?
- **Assess** – what are the sources of assurance?
- **Review** – how is assurance validated?
- **Act** – what are the opportunities to improve?

The Committee were advised that in preparing the governance statement it will be necessary to review evidence from the following sources which together form the assurance framework:

- Governance arrangements
- Councillors

- Senior Managers
- The system of internal audit
- Risk Management arrangements
- Counter Fraud arrangements
- Performance Management and data quality
- Views of the external auditor and other external inspectorates
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance
- Other sources of assurance

The Committee were advised that the Council has a Local Code of Governance, which was last updated and agreed by the Audit and Standards Committee on 31 January 2022. This code defines how the Council complies with the principles of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework.

The principles of good governance in the framework are:

- Behaving with integrity
- Ensuring openness and comprehensive engagement
- Defining sustainable outcomes
- Determining interventions
- Developing capacity
- Managing risks and performance
- Implementing good practice in transparency

The Committee were advised that a corporate group, chaired by the Strategic Director, Resources and Digital will use the findings of the 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 will prepare the AGS for 2021/22 for approval by the Audit and Standards Committee in June 2022. This will then accompany the Statement of Accounts for 2021/22.

RESOLVED – That the Assurance Framework as set out in the report be agreed.

**ASC375 TREASURY POLICY STATEMENT AND TREASURY STRATEGY 2022/23 TO 2026/27**

The Committee received the proposed Treasury Policy Statement and Treasury Strategy for 2022/23 to 2026/27 prior to consideration by Cabinet.

The Committee were informed that in order to provide a framework for the Strategic Director, Resources and Digital to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

The Committee were advised that the Treasury Policy and Treasury Strategy

appended to the main report have been prepared considering the Local Government Act 2003, Department for Levelling up, Housing and Communities (DLUHC) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital (2021) and CIPFA's Code of Practice on Treasury Management (2021).

The Committee were asked to review the Treasury Policy and Treasury Strategy to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

- RESOLVED -
- i) That the information be noted.
  - ii) That the recommendations on the Treasury Policy and the Treasury Strategy be noted and submitted to the Cabinet.

#### **ASC376 EXTERNAL AUDITOR'S ANNUAL REPORT YEAR ENDED 31 MARCH 2021**

The Committee received Mazars's Annual Report for year ended 31 March 2021 and agree to the schedule of fees in section 4 of the report.

The report outlines how Mazars have discharged these responsibilities and outlines the findings from the audit. Although the report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

The Committee were advised that section 4 of the AAR outlines the proposed fees for 2020/21 and outlines specific areas of work over and above the core fee. Officers have discussed the proposed fees with Mazars and are satisfied that the fees are proportionate to the additional work undertaken, in line with guidance on fees issued by Public Sector Audit Appointments (PSAA). Once approved by the Council, Mazars will be required to seek approval by the PSAA.

The Committee were advised that the Department for Levelling Up, Housing and Communities (DLUHC) have recognised the additional work of the new Code of Audit Practice and other Redmond recommendations and have announced £15m of additional funding for local authorities in 2021/22 and a further £15m in each of the next two years to meet these new burdens and the increased audit fees. The Council is yet to be notified of its share of this national funding allocation.

- RESOLVED -
- i) That the information be noted.
  - ii) That the contents of the external auditor's Annual Report for year ended 31 March 2021 be noted.
  - iii) That the schedule of fees set out in section 4 of the report be agreed.
  - iv) That the publication of the AAR on the Council's website be agreed.

**ASC377 DATE AND TIME OF NEXT MEETING**

The next meeting will be held on Monday 25 April 2022 at 10.00 am

**Chair.....**

**TITLE OF REPORT:** Grant of Dispensations

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

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### **Purpose of the Report**

1. To ask Audit and Standards Committee to grant a dispensation to all councillors:
  - who may have a prejudicial interest in any matter arising from consideration of reports dealing with outside bodies of which they are a member through appointment by the Council;
  - who may have a prejudicial interest in any matter arising from consideration, at Cabinet or Council, of reports dealing with:
    - the budget, including council tax precepts;
    - fees and charges;
    - capital and revenue monitoring; and
    - the medium term financial strategy.

### **Background**

2. In accordance with the Localism Act 2011 (“the Act”) and the Council’s Code of Conduct for Members, councillors who have a registrable or non-registrable interest in a matter arising at a meeting which is ‘prejudicial’, must declare the interest, not participate in a debate or vote, and leave the room while the matter is discussed.
3. The Act allows councils to grant dispensations for a specified period of time, not exceeding four years, in circumstances where:
  - (i) without the dispensation the number of persons prohibited would be so great a proportion so as to impede the transaction of the business;
  - (ii) without the dispensation the representation of different political groups on the body transacting business would be so upset as to alter the likely outcome of any vote;
  - (iii) without the dispensation all of the Executive would be prohibited from participating;
  - (iv) the granting of a dispensation is in the interests of persons living in the Authority; and
  - (v) it is otherwise appropriate to grant a dispensation.
4. On 31 May 2012 the Council delegated power to grant dispensations on grounds (i) to (iii) above to the Monitoring Officer. Power to grant under grounds (iv) to (v) was delegated to this Committee.

5. The Committee has previously granted dispensations to all councillors:
- who are appointed by the Council as members of a Board (or any other governing committee) of an outside body, from the need to leave a meeting, and desist from voting, when that meeting is considering business relating to the outside body; except when the business concerns a contract or agreement, with financial implications, directly between the Council and the outside body, or the giving of monetary grants to or from the outside body. In this context 'meeting' means a meeting of Cabinet, Council, Overview and Scrutiny Committees or the Health and Wellbeing Board, but to no other committee meetings of the Council. The interest will still need to be declared to the meeting.
  - to enable them to participate fully in Cabinet and Council meetings (and any related pre-meetings or discussions) when considering reports dealing with:
    - the budget, including council tax precepts;
    - fees and charges;
    - capital and revenue monitoring; and
    - the medium term financial plan.

