

Audit Progress Report

Gateshead Council

April 2018





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1. AUDIT PROGRESS

Purpose of this report

The purpose of this paper is to provide the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to Members of the Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Finally, please note our website address www.mazars.co.uk which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the work Mazars does in the public sector.

Audit progress

Our 2017/18 audit work is continuing however overall we are on track.

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

- Completion of walkthroughs of key information systems: there are no significant issues arising to bring to the attention of Members however some internal control recommendations have been identified and will be reported to management.
- Completion of auditor's IT risk assessment: including testing of IT general controls (e.g. logical access and change management); Work is ongoing in this area. If appropriate, we will report any significant issues identified to Members.
- Early testing: we have carried out early testing of income and expenditure transactions, with no significant issues arising. We have also carried out other early testing where possible e.g. testing of journals and opening balances.
- Early testing: Property, Plant and Equipment. Work is on-going in this area; this is a key risk area where successful early work is key to achieving the earlier accounts deadline.
- Value for money (VfM) significant risk testing – level of savings required over the period of the Medium-Term Financial Strategy; this work is on-going.
- On-going liaison with officers, including Internal Audit: in particular we are continuing to liaise with officers over the earlier accounts deadline for 2017/18. Officers also attended a North East final accounts workshop we held recently.
- On-going review of agendas and minutes.

Bringing forward the accounts and audit timetable

The key challenge this year is to adhere to the new statutory timetable for accounts production and audit. We have continued to work with officers as they seek to streamline arrangements for preparing your statement of accounts. Officers plan to produce the draft accounts requiring certification by the end of May 2018 and we aim to complete the audit by the end of July 2018.

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2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

	Publication
1	Financial difficulties experienced by Northamptonshire County Council
2	Local authorities encouraged to consider local public accounts committees, February 2018
3	Sustainability and Transformation in the NHS, National Audit Office, January 2018
4	Preparing for full GDPR implementation by 25 May 2018

1. Financial difficulties experienced by Northamptonshire County Council

There has been much media coverage of Northamptonshire County Council's financial problems, which led to the Council issuing a section 114 notice stopping all non-statutory spending (the first such notice issued anywhere for almost 20 years), and difficulties in setting a legal budget for 2018/19 which are still ongoing. These issues highlight the impact that austerity measures can have on local government services, and the importance of delivering any savings needed to balance the budget, however difficult and unpalatable such decisions might be.

The three Public Finance articles (links below) provide a good summary of these issues:

<http://www.publicfinance.co.uk/news/2018/02/northants-revised-budget-finds-further-ps99m-savings1>

<http://www.publicfinance.co.uk/news/2018/02/northamptonshire-review-budget-following-audit-warning>

<http://www.publicfinance.co.uk/news/2018/02/northamptonshire-sparks-warnings-other-councils-could-fail>

2. Local authorities encouraged to consider local public accounts committees, February 2018

Research published by Association for Public Service Excellence (APSE) and written and researched by the Local Governance Research Unit at De Montfort University explores how public services, and the decisions made about them by unelected bodies, can be held to account by local government as an elected governing body. Moreover, it seeks to understand the developing and expanding role of local government as both a vehicle for public accountability and in influencing and shaping the governance networks within which it exists.

The report '*Bringing Order to Chaos. How does local government hold to account agencies delivering public services?*' makes a series of recommendations including:

- A Local Public Accounts Committees should be formed by all councils and be given the same statutory powers over external agencies as has health scrutiny in relation to the NHS
- Securing public accountability must be developed as a role for all councillors and not restricted to a functional overview and scrutiny committee process
- Robust accountability processes need to be put in place for all arms-length bodies created by a council. Mechanisms must be put in place whereby all other councillors are able to challenge, question, seek justification from and influence the actions of arms-length bodies and scrutiny and full council should be engaged in such a process
- Councils should produce a local 'governance framework' policy document which identifies all those organisations with which the council interacts and which creates a shared vision of the development of public services across the councils area
- Councils should create a 'governance forum' where all those organisations with which the council interacts, can regularly meet to ensure a co-ordinated approach to public service delivery and long-term planning for service development and contribute to the 'governance framework'
- There should be a legal requirement – through an extension of the principle of a 'duty to co-operate' - on all public service providers to engage with local government, at the earliest possible time, when developing policy and taking decisions about public services

The full report is available to download for free.

<http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/bringing-order-to-chaos-how-does-local-government-hold-to-account-agencies-delivering-public-services/>

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3. Sustainability and Transformation in the NHS, National Audit Office, January 2018

Additional funding, aimed to help the NHS get on a financially sustainable footing, has instead been spent on coping with existing pressures, according to the National Audit Office's (NAO) report.

The NHS received an additional £1.8 billion Sustainability and Transformation Fund in 2016-17 to give it breathing space to set itself up to survive on significantly less funding growth from 2017-18 onwards. It was also intended to give it stability to improve performance and transform services, to achieve a sustainable health system.

The Fund has helped the NHS improve its financial position from a £1,848 million deficit in 2015-16 to a £111 million surplus in 2016-17. Within the overall position, the combined trust deficit reduced to £791 million in 2016-17 from £2,447 million in 2015-16. There has also been an improved underspend of £154 million across clinical commissioning groups, yet 62 groups reported a cumulative deficit in 2016-17, up from 32 in 2015-16.

Despite its overall financial position improving, the NHS is struggling to manage increased activity and demand within its budget and has not met NHS access targets. Furthermore, measures it took to rebalance its finances have restricted money available for longer-term transformation, which is essential for the NHS to meet demand, drive efficiencies and improve the service. For example, the Department transferred £1.2 billion of its £5.8 billion budget for capital projects to fund the day-to-day activities of NHS bodies.

