

**TITLE OF REPORT:** Annual Report of the Audit and Standards Committee 2017/18

**REPORT OF:** Darren Collins, Strategic Director, Corporate Resources

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### **Purpose of the Report**

1. Cabinet is asked to consider the Audit and Standards Committee Annual Report for 2017/18 and agree that this report is submitted to Council.

### **Background**

2. In line with best practice the Audit and Standards Committee is required to report to Cabinet and Council on the Committee's activity each year. The report for 2017/18 was agreed by the Audit and Standards Committee on 23 July 2018.

### **Proposal**

3. Cabinet is asked to consider the Audit and Standards Committee's Annual Report at Appendix 2 and agree to submit it to Council. The Report provides an overview on the work of the Audit and Standards Committee during 2017/18, and describes how it has had a positive impact on governance, financial reporting and audit issues across the Council, as well as providing challenge and independent assurance on the risk management framework and associated internal control environment.

### **Recommendation**

4. It is recommended that Cabinet endorse the Annual Report of the Audit and Standards Committee for 2017/18 and agree that it is submitted to Council.

For the following reason:

To strengthen the Council's arrangements for oversight by councillors of governance, audit, risk management, the internal control framework, value for money and efficiency.

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**CONTACT: Craig Oakes Ext 3711**

## Appendix 1

### Policy Context

1. The proposal supports the Council's policy, service planning and performance management framework which aims to ensure that all resources are directed towards delivery of Vision 2030 and the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.

### Background

2. In line with best practice, the Audit and Standards Committee is required to submit an annual report to Cabinet and Council, and also any further reports and recommendations as it sees fit. The areas of activity of the Audit and Standards Committee during 2017/18 are set out in the Annual Report.

### Contents of the Report

3. Appendix 2 outlines the activity which the Audit and Standards Committee has covered over the last year.
4. The Audit and Standards Committee has received reports in the following areas:
  - Internal Audit planning, performance and activity;
  - Annual Internal Audit benchmarking results;
  - Internal Audit recommendations;
  - External Audit planning, performance and activity;
  - Corporate Risk Management and Resilience activity;
  - Annual Counter Fraud Update
  - The Annual Governance Statement and supporting evidence;
  - Review of Internal Audit Charter and compliance with Public Sector Internal Audit Standards;
  - Annual Audit Letter;
  - Achievement of Going Concern Status;
  - Audit Completion Report and Council Statement of Accounts;
  - Treasury Management Policy and mid-year update.;
  - Counter Fraud and Corruption Arrangements;
  - Risk Management within Resilience and Emergency Planning; and
  - Local Code of Governance.
5. There were no reports in year which were specific to Standards issues. No complaints have been received under the Member's Code of Conduct, that required investigation, nor was there any guidance or best practice issued during the year that warranted a report. The Monitoring Officer is responsible for maintaining and promoting high standards within the Council and he and his staff have contributed to the Audit work on good governance particularly those matters relating to the Corporate Risk Management activity and the Annual Governance Statement.

6. Based on the evidence presented during the year and at the meeting of the Audit and Standards Committee on 18 June 2018 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2017/18, which accompanies the Statement of Accounts.

### **Consultation**

7. The Audit and Standards Committee considered and agreed the contents of this report at their meeting of 23 July 2018.

### **Alternative Options**

8. There are no alternative options.

### **Implications of Recommended Option**

9. **Resources:**
  - a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that there are no financial implications arising from this report.
  - b) **Human Resources Implications** – There are no human resources implications arising from this report.
  - c) **Property Implications** – There are no property implications arising from this report.
10. **Risk Management Implications** - The Audit and Standards Committee receives quarterly reports on risk management and has been instrumental in championing risk awareness training for councillors.
11. **Equality and Diversity Implications** – there are no equality and diversity implications arising from this report.
12. **Crime and Disorder Implications** – There are no crime and disorder implications arising from this report.
13. **Health Implications** – There are no health implications arising from this report.
14. **Sustainability Implications** – There are no sustainability implications arising from this report.
15. **Human Rights Implications** – There are no human rights implications arising from this report.

16. **Area and Ward Implications** – There are no area and ward implications arising from this report.
17. **Background Information** – Report of the Audit and Standards Committee meeting on 24 July 2017.

**Contents of the Report to Cabinet and Council – 2017/18**

1. The areas of activity considered by the Audit and Standards Committee during 2017/18 are set out below.

**Internal Audit planning, performance and activity**

2. As at 31 March 2018 96% of the Internal Audit Plan was completed, which resulted in 63 audit reports. Of these reports 56 (89%) found systems to be operating well or satisfactory, with 7 (11%) reporting systems having significant weaknesses, of which two were in relation to schools.
3. All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.
4. Based on this evidence arising from Internal Audit activity during 2017/18, the Council's internal control systems and governance and risk management arrangements are considered to be effective.
5. The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2017/18, with quarterly updates to Audit and Standards Committee.
6. Other reports received during 2017/18 relating to Internal Audit included the CIPFA Benchmarking Results for 2016/17. The Audit and Standards Committee also approved the Audit Strategy and Plan.
7. The Audit and Standards Committee will continue to monitor Internal Audit's progress on a quarterly basis against the 2018/19 Audit Plan.