### **Proposal**

6. The above dispensations were approved for a period of four years until 17 June 2022. It is considered appropriate to renew the dispensations set out in paragraph 5 under ground (iv) and/or ground (v) for a further period of four years from 17 June 2022.

### **Recommendation**

7. The Committee is recommended to extend the dispensations set out in paragraph 5 for a four year period from 17 June 2022.

For the following reason:

To allow all Councillors to participate in making decisions in the best interests of the people of Gateshead.

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Contact: Ged Morton      Ext: 2100

**Title of Report:** External Auditor: Audit Strategy Memorandum Year Ending 31 March 2022

**Report of:** Darren Collins, Strategic Director, Resources & Digital

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### **Purpose of the Report**

- 1 This report requests that the Committee note the external auditor's Audit Strategy Memorandum for the year ended 31 March 2022.

### **Background**

- 2 The report sets out:
  - Engagement and responsibilities summary
  - The audit engagement team
  - Audit scope, approach and timeline
  - Significant risks and other key judgements areas
  - Value for Money
  - Fees for audit and other services
  - Commitment to independence
  - Materiality and misstatements
- 3 The external auditor's report is attached at Appendix A.

### **Recommendation**

- 4 The Committee is requested to note the contents of the external auditor's Audit Strategy Memorandum.

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# Audit Strategy Memorandum

Gateshead Metropolitan Borough Council

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Year ending 31 March 2022



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<b>05</b>	Value for money
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<b>07</b>	Our commitment to independence
<b>08</b>	Materiality and misstatements
	Appendix – Key communication points

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

Audit and Standards and Accounts Committee Members  
Gateshead Metropolitan Borough Council  
Gateshead Council, Civic Centre  
Regent Street  
Gateshead  
NE8 1HH

Mazars LLP  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

24 March 2022

Dear Members

## Audit Strategy Memorandum – year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Gateshead Metropolitan Borough Council (the Council) for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Metropolitan Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit. If we identify any risks or changes to our planned strategy following completion of our planning, we will ensure we communicate these to the Audit and Standards Committee.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07813 752 053.

Yours faithfully



Cameron Waddell  
Mazars LLP

# 01

Section 01:

## **Engagement and responsibilities summary**

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# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Gateshead Metropolitan Borough Council (the Council) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

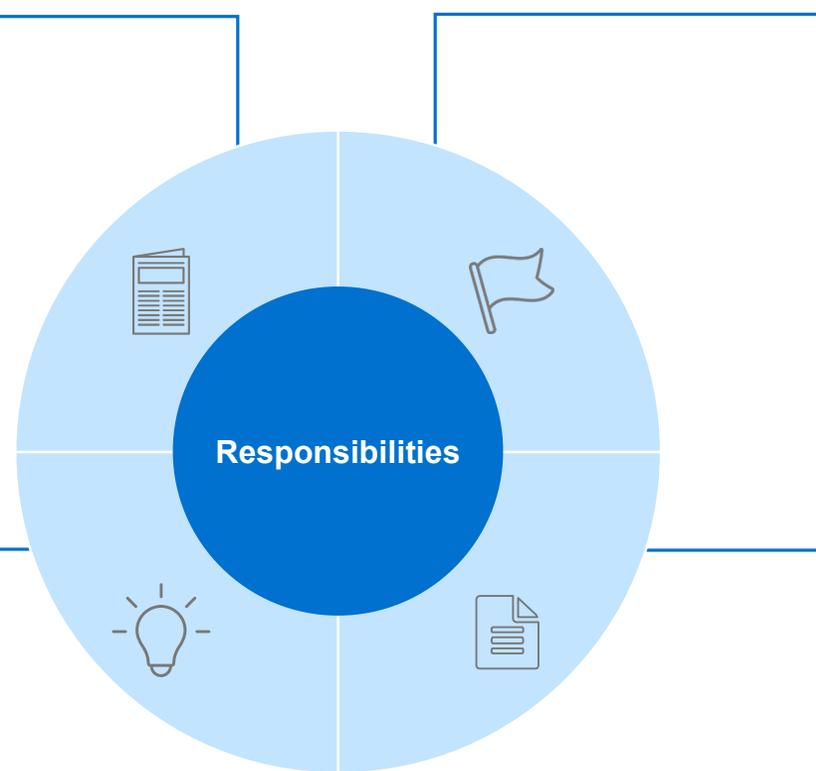
### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit and Standards Committee and Accounts Committee, as those charged with governance, of their responsibilities.

The Strategic Director, Resources and Digital is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Strategic Director, Resources and Digital's use of the going concern basis of accounting in the preparation of the financial statements.

### Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



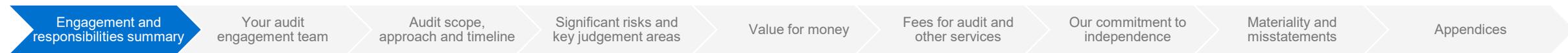
### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

### Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



# 02

Section 02:

**Your audit engagement team**

# 2. Your audit engagement team

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**Cameron Waddell**  
**Partner and Audit Engagement Lead**  
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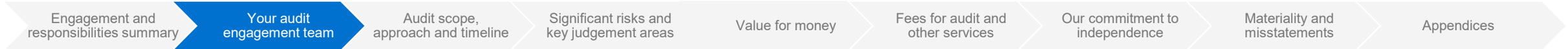


**Diane Harold**  
**Engagement Manager**  
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07971 513 174



**David Hasnip**  
**Assistant Manager and Team Leader**  
david.Hasnip@mazars.co.uk  
07387 242 038

In addition, in line with Mazars' risk assessment procedures, an engagement quality control reviewer has been appointed for this engagement.



# 03

Section 03:

## **Audit scope, approach and timeline**

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# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

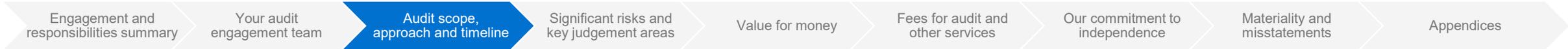
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



# 3. Audit scope, approach and timeline

Under the Accounts and Audit Regulations, the Council is required to publish its draft statement of accounts for 2021/2022 by the end of July and publish audited statements by the end of September. However, the Department of Levelling Up, Housing and Communities have proposed that the target date for publishing audited statements be moved to the end of November 2022 (subject to consultation). We have agreed with the Council a timetable for the audit that enables the Council to meet the target date. The timetable is subject to a number of assumptions and we will update the Committee on any significant changes that we agree with the Council.