Clinical commissioning groups and trusts are increasingly reliant on one-off measures to deliver savings, rather than recurrent savings that are realised each year. Between 2014-15 and 2016-17 the percentage of savings that were non-recurrent increased from 14% to 17% for commissioners, and from 14% to 22% for trusts. This poses a significant risk to the financial sustainability of the NHS in the future. Progress has been made in setting up 44 new partnership arrangements across health and local government, which are laying the foundations for a more strategic approach to meeting the demand for health services within the resources available. In reality, partnerships' effectiveness varies and their tight financial positions make it difficult for them to shift focus from short-term day-to-day pressures to delivering transformation of services.

The NAO has made a number of recommendations to the Department, NHS England and NHS Improvement, which includes moving further and faster towards aligning nationwide incentives, regulation and processes, as well as reassessing how best to allocate the sustainability and transformation funding.

<https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/>

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

4. Preparing for full GDPR implementation by 25 May 2018

In January and February 2018, we ran two workshops on compliance with GDPR. Gateshead Council Council was represented at one of the workshops.

We thought a summary of the requirements would be helpful for Members.

The EU's **General Data Protection Regulation (GDPR)** is the result of four years of work by the EU to bring data protection legislation into line with new, previously unforeseen ways that data is now used.

Currently, the UK relies on the Data Protection Act 1998, which was enacted following the 1995 EU Data Protection Directive, but this will be superseded by the new legislation. It introduces tougher fines for non-compliance and breaches, and gives people more say over what organisations can do with their data. It also makes data protection rules more or less identical throughout the EU.

This is the **first comprehensive regulation** dedicated to the European data protection rules in 20 years. Adopted into law on 27 April 2016 and **came into force on 25 May 2016**.

By **25 May 2018**, all organisations are required to have implemented its principles, regardless of Brexit.

The key principles of GDPR are:

- **Fair and Lawful** – Must have legitimate grounds for collecting and using the personal data. Use in accordance with the law and regulations. Transparency.
- **Purposes** should be specified, explicit and legitimate
- **Proportionality** – Must hold personal data about an individual that is sufficient for the purpose it is held for. Do not hold more information than needed for that purpose.
- **Accuracy** - Carefully consider any challenges to the accuracy of information. Consider whether it is necessary to update the information.
- **Deletion** - Personal data shall not be kept for longer than necessary. Only relevant data can therefore be kept.
- **Subject's Access** - Right of access, Right to object to processing, Right to prevent processing for direct marketing, Right to object to decisions being taken by automated means, Right to have inaccurate personal data rectified, blocked or destroyed.
- **Security measures** - Take all necessary steps to ensure the data security.
- **Transfers Limitation** - No transfer to a country or territory outside the EEA unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects.

In the UK, the Information Commissioner will have a key role.

“It's an evolutionary process for organisations – 25 May is the date the legislation takes effect but no business stands still. You will be expected to continue to identify and address emerging privacy and security risks in the weeks, months and years beyond May 2018. That said, there will be no 'grace' period – there has been two years to prepare and we will be regulating from this date.

But we pride ourselves on being a fair and proportionate regulator and this will continue under the GDPR. Those who self-report, who engage with us to resolve issues and who can demonstrate effective accountability arrangements can expect this to be taken into account when we consider any regulatory action.”

Information Commissioner – Elizabeth Denham, 22 December 2017

The GDPR requirements are particularly important to local government, given the nature of their activities, dealing directly with citizens and holding a range of personal and sensitive data. While there has been much focus on potential financial penalties, there is a need to see this more as an opportunity for enhanced accountability, to ensure that citizens' data is processed in a secure but transparent manner, and realise the benefits to be gained by building trust with citizens through the adoption of a fair and transparent approach to the collection and use of their data. Recent high profile cases highlight the risks of what can happen if data is not adequately protected.

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4. Preparing for full GDPR implementation by 25 May 2018 (continued)

What organisations must do now – especially if they are 'behind' with preparations for GDPR – is set out below.

Firstly Organisational commitment – Preparation and compliance must be cross-organisational, starting with a commitment at the highest level. There needs to be a culture of transparency and accountability as to how you use personal data – and recognising that the public has a right to know what's happening with their information.

Privacy Assessment - Ensure you perform a privacy assessment to understand what data you have, from where it is sourced, to whom you provide it, and for what purposes it is used. This will involve reviewing your contracts with third party processors to ensure they're fit for GDPR. Implement accountability measures - including appointing a data protection officer if necessary, considering lawful bases, reviewing privacy notices, designing and testing a data breach incident procedure that works for you and thinking about what new projects in the coming year could need a Data Protection Impact Assessment.

Compliance & Monitoring - Confirm your state of compliance to existing legislation, and whether there are any current operational weaknesses, in-house and within third parties. Perform a gap analysis between as-is and the GDPR to-be.

Privacy Training – Ensure staff know their responsibilities and are appropriately trained.

Privacy Governance - Prepare a strategy and a plan to achieve full GDPR compliance. Prioritise development. Address the riskier areas of non-compliance first. Be able to demonstrate commitment to reasonable and realistic timescales for addressing other weaknesses and shortcomings in respect of the new legislation and, similarly, commitment to continuous monitoring, review and improvement. Ensure appropriate security – you'll need continual rigour in identifying and taking appropriate steps to address security vulnerabilities and cyber risks.

3. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.

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