

Oversight of Management Processes 2020/21 – Response to External Auditor

Question	Response
A: How do you gain assurance from Management	
1. How do you exercise oversight of management’s processes in relation to:	
<ul style="list-style-type: none"> • Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)? 	<ul style="list-style-type: none"> • The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Based on the 2020/21 plans for Gateshead and TGHC, key systems were allocated 915 productive hours for Gateshead and 450 for TGHC, which represents 15% of the planned hours for Gateshead’s Groups and Services and 32% for TGHC. Audits completed in 2020/21: <ul style="list-style-type: none"> ○ AGS Assurances 2019/20 - Operating Well ○ Budgetary Control - Operating Well ○ Business Rates - Satisfactory ○ Council Tax – Operating Well ○ Capital Accounting System and Programme - Satisfactory ○ Corporate Debtors – Satisfactory ○ Corporate Payroll and Human Resources System – Satisfactory ○ Governance Arrangements - Operating Well ○ Partnership Arrangements – Satisfactory ○ Risk Management and Business Continuity Arrangements - Operating Well ○ Treasury Management – Satisfactory ○ TGHC Rent Arrears and Rent Collection – Operating Well

	<ul style="list-style-type: none"> ○ TGHC Main Accounting – Operating Well ○ Budget Setting and Monitoring ○ Creditors ○ Housing Revenue Account (HRA) - satisfactory ● Managers Assurance Statements first line of defense ● Revenue and Capital budget monitoring ● Multiple review process within closedown timetable and year-end working papers ● Analytical review process
<ul style="list-style-type: none"> ● Identifying and responding to risks of fraud in the Council and group entities, including any specific risks to fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist? 	<ul style="list-style-type: none"> ● Annual Audit Plan includes allocation for proactive fraud work and reactive investigations ● Biannual update to Audit and Standards Committee on fraud and irregularity investigations ● Internal audit of key financial systems ● Service Directors Assurance Statements ● National Fraud Initiative (NFI) data matching ● Council Counter Fraud and Corruption Arrangements ● Proactive approach e.g. Single Person Discount use of Datatank ● Whistleblowing Policy ● Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group
<ul style="list-style-type: none"> ● Communicating to employees the Council’s views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council’s codes of conduct) 	<ul style="list-style-type: none"> ● Employee induction ● Regular employee and team briefings ● Regular Management and Supervision meetings ● Employee Appraisal and Development including corporate values ● Employees’ Code of Conduct (incorporated into employees’

	<p>contracts of employment)</p> <ul style="list-style-type: none"> • Protocol on Councillor / Officer Relations • Employee handbook • KnowledgeNet (source of training and development materials) • Corporate bulletins to raise awareness • Intranet content
<ul style="list-style-type: none"> • Communicate to those charged with governance the processes for identifying and responding to fraud or error? 	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations • Biannual Counter Fraud Update reported to Audit and Standards Committee, October and April, including National Fraud Initiative and fraud and irregularity investigations • Internal audit of key financial systems • Service Directors Assurance Statements • National Fraud Initiative (NFI) data matching • Attendance at North East Fraud Forum
<p>2. How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal controls? Are you aware of any breaches of internal control during 2020/21? (if 'yes', please provide details)</p>	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations • Biannual update to Audit and Standards Committee on fraud and irregularity investigations • Internal audit of key financial systems • Counter fraud is a standing agenda item at the quarterly internal control group chaired by the Strategic Director, Resources and Digital. • Service Directors Assurance Statements • National Fraud Initiative (NFI) data matching • Council Counter Fraud and Corruption Arrangements • Proactive approach e.g. Single Person Discount use of

	<p>Datatank</p> <ul style="list-style-type: none"> • Whistleblowing Policy • Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group <p>Not aware of any breaches of internal control during 2020/21.</p>
<p>3. How does management gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2020/21? (if 'yes', please provide details)</p>	<ul style="list-style-type: none"> • Contribution to and compliance with internal assurance processes i.e. <ul style="list-style-type: none"> ○ Service assurance assessment ○ Local Code of Governance ○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2020/21. No significant internal control issues during the financial year 2020/21 that have resulted in: <ul style="list-style-type: none"> ▪ A need to take formal reporting action; ▪ A need for a full investigation relating to a member's conduct; ▪ Significant damage to the reputation of the Council; or ▪ An inability by the Council to meet its lawful objectives. ○ Annual Governance Statement • Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Resources and Digital on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based”. - Protocol 3 – Report Formats and Preparing Reports). • Annual (at least) review of the Constitution which takes into

account legislative changes

- The Council's Financial Regulations and Contract Procedure Rules, which are part of the Council's Constitution, provide the framework for managing the Council's financial affairs and procurement activity, respectively.

13.03 Functions of the Monitoring Officer

By law, the Strategic Director, Corporate Services and Governance as Monitoring Officer, will have the following responsibilities:

(a) Ensuring lawfulness and fairness of decision making

After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council or the Cabinet in relation to an executive function if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to unlawfulness. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

13.04 Functions of the Chief Finance Officer

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

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

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function,

	<p>and the Council's external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.</p> <ul style="list-style-type: none"> • Legal officers fully trained in accordance with continuing professional development principles, and able to 'horizon scan' through: <ul style="list-style-type: none"> ○ Legal section subscribe to Westlaw UK and Practical Law, an on-line legislation and research resource including updates ○ Legal section membership of Lawyers in Local Government, a national group (with links to the Law Society) which provides training and special interest groups (two led by Gateshead lawyers) along with a topical discussion forum ○ Regular training is provided through the North East legal services framework arrangements ○ All solicitors receive Solicitors' Gazette weekly • Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory • Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer • Guidance issued to all Directors when new legislation requires changes to Council procedures • Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors
4. Are you aware of any actual or potential litigation or claims that	Legal staff provide annual (and where required ongoing) updates on