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## • Planning January-March

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

## Completion September-November\*

- Final review and disclosure checklist of financial statements
- Final review of the financial statements by our technical team (required for larger audits)
- Final partner and Engagement Quality Control Reviewer review
- Agreeing content of letter of representation
- Reporting to the Audit and Standards Committee and Accounts Committee
- Reviewing subsequent events
- Signing the auditor's report

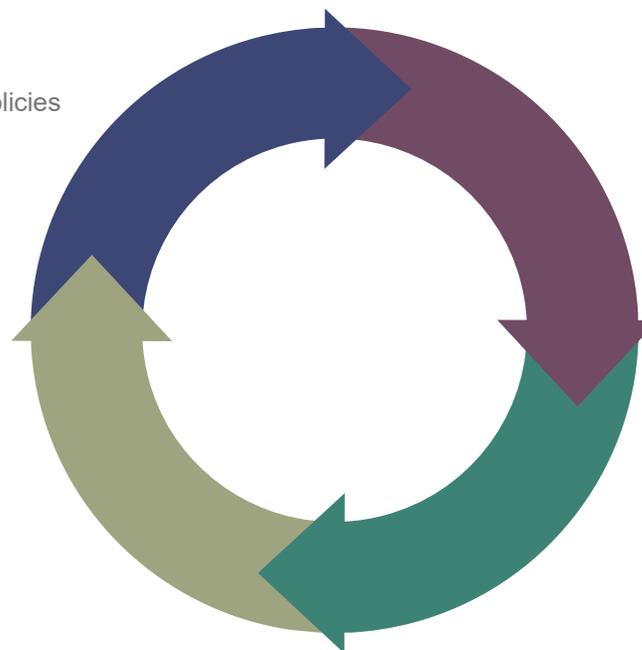
\* depending on timing of receipt of the Pension Fund auditor assurance

## Interim March-April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork July-September

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

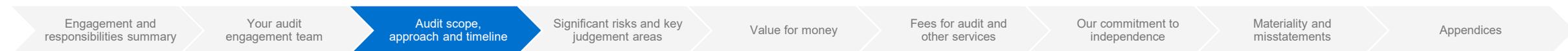
## Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no material service organisations to consider for this Council.

## Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	We use the National Audit Office's (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	Jones Lang La Salle	We will take into account relevant information which is available from third parties. If required, we can engage our own internal valuation expert; this would be dependent on any specific valuation issues arising during the audit.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert's financial instrument valuation estimates. Where this is required we will engage our own internal experts.



# 04

Section 04:

## **Significant risks and other key judgement areas**

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# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the following pages.



1. Management override of controls
2. Valuation of property, plant and equipment
3. Valuation of the net defined benefits liability (pensions)
4. Accounting for The Gateshead Housing Company coming back in-house from 1 April 2021
5. Enhanced risk: accounting for PFI arrangements

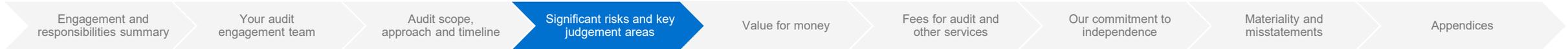
# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Standards Committee and Accounts Committee.

### Significant risks

	Description	Fraud	Error	Judgement	Planned response
1 Page 24	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

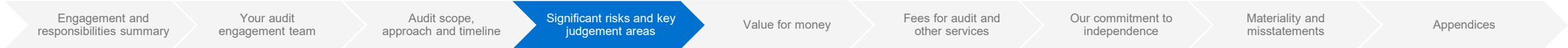


# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of property, plant and equipment</b></p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility).</p> <p>The Council employs valuation expert(s) to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;</li> <li>critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility;</li> <li>consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers;</li> <li>substantively test a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;</li> <li>liaise with the Council's new external valuation expert, Jones Lang La Salle, to understand their approach;</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>

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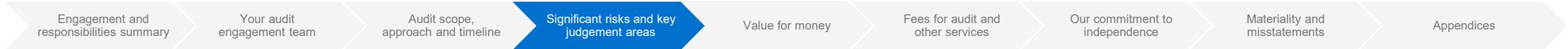


# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Net defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of the retirement benefits.</p> <p>The calculation of the net pensions liability, made up of the gross pension assets and gross pension liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;</li> <li>critically assess the competency, objectivity and independence of the Actuary;</li> <li>liaise with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively;</li> <li>reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets.</li> <li>reviewing the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council's share of the assets to other corroborative information.</li> <li>compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.</li> </ul>

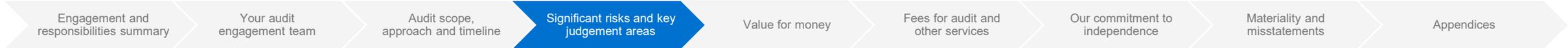
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# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
4 Page 27	<p><b>Accounting for The Gateshead Housing Company coming back in-house from 1 April 2021</b></p> <p>The Council's subsidiary, The Gateshead Housing Company (TGHC), was brought back in house from 1 April 2021.</p> <p>The Council will need to consider how to account for this and ensure appropriate disclosures are included in the financial statements.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>critically evaluate how the Council has accounted for TGHC being brought back in house from 1 April 2021, considering underlying guidance and accounting standards;</li> <li>review the Actuary's report to gain assurance that the pensions liabilities of TGHC are appropriately subsumed in the Council's financial statements; and</li> <li>review the accuracy and completeness of any disclosures.</li> </ul>