**External Audit planning, performance and activity**

8. The following external audit report has been reviewed over the year:
  - Audit Strategy Memorandum for year ended 31 March 2018.
9. The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance with a potential to impact upon the financial statements during 2017/18. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing Standards. The Committee agreed that an effective level of oversight was in place.

### **Corporate Risk Management and Resilience activity**

10. The Committee receives quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

### **Annual Counter Fraud Update**

11. The Committee receives an annual report updating on activity undertaken during the financial year in relation to the work of the Corporate Fraud Team.

### **The Annual Governance Statement and supporting evidence**

12. The Annual Governance Statement for 2017/18 concluded that the Council's system of internal control, risk management and governance framework is effective.
13. The Audit and Standards Committee approved the Annual Governance Statement for 2017/18 at its meeting on 18 June 2018, following a review of the evidence detailed below in paragraphs 14-30, and evidence seen by the Committee during the year.

### **Cabinet Members**

14. Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

### **Senior Managers**

15. Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas will be examined as part of the 2018/19 Audit Plan and the outcomes reported to the Audit and Standards Committee in July 2018.

### **Internal Audit**

16. The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition, the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed, as part of the Audit Plan.

17. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2017/18 was that internal control systems and risk management and governance arrangements are effective.
18. The Internal Audit Charter was revised to accommodate changes in the Public Sector Internal Audit Standards (PSIAS) from 1 April in line with new and revised IPPF Global Standards. The main points and changes to the PSIAS and subsequently the Internal Audit Charter are summarised as follows:
  - Emphasis on proper safeguards being in place where the Chief Audit Executive has roles beyond Internal Audit.
  - The Standards now explicitly refer to the service considering 'trends and emerging issues that could impact on the organisation'.
  - Specifically references that the Service should be 'future focussed and continually add value to the organisation'.
  - Inclusion of a new interpretation relating to reliance on other assurance providers
19. A review of the effectiveness of Internal Audit has also been undertaken for 2017/18 in line with the Accounts and Audit Regulations 2015. This review focused upon compliance with the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed by the external auditor on Internal Audit's work, an assessment of the effectiveness of the Audit and Standards Committee and relevant local performance information. Based on the review the Council's system of Internal Audit was considered to be operating effectively.

### **Risk Management**

20. Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk.
21. The Strategic Director, Corporate Resources reported that risk management arrangements during the year were effective.

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

22. The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.

23. In addition, performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
24. Based on evidence arising from the performance management process for 2017/18 effective controls are in place.

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

25. Mazars, the Council's external auditor, issued an Annual Audit Letter in October 2017 covering the financial year 2016/17. This comprised of two elements: the audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources. An unqualified opinion was given in both of these areas for 2016/17.
26. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

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

27. Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

### **Financial Controls**

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

### **Partnerships**

29. Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.



30. Based on evidence arising from partnerships for 2017/18 effective controls are in place.

### **Other Reports**

#### **Achievement of Going Concern Status**

31. The Committee received a report considering the Council's status as a going concern.
32. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that there continues to be a risk that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the council's monitoring officer, to all authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.
33. The report outlined the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.
34. Based on the assessment undertaken, the Council's Chief Finance Officer (Section 151 officer) view was that the Council is fully aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the 2016/17 Statement of Accounts should be prepared on that basis.

#### **Audit Completion Report and Council's Statement of Accounts**

35. The outcome and findings of the audit of the Council's Statement of Accounts 2016/17 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 24 July 2017. Mazars issued an unqualified opinion on the Statement of Accounts, and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and resolved that the Accounts Committee be advised that they had no issues to raise on the outcomes and findings of the Council's Statement of Accounts 2016/17 by Mazars

#### **Treasury Management Policy & Strategy and Six Monthly Update**

36. In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

## **Local Code of Governance Update**

37. The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly and the Audit and Standards Committee were asked to consider and approve an updated version on 29 January 2018, based on the CIPFA Delivering Good Governance in Local Government: Framework. The Code defines how the Council complies with the principles of good governance laid down by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.
38. The new approach from CIPFA is intended to better assist local authorities, and associated organisations and vehicles through which authorities now work, in reviewing the effectiveness of their governance arrangements by reference to best practice and using a self-assessment.

## **Counter Fraud and Corruption Arrangements**

39. The Committee received a report detailing the outcome of the review of the Council's overall Counter Fraud and Corruption Arrangements, including the revised Counter Fraud and Corruption Policy and Fraud Response Plan, and the proposed Counter Fraud and Corruption Strategy.
40. Regular reports on any activity relating to this Strategy, and progress against the fraud plan will be presented to the Committee.
41. An annual report will be provided to the Committee on performance against the Strategy and the effectiveness of the Strategy. Conclusions will also form part of the Annual Governance Statement.

## **Risk Management within Resilience and Emergency Planning**

42. The Committee received a report providing an overview of:
  - the risks associated to the Council within the Resilience and Emergency Planning function
  - the relevant statutory legislation;
  - the Community Risk Register;and how the Council operates to mitigate and manage these risks.