<p>would affect the financial statements (if 'yes', please provide details)?</p>	<p>litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.</p>
<p>5. Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern, or that of any of its group entity?</p>	<ul style="list-style-type: none"> • A detailed assessment of future financial risks, including the likely ongoing impact of COVID-19 on the financial position, is carried out when setting the budget and MTFS • Included in the budget for 2021/22 is £6.13m COVID funding, and a Pandemic Services Impact reserve of £17.991m has been created, giving £24.121m to manage the ongoing effect of COVID-19. • The Council's General Fund balance as at 31 March 2021 is £13.967m (subject to year end adjustments and audit). The Council's prudent minimum balance on the General Fund is £11.811m representing 5% of net revenue budget. It is therefore noted that there is some headroom within the General Fund to help absorb the estimated financial impact of COVID-19 in the short to medium term and to manage the impact of future changes in funding. • The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For this reason and the reasons set out above, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future. In addition, management are not currently aware of any significant information that is available for the period beyond 2025/26 that would indicate a contrary conclusion.
<p>B: Questions in relation to fraud:</p>	<p>Response</p>
<p>1. Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within group entities during the period 1 April 2020 – 31 March 2021?</p>	<p>Yes, there were 112 fraud allegations reported to the Corporate Fraud Team during 2020/21 along with one internal investigation. These are as follows:</p> <ul style="list-style-type: none"> • Procurement Fraud: 0 allegations

	<ul style="list-style-type: none"> • Payroll and employee contract fraud: 0 allegations • Theft of equipment, cash or data: 0 allegations • Other: 112 allegations <p>Of the 112 allegations, 33 were closed and for the most part they were of a trivial nature or unproven (two resulted in recovery of Business Rate COVID-19 Grant), the remainder either are ongoing and under investigation or waiting to be allocated. The one internal investigation concluded no fraud.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee.</p>
<p>2. Do you suspect fraud may be occurring, either within the Council or within the group entities?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks within the Council / the group entities? 	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council or within the group entity all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p> <p>The counter fraud and corruption strategy for local government 'Fighting Fraud and Corruption Locally' identifies nationally those areas that are at a high risk of fraud and this has formed the basis of the proactive fraud work allocated within the audit plan. These areas include council tax discounts and exemptions; council tax benefits; non-domestic rates relief; social housing Right to Buy (RTB), blue badge scheme misuse; procurement fraud; tenancy fraud (domestic and commercial); employee corporate fraud; direct payments and insurance fraud. At this point no specific fraud risks have been identified.</p>

<ul style="list-style-type: none"> • Do you have any concerns that there are areas within the Council or group entities that are at risk of fraud? • Are there particular locations within the Council / the group entities where fraud is more likely to occur? 	<p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan. At this point there are no concerns about specific areas.</p> <p>At this point there are no particular locations where fraud is more likely to occur.</p>
<p>3. Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> • If not where are the risk areas? • What other controls are in place to help prevent, deter or detect fraud? 	<p>Yes, controls in place include e.g.</p> <ul style="list-style-type: none"> • Internal Audit assurance, in particular annual key systems audits • Service Directors Assurance Statement • Functionality of systems, including Agresso and online banking <p>Counter Fraud Arrangements, including the Counter Fraud and Corruption Strategy and Policy, and Fraud Response Plan, Council's Whistleblowing Policy, Financial Regulations and Financial Procedures, prosecution and sanction of offenders.</p>
<p>4. How do you encourage staff to report their concerns about fraud?</p>	<p>Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasise both their role in preventing fraud and their responsibilities for reporting suspected fraud, along with options available to report concerns. The Council's Counter Fraud Arrangements, including Counter Fraud and Corruption Strategy and Policy and the Fraud Response Plan are available to all employees via the intranet. Link to documents referred to in these are also on the Council website and Intranet, including the Council's Whistleblowing</p>

<ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>Policy, reference to the fraud reporting email address fraudreporting@gateshead.gov.uk, the online fraud referral form and telephone hotline.</p> <p>Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the relevant employee guidance regarding counter fraud and corruption. Specific policies include:</p> <ul style="list-style-type: none"> • Whistleblowing Policy • Code of Conduct • Counter Fraud and Corruption Policy • Statement on Prevention of Bribery
<p>5. From a fraud and corruption perspective, what are considered to be high risk posts within the Council and group entities?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan. The relative risk of each post is reflected in the audit risk assessments for the relevant activity area.</p>
<p>6. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers</p> <p>All Members and Senior Officers complete related parties disclosures annually. Register of Interests Internal Audit declarations of Independence</p>
<p>7. Are you aware of any entries made in the accounting records of the Council or group entities that you believe or suspect are false or intentionally misleading?</p>	<p>Given the size and complexity of transactions reflected in the Council and Group's accounting records there is always the potential for error or false accounting that could escape detection. However, internal</p>

<ul style="list-style-type: none"> • Are there particular balances in the accounts where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the Council or group entities? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors which are high risk of fraud? 	<p>controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.</p> <p>Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker</p> <p>No. Items are only excluded on the grounds of materiality. Reliance on third party data e.g. Actuarial calculations for pensions</p> <p>All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring</p> <p>Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank.</p>
<p>8. Are you aware of any organisational or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>All Services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.</p> <p>No</p>
<p>9. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Employee counter fraud and corruption guidance has been updated to reflect the Bribery Act 2010, this is made available to all employees via the intranet.</p>