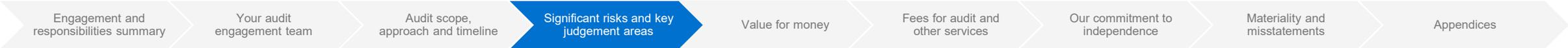


# 4. Significant risks and other key judgement areas

## Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
5	<p><b>Enhanced risk: accounting for PFI arrangements</b></p> <p>The Council has two PFI arrangements, covering:</p> <ul style="list-style-type: none"> <li>• schools; and</li> <li>• a shared waste facility.</li> </ul> <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the Council's adopted approach for accounting for its PFI arrangements;</li> <li>• review any changes from prior years to the long term financial model used;</li> <li>• critically review the assumptions made by management; and</li> <li>• assess the completeness and accuracy of disclosures.</li> </ul>

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# 05

Section 05:

**Value for money**

Page 29

# 5. Value for money

## The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

<b>Planning and risk assessment</b>	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> <li>NAO guidance and supporting information;</li> <li>information from internal and external sources including regulators;</li> <li>knowledge from previous audits and other audit work undertaken in the year; and</li> <li>interviews and discussions with staff and Members.</li> </ul>
<b>Additional risk based procedures and evaluation</b>	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
<b>Reporting</b>	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> <li>significant weaknesses identified and our recommendations for improvement; and</li> <li>emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li> </ul>



# 5. Value for money

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Standards Committee and Accounts Committee, if any arise, as part of our continuous risk assessment.

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# 06

Section 06:

## **Fees for audit and other services**

Page 32

## 6. Fees for audit and other services

### Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA, subject to consideration by Public Sector Audit Appointments (PSAA) Limited of any recurring fee increases arising from the 2020/2021 audit, in relation to testing of:

- property, plant and equipment valuations; and
- audit work in respect of the net defined benefits liability.

Area of work	2020/2021 fee	2021/2022 proposed fee
Code audit work – scale fee	£100,329	£110,053
Fee variation – group accounts (Note 1)	£9,711	£0
Fee variation (Note 2)	£49,929	To be agreed

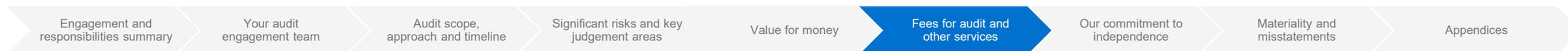
Note 1: the scale fee has been adjusted by PSAA for group accounts, however, no group accounts are anticipated for 2021/22, subject to review of the Council's assessment; this will be adjusted for in the final fee charged.

Note 2: an additional fee in respect of our 2020/2021 work has been calculated and discussed with officers and was reported in our Auditor's Annual Report taken to the March 2022 Audit and Standards Committee; the next stage is consideration and approval by PSAA.

Note 2 (continued)

The main elements of the additional fee variation for 2020/2021 were:

- additional work in respect of property, plant and equipment valuations, due to increased regulatory requirements, as well as the Council's full revaluation of its portfolio in 2020/2021 and restatement of the financial statements in respect of an error identified;
- additional work in respect of pensions, including the material amendments to the financial statements as a result of the revised actuarial estimates (linked to the significant movement in pensions assets in the final quarter of 2020/2021); and
- additional work in respect of the new Value for Money approach.



## 6. Fees for audit and other services

### Fees for non-PSAA work

In addition to the fees outlined on the previous page in relation to our appointment by PSAA, we anticipate being separately engaged by the Council to carry out additional work as set out in the table below.

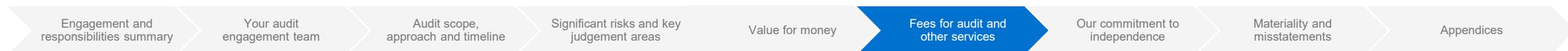
Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/2021 fee	2021/2022 proposed fee
Assurance services: Housing Benefit Subsidy return	£10,600	£10,850*
Assurance services: Teachers' Pension return	£4,205	£4,300*
Assurance services: Pooling of Housing Capital Receipts	£3,000	£3,100*

\* estimated fees, subject to agreement

### Fees for auditing the Council's subsidiary companies

Two of the Council's subsidiary companies (Gateshead Energy Company and Regent Funeral Services) engage Mazars to prepare and audit their statutory financial statements. This work is led by a Partner from the Mazars Edinburgh office and the most recent fees for those engagements were in the region of £28,000.



# 07

Section 07:

## **Our commitment to independence**

Page 35

# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- partners and staff are required to complete an annual independence declaration;
- new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate

procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. Principal threats to our independence and identified associated safeguards in relation to the non-audit work listed in section 6 are summarised below.

Area of work	Perceived threat	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council.
Assurance Services: Teachers' Pensions Return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council.
Assurance Services: Pooling of Housing Capital Receipts return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council.



# 08

Section 08:

## **Materiality and misstatements**

Page 37

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	13,693
Performance materiality	10,270
Specific materiality: senior officers' remuneration (10% of total)	105
Specific materiality: officers' remuneration 'bandings' table	Correct band £5,000
Specific materiality: exit packages (10% of total)	471
Specific materiality: Members allowances and expenses (10% of total)	120
Trivial threshold for errors to be reported to the Audit and Standards Committee and the Accounts Committee	411

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

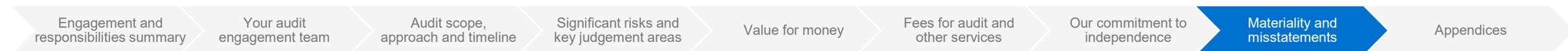
The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.



# 8. Materiality and misstatements

## Materiality (continued)

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the net cost of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Standards Committee and Accounts Committee.

We consider that the gross expenditure at the net cost of services level remains the key focus of use of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of the benchmark. Based on the prior year financial statements, we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £13.693 million (£14.173 million in the prior year at the planning stage).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Standards Committee and Accounts Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.411 million based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

## Reporting to the Audit and Standards Committee and Accounts Committee

The following three types of audit differences above the trivial threshold will be presented:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

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Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices



## Appendix: Key communication points

# Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Engagement and responsibilities summary

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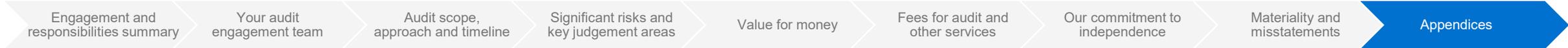
Appendices

# Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Audit and Standards Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at the Audit and Standards Committee and Accounts Committee Audit planning and clearance meetings

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# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Standards Committee and Accounts Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>

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# Appendix: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of.</p>	<p>Audit Completion Report and Audit and Standards Committee and Accounts Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity.</p>	<p>Audit Completion Report</p>

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars’ integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

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**Title of Report:** Internal Audit Charter, Strategy Statement and Annual Plan 2022/23

**Report of:** Darren Collins, Strategic Director, Resources and Digital

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### **Purpose of the Report**

1. The report sets out the proposed Internal Audit Charter, Strategy Statement and Annual Plan of work to be undertaken by the Internal Audit & Risk Service in 2022/23.

### **Background**

2. The terms of reference for Internal Audit are outlined in the Financial Regulations, which form part of the Council's Constitution and the Internal Audit Charter.
3. The Internal Audit & Risk Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources.
4. The Strategic Director, Resources and Digital has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations also require Councils to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*".
5. The Chief Internal Auditor manages the Internal Audit & Risk Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a systematic review and evaluation of all aspects of the internal control environment.
6. The principal objective of the Internal Audit & Risk Service is to assist service managers in delivering the priorities of the Council and its partners, through the assessment of exposure to risk and the continuous improvement of the control environment.

### **Internal Audit Charter**

7. The purpose, authority and responsibility of Internal Audit must be formally defined in an Internal Audit Charter, consistent with the definition of Internal Auditing outlined in Public Sector Internal Audit Standards (PSIAS).
8. The Public Sector Internal Audit Standards (PSIAS) define internal audit as:

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

9. These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
10. A key element of compliance with PSIAS is the periodic review and approval by the Audit and Standards Committee of an Internal Audit Charter. The Charter is a formal document that defines Internal Audit’s purpose, authority and responsibility setting out the Chief Internal Auditor’s functional reporting relationships, authorising rights of access for internal audit staff and defining the scope of internal audit activity. Final approval of the Internal Audit Charter resides with the Audit and Standards Committee.
11. The Internal Audit Charter is attached at Appendix A. It was last circulated to Committee in April 2021.
12. The Chief Internal Auditor has carried out an annual review of the Internal Audit Charter and confirmed that it continues to reflect best practice and no amendments are required.

### **Basis for the Audit Plan**

13. Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). PSIAS state that the Chief Internal Auditor “*must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals*”.
14. In accordance with the PSIAS, the input of senior management must be considered in this process. All Service Directors were given the opportunity to contribute towards the plan.
15. The Chief Internal Auditor forms an annual assurance opinion based on the programme of audit work as well as assurance obtained from other means. Combined assurance aims to optimise the assurance coverage obtained from management, and both internal and external assurance providers.
16. In addition to audit, the Chief Internal Auditor considers any issues identified through counter fraud and irregularities or developing systems and processes insofar as they impact on the effective operation of governance, risk management or internal controls.
17. The plan for 2022/23 also includes three dedicated Corporate Fraud posts. These officers will continue to develop and embed the Council’s Counter Fraud & Corruption Strategy as well as conducting any fraud and irregularity

investigations. Updates in relation to Counter Fraud activity will be presented biannually to the Committee.

18. The plan includes an allocation for advice and consultancy to all Services and Partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and its partners. Time is allocated to support developing systems, ensuring early engagement and audit support across the Council.
19. Rather than a traditional cyclical-based approach, the plan focuses on the main risks to the Council. It provides a balanced approach to traditional compliance work with advisory work as a catalyst for service improvement and to sharpen focus on emerging risks. The plan is flexible and is reviewed and adjusted throughout the year as necessary in response to changes in policies, systems, processes, risks and controls across the Council.
20. The Audit Strategy Statement is attached at Appendix B and the Annual Plan for 2022/23 is attached at Appendix C. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to the Council, retaining flexibility to reprioritise assurance activities as required.

### **Recommendations**

21. The Committee is asked to:
  - Note the report and the opinion that the Internal Audit Charter continues to comply with Public Sector Internal Audit Standards;
  - Agree the Audit Strategy Statement and the Annual Plan of work to be provided by the Internal Audit & Risk Service for 2022/23; and
  - Agree to receive quarterly monitoring reports showing progress made against the plan.

**Contact: Craig Oakes - ext. 3711**

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**Internal Audit Service**

**Internal Audit Charter 2022/23**

**1. Introduction**

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

**2. Statutory Basis**

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

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN) constitute proper practices to satisfy the requirements for larger relevant local government bodies set out in the Accounts and Audit Regulations 2015. The Charter has been reviewed to ensure it remains compliant with these requirements.

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

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

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

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

## 6. Code of Ethics

6.1 The Code of Ethics, incorporated within PSIAS, is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control and governance. All internal auditors working for or providing a service to the Council must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body, then they must also comply with the relevant requirements of that body.

6.2 The Code of Ethics is based upon four principles relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct:

- Integrity
- Objectivity
- Confidentiality
- Competency

6.3 **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All internal audit staff will:

- Perform their work with honesty, diligence and responsibility.
- Observe the law and make disclosures expected by the law and their profession.
- Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or the Council.
- Respect and contribute to the legitimate and ethical objectives of the Council.

6.4 **Objectivity:** Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All internal audit staff will:

- Not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council.
- Not accept anything that may impair or be presumed to impair their professional judgement.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.

6.5 **Confidentiality:** Internal auditors will respect the value and ownership of the information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. All internal audit staff will:

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

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

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

## 7. Principles of Public Life

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

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

- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

## **8. Purpose, Authority and Responsibilities**

### **8.1 Purpose**

8.1.1 Internal Audit Service is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework.

8.1.2 The purpose of the Internal Audit Service is to deliver a risk-based audit plan in a professional and independent manner to allow the Chief Internal Auditor to provide the Council with an opinion on the level of assurance it can place upon the risk management, internal control and governance environments, and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Audit and Standards Committee and supports the Council's Annual Governance Statement which accompanies the Annual Statement of Accounts.

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

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

8.1.4 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.

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

## 8.2 Authority

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

8.2.4 Financial Regulations grant Internal Audit the authority to:

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

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

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

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

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

8.2.8 For the purposes of compliance with PSIAS within the Council, the Audit and Standards Committee is designated as the "Board" and Strategic and Service Directors are designated as "Senior Management".

### 8.3 Responsibilities

8.3.1 The Internal Audit Service will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Council's Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within

them. In addition to the Annual Internal Audit Report, the Chief Internal Auditor will report progress against the annual audit plan to the Audit and Standards Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the results of the Chief Internal Auditor's Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

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

## **9 Resourcing of Internal Audit**

- 9.1 The Chief Internal Auditor assesses resource requirements and draws up the Audit Plan by considering the following:
  - The Council's priorities;
  - The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity;

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

9.9 In this regard the Service considers trends and emerging issues that could impact on the organisation.

## 10 **Scope of Audit Work**

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

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

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

10.3 It must be noted that whilst Internal Audit will promote the Council's Counter Fraud Policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. Internal Audit cannot guarantee that fraud or corruption will be detected

in its work. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected. Managing the risk of fraud and corruption is the responsibility of all service managers.

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

**Date of next Review - April 2023.**

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# **The Internal Audit Strategy Statement & Annual Plan 2022/23**

Craig Oakes  
Chief Internal Auditor  
Internal Audit & Risk Service  
Resources and Digital

## **Introduction**

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2022/23 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the Council's priorities – Thrive Policy and Health and Wellbeing Strategy.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service, which is based within the Commercialisation and Improvement Service, within Resources and Digital.

## **Purpose**

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2022/23.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
  - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
  - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
  - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers;
  - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
  - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and
  - Support the Strategic Directors of Resources & Digital and Corporate Services & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers, respectively.

## **Key Outputs Statement**

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

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

### **Key Characteristics of the Annual Plan**

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2022/23:
  - The 2022/23 plan includes adequate flexibility to address emerging risks from the ongoing uncertainties of COVID 19 as well as provide assurance in high risk, key financial, IT and governance functions. An allowance has also been included for audit requirements in relation to COVID grant funding from central government.
  - The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council’s structure with ongoing activity to identify and deliver savings across all areas of Council services. The implementation of changes and public service reform, with a reduced workforce and reduced funding whilst delivering business as usual and achieving priorities, remains a key challenge and risk for the Council during 2022/23 and beyond.
  - Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified.
  - Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the proposed plan includes time for advice and consultancy to support officers and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit’s work will be challenging and advisory, rather than the design of controls which are a management responsibility.

- The plan includes time to reflect the work the Corporate Counter Fraud Team will be doing in relation to further developing and embedding the Council's counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
- The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
  - a. Provide assurance on the effectiveness of internal controls operating within the Council;
  - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on;
  - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues;
  - d. Investigate suspected or detected frauds or irregularities; and
  - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

## **2022/23 Annual Planning Process**

7. The approach to audit planning in the Council for 2022/23 has been based on the following:
  - The Council's priorities;
  - The impact of COVID 19 on the control environment, finances and delivery of Council priorities;
  - The risks documented in the Council's strategic and operational risk registers;
  - Consultation with Service Directors and the external auditors;
  - Changes in legislation;
  - The scope of planned external audit work;
  - The implications of external inspection reports;
  - Findings and outcomes from audit and investigation work in 2021/22 and earlier years;
  - Consultation with colleagues across the region; and
  - Time elapsed since the previous audit.
8. Once this information has been analysed, the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments, audits are then categorised as high, medium or low priority which dictates when they will be audited within a 3-year cycle. High priority areas are audited on an

annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.

9. The audit plan for 2022/23 is based on resources of 15.7 full time equivalent (FTE) employees (14 FTE's for 2021/22). Auditor's time has been allocated on the basis of an estimate of 72% productive hours after allowing for non-productive time including annual leave, sickness absence and training.
10. On this basis, the plan for 2022/23 has been broken down into 21,658 productive hours (19,582 originally planned productive hours for 2021/22) as shown below in paragraph 14.

### **Plan Structure**

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

### **Plan Content**

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

<b>Groups and Services</b>	<b>Audit Hours</b>
Children's Social Care and Life Long Learning	1,427
Corporate Services and Governance	937
Economy, Innovation and Growth	665
Integrated Adults and Social Care Services	1,326
Housing, Environment & Healthy Communities	2,700
Resources and Digital	3,667
Public Health & Wellbeing	410
Office of the Chief Executive	310
Schools	1,262
<b>Corporate</b>	
Counter Fraud	4,089
Grant Certification	639
Audit Planning and Management	1,380
<b>External Bodies</b>	
Trading Companies	100
Northumbria Police	2,746
<b>Total Productive</b>	<b>21,658</b>
Non-productive	8,530
<b>Total Hours</b>	<b>30,188</b>

<b>Audit Type</b>	<b>Audit Hours</b>
Advice and Consultancy	630
Assurance Review	12,074
Grant Certification	639
Audit Planning and Management	1,380
Counter Fraud	4,089
Non-productive	8,530
<b>Total Council Plan</b>	<b>27,342</b>
<b>External Bodies</b>	
Trading Companies	100
Northumbria Police	2,746
<b>Total Hours</b>	<b>30,188</b>

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

#### **How the service will be provided**

16. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle City Council for IT auditing. This arrangement will be kept under review on an annual basis.

17. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activity have the required mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants, qualified Association of Accounting Technicians or equivalent, Accredited Counter Fraud Specialists or studying for professional qualifications.
18. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
- The complexity of the areas to be reviewed;
  - Factors such as number of locations, number and frequency of transactions; and
  - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
19. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

### **Performance Management**

20. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of the most recent external assessment against PSIAS was reported to the Audit and Standards Committee on 27 April 2020. A number of minor actions were identified and progress in addressing these will be continuously reviewed. Further examples include:
- Internal self-assessments by the Chief Internal Auditor.
  - Customer satisfaction questionnaires.
21. To achieve the planned coverage for 2022/23, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

<b>Performance Indicator</b>	<b>Target</b>
Productive (Chargeable) time as a % of overall time	72%
Actual hours against planned hours achieved in year	97.25%
Number of audit recommendations implemented: High Medium and Best Practice	100% 90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Average score (maximum 4)	3.4 (85%)

<b>Children's Social Care and Life Long Learning</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Children's Care Homes	High	100
	Children's Care Provision	High	100
	Commissioning of Children's Services	High	100
	Learning Skills	High	130
	Safeguarding Children	High	100
	Special Educational Needs - Early Help	High	100
	Service Governance, Planning and Assurance - Children's Social Care	New	50
	Behaviour, Attendance and Exclusion	Medium	100
	Care Leavers	Medium	70
	Children with Disabilities	Medium	70
	Children's Services Transitions	Medium	75
	Music Service	Medium	70
	Specialist Support Services - Domestic Abuse	Medium	60
	Specialist Support Services (YOT)	Medium	60
	Audit Follow Up Contingency	Annual	75
	Audits brought forward from 2021/22		117
	<b>Total Assurance Review</b>		<b>1,377</b>
<b>Total Audit Hours</b>			<b>1,427</b>

<b>Schools</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	70
	<b>Total Advice and Consultancy</b>		<b>70</b>
<b>Assurance Review</b>	School Audits	High	990
	Audit Follow Up Contingency	N/A	150
	Audits brought forward from 2021/22		52
	<b>Total Assurance Review</b>		<b>1,192</b>
<b>Total Audit Hours</b>			<b>1,262</b>

<b>Integrated Adults and Social Care Services</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Adult Care Provision	High	140
	Care Call	High	80
	CCG Recharges	High	60
	Commissioning Adult Services	High	100
	Promoting Independence Centres	High	70
	Safeguarding - Adult Services	High	75
	Activity Based Care Service	New	100
	Adults Mosaic Implementation	New	40
	Domiciliary Care Services	New	80
	Great North Care Record	New	50
	Service Governance, Planning and Assurance - Adult Social Care	New	50
	Service Governance, Planning and Assurance - Commissioning & Quality Assurance (Gateshead System)	New	50
	Carers Service	Medium	75
	Independent Supported Living Schemes	Medium	50
	Pooled Budgets and the Better Care Fund	Medium	80
	Shared Lives	Medium	75
	Audit Follow Up Contingency	Annual	75
	Audits brought forward from 2021/22		26
	<b>Total Assurance Review</b>		<b>1,276</b>
<b>Total Audit Hours</b>			<b>1,326</b>

<b>Public Health &amp; Wellbeing</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	30
	<b>Total Advice and Consultancy</b>		<b>30</b>
<b>Assurance Review</b>	Leisure Centres	High	90
	Primary Care	High	100
	Public Health Contract Monitoring	High	80
	Service Governance, Planning and Assurance - Public Health	New	50
	Resilience Planning	Medium	40
	Audit Follow Up Contingency	N/A	20
	Audits brought forward from 2021/22		0
	<b>Total Assurance Review</b>		<b>380</b>
<b>Total Audit Hours</b>			<b>410</b>

<b>Corporate Services and Governance</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Mayor's Charity Fund	Annual	15
	Corporate Procurement	High	100
	Information Governance and Data Protection	High	80
	Service Governance, Planning and Assurance - Corporate Commissioning and Procurement	New	50
	Service Governance, Planning and Assurance - Public Service Reform	New	50
	Elections	Medium	60
	Gateshead Member's Allowances	Medium	50
	Governance Arrangements	Medium	80
	Print Point	Medium	60
	Redeployment and Redundancy	Medium	80
	Registration Services	Medium	70
	Training and Development	Medium	50
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2021/22		112
	<b>Total Assurance Review</b>		<b>887</b>
<b>Total Audit Hours</b>			<b>937</b>

<b>Economy, Innovation and Growth</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	50
	<b>Total Advice and Consultancy</b>		<b>50</b>
<b>Assurance Review</b>	Commercial Contracts	Annual	80
	Energy	New	50
	Service Governance, Planning and Assurance - Business, Employment and Skills	New	50
	Service Governance, Planning and Assurance - Planning Policy, Climate Change and Strategic Transport	New	50
	Business Centres	Medium	60
	Corporate Asset Management	Medium	80
	Housing Joint Venture	Medium	50
	Licensing	Medium	100
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2021/22		65
	<b>Total Assurance Review</b>		<b>615</b>
<b>Total Audit Hours</b>			<b>665</b>

<b>Office of The Chief Executive</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	30
	<b>Total Advice and Consultancy</b>		<b>30</b>
<b>Assurance Review</b>	Partnership Arrangements	High	70
	Grants to Voluntary Organisations	New	50
	Service Governance, Planning and Assurance - Office of the Chief Executive	New	50
	Locality Working and Hubs	Medium	70
	Audit Follow Up Contingency	N/A	20
	Audits brought forward from 2021/22		20
	<b>Total Assurance Review</b>		<b>280</b>
<b>Total Audit Hours</b>			<b>310</b>

<b>Housing, Environment &amp; Healthy Communities</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	50
	<b>Total Advice and Consultancy</b>		<b>50</b>
	Gas Servicing	High	80
	Health and Safety	High	100
	Procurement	High	100
	Property Management	High	80
	Rent Arrears and Rent Collection	High	135
	Repairs and Maintenance	High	80
	Waste Management Partnership	High	100
	Compliance (Domestic)	New	250
	Corporate Landlord Compliance	New	70
	Housing Growth and Development	New	60
	Service Governance, Planning and Assurance - Neighbourhood, Housing and Homelessness Services	New	50
	Strategic Housing Team	New	50
	Supporting Independence Service	New	50
	Adaptations	Medium	70
	Bus Lane Enforcement	Medium	50
	Car Parking	Medium	80
	Catering and Building Cleaning	Medium	100
	Commercial House Building	Medium	50
	Highways Trading Account	Medium	70
	Homeless Accommodation	Medium	100
	Housing Support	Medium	100
	Technical Services	Medium	70
	Tenancy Allocation and Lettings	Medium	110
	Travelling Community Caravan Site	Medium	50
	Void Management	Medium	100
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2021/22		465
	<b>Total Assurance Review</b>		<b>2,650</b>
<b>Total Audit Hours</b>			<b>2,700</b>

<b>Resources and Digital</b>			
<b>Audit Type</b>	<b>Audit Area</b>	<b>Risk</b>	<b>Hours</b>
<b>Advice and Consultancy</b>	General Advice and Consultancy	N/A	300
	<b>Total Advice and Consultancy</b>		<b>300</b>
<b>Assurance Review</b>	Debtors Write Off	Annual	60
	Annual Governance Statement Assurances	High	80
	Business Rates	High	75
	Capital Accounting System and Programme	High	100
	Corporate Creditors	High	120
	Corporate Debtors and Income	High	120
	Corporate Payroll and Human Resources Support	High	120
	Council Tax	High	75
	Counter Fraud Arrangements	High	40
	Housing Revenue Account (HRA)	High	70
	IT Security	High	90
	Leasing	High	80
	Local Council Tax Support Scheme and Housing Benefits	High	120
	Main Accounting System	High	70
	Performance Indicators and Data Quality	High	60
	Risk Management and Business Continuity	High	80
	Service Creditors	High	75
	Service Debtors	High	80
	Service Payroll and Human Resources Administration	High	70
	Treasury Management	High	80
	VAT Arrangements	High	45
	Budgetary Control	High	40
	Service Governance, Planning and Assurance - Commercialisation and Improvement	New	50
	Service Governance, Planning and Assurance - Customer Experience & Digital	New	50
	Banking Arrangements	Medium	50
	Children's Direct Payments	Medium	75
	Digital and Customer Services	Medium	70
	Employee Administration	Medium	80
Exchequer Services	medium	70	
IT Asset and Device Management	Medium	90	
IT Change Management	Medium	90	

	IT Cloud Computing Management	Medium	90
	IT Data Centres	Medium	90
	IT Programme and Project Management	Medium	90
	Money Laundering	Medium	50
	PCI Compliance	Medium	70
	Protection of Property	Medium	60
	Resident's Private Cash	Medium	60
	School Budget Support	Medium	50
	Services to Schools	Medium	60
	Events	Low	50
	Trinity Square	Low	40
	Audit Follow Up Contingency	N/A	100
	Audits brought forward from 2021/22		182
	<b>Total Assurance Review</b>		<b>3,367</b>
<b>Total Audit Hours</b>			<b>3,667</b>

**Title of Report:** Corporate Risk Management 2021/22 - Quarter 4 Update

**Report of:** Darren Collins, Strategic Director, Resources & Digital

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### **Purpose of the Report**

1. This report updates the Committee on Corporate Risk Management developments during the period 1 January 2022 to 31 March 2022.

### **Background**

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy. This was last approved by Council on 21 May 2013 and is kept under review. Whilst it has been amended to reflect minor structural changes and roles in that time, it remains relevant and fit for purpose.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2021/22, as cited in the Corporate Risk Management Annual Report 2020/21, and any other risk management issues emerging within the quarter under consideration.

### **Strategic Risk Management**

4. 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. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register.
5. There have been no changes to the Strategic Risk Register in the fourth quarter 2021/22. The current Strategic Risk Register is attached for information in Appendix 1.

### **Operational Risk Management**

6. Operational risks identified within the Council are recorded on the operational risk register. Work is proactively ongoing to ensure operational risk management activity within Services continues to align with service objectives, including those risks specific to operational objectives.
7. Service Risk Coordinators, whose role it is to support and champion risk management activity within their Services, are working with the Corporate Risk Officer to support risk

owners with evaluating existing operational risk assessments. The focus of this work is on ensuring the assessments contain the required information to inform the management response.

### **Business Continuity Management**

8. In accordance with the Council's Risk Management and Business Continuity Policies, all Services are required to continuously assess the risk of their activities being disrupted and to develop cost effective business continuity plans.
9. All Business Impact Assessments (BIA) were reviewed by Services in March 2020, November 2020, May 2021, November 2021 and are currently undertaking a further assessment. These reviews help to ensure that threats to critical activities and potential increased demand on Council Services following any further wave of infections are identified and appropriately mitigated. Assessment of the BIAs that subsequently indicate a need for a more detailed Business Continuity Plan (BCP) are also revised accordingly to mitigate, as far as possible, any threats to the delivery of key activities with a focus on activity that could not be interrupted for more than 48 hours without critical impact. These reviews are also used to assess which activities might require additional support to strengthen resilience and estimate the officer numbers and skills that might be needed.
10. Quarterly audit and risk reports are provided to Group Management Teams to highlight the activities for which Services have developed continuity plans.

### **Corporate Risk and Resilience Group**

11. The Corporate Risk and Resilience Group last met on the 5 April 2022. The following items were considered:
  - Ongoing impact of COVID-19 national landscape and on service delivery.
  - Resilience and Emergency Planning.
  - Business Continuity Planning.
  - Updates by exception from Groups and Services.
12. During the winter period, which brought additional threats and service pressures, the Group met monthly to ensure a shared understanding of issues and a consistent corporate approach to assessment and mitigation. This has now, following agreement of the Group membership, reverted back to a quarterly timetable.

### **Recommendation**

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

**Contact: Craig Oakes Ext. 3711**

## Strategic Risk Register as at 31 March 2022

Ref	Risk	Risk owner	Gross	Current risk		
				Likelihood	Impact	Score
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	Moderate	High	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
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	Moderate	Medium	9
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	16	Moderate	Low	6
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	Moderate	Low	6
8	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	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	16	Moderate	High	12
10	Failure to comply with the housing regulatory standards applicable to local authorities.	Sandra Watson, Service Director, Housing Compliance	20	Moderate	Medium	9

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