

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 2 October 2017

PRESENT: Councillor
Councillor(s): J Green, J McClurey, J McElroy, G Clark and J Turnbull

APOLOGIES: Councillor(s): H Haran and L Green

ASC83 MINUTES

The minutes of the last meeting held on 24 July 2017 were approved as a correct record.

The Committee wished to place upon record their congratulations to Cllr Helen Haran who had recently given birth to a baby daughter.

The Committee also wished to place on record their thanks to Martin Harrison, who was present for the last time, as he would be retiring from the Council at Christmas. The Committee thanked him for all his work and wished him well for the future.

The Committee welcomed Deborah Hill, Service Director, Corporate Services and Governance who was observing the meeting; she will be taking over from Martin Harrison after his retirement.

ASC84 DECLARATIONS OF INTEREST

There were no declarations of interest raised.

ASC85 APPOINTMENT OF INDEPENDENT PERSON AND INDEPENDENT MEMBERS TO THE AUDIT AND STANDARDS COMMITTEE

The Committee received a report requesting them to note the Council's decision with regard to the appointment of an Independent Person for standards of conduct issues affecting Council and Parish Council Members and also the three Independent Members to the Audit and Standards Committee.

The Council on 19 July 2012 appointed Anthony Atkinson as its Independent Person for standards of conduct issues affecting Council and Parish Council Members for a three year period. It subsequently agreed to extend this appointment for a further two years. As Mr Atkinson's term of office was due to expire a recruitment was undertaken. The opportunity was also taken to carry out a similar process for the Independent Member positions on the Audit and Standards Committee.

Following the recruitment process the Panel identified Mr Atkinson as the most suitable person for the Independent Person position. The Panel also agreed that two of the existing Independent Members of the Committee, Bryn Jones and George Clark, should be re-appointed to the positions and that a new Independent Member, Stuart Bell, should be appointed.

The Council on 21 September 2017 considered the recommendations of the Panel and agreed to their appointments for a period of four years.

RESOLVED - That the Committee noted the Council's decision on the appointment of the Independent Person and Independent Members.

ASC86 MAZARS AUDIT PROGRESS REPORT

The Committee received the Audit Progress Report, from the External Auditor, Mazars.

The report outlined:

- 2016/17 audit
- Objection to the accounts
- 2017/18 audit
- National publications and other updates

The Committee were advised that the objection, had been made by a member of the public, was sent to Mazars and copied to the Council, on 6 July 2017. The objection relates to the Lender Option Borrower Option (LOBO) loans currently held by the Council.

Mazars are satisfied that this is a valid objection for consideration and work is now underway to determine the objection.

As a result of the objection, Mazars have been unable to issue the certificate to conclude the 2016/17 audit by 30 September 2017. Work is underway to determine the objection.

RESOLVED - that the contents of the external auditor's report be noted.

ASC87 RESULTS OF 2016/17 CIPFA AUDIT BENCHMARKING

The Committee received a report, advising of the annual Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking results for 2016/17.

The Internal Audit 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.

Benchmarking data allows the comparison of the Council's Internal Audit Service with 20 other local authorities (29 in 2015/16).

A summary report was also tabled of the 2016/17 benchmarking results. Overall this continues the trend from previous years and highlights the Council's Internal Audit Service as being low cost with high productivity; in comparison with other local authorities in the benchmarking data.

The information is based upon 2016/17 actual results taken from the financial ledger and Galileo; the Internal Audit Management system.

RESOLVED - that the information be noted.

ASC88 CORPORATE RISK MANAGEMENT QUARTERLY REPORT TO 30 SEPTEMBER 2017

The Committee received a report updating the developments in Corporate Risk Management during the period 1 July to 30 September 2017 in compliance with the requirements of good corporate governance.

The Action Plan for the delivery of the Developmental Objectives for 2017/18 incorporating progress to date was also tabled, work is progressing as per the plan and further details about the specific areas are outlined below:

The work on the refresh of the Strategic Register has continued during the period and has identified the following seven key strategic risks which may impact on the Council's ability to deliver the strategic objectives included within Vision 2030 and the Council Plan:

- Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy
- Failure to manage demand and expectations
- Failure to safeguard vulnerable children and adults
- Failure to attract inward investment and sustainable economic growth
- Non-compliance against current statutory duties and legislation affecting the whole Council (Corporate)
- Failure to address workforce planning and resourcing
- Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical service or an impact on a community

The number of strategic risks has reduced from the current register as some risks have merged and some are no longer applicable. A summary of these changes were also tabled for information.

To ensure all controls, either current or planned, have been identified the draft register has been circulated to all Service Directors for comment. The responses have been received and are being reviewed to identify any further controls which need adding to the draft register prior to the register being approved and adopted.

A new crime has been introduced in the Criminal Finance Act 2017, the failure to prevent the criminal facilitation of tax evasion, which takes effect from 30 September 2017.

The Act is likely to impact primarily on higher risk organisations such as those in the finance industry but the Corporate Risk Management team are co-ordinating a risk assessment of all Council services to ensure procedures are in place and have been affectively communicated for any areas where this type of crime could be attempted.

The key risk areas within the Council are likely to include:

- Exchequer Services;
- Payroll; and
- Business Rates

In addition to the service specific risk assessment the Council's Insurance and VAT teams will be consulted as part of this exercise as the controls in place within these areas will also mitigate this risk.

An update on the progress of this work will be provided at the next Committee.

The Risk and Resilience Group met on 19 September and the following items were discussed:

- Responses from the consultation with Service Directors on the draft Strategic Risk register;
- Progress on the actions arising from the Pandemic Influenza Business Continuity Planning exercise completed in April;
- Resilience and emergency planning updates in relations to recent planning exercises and operations;
- Health and Safety overview including work that is taking place in Gateshead following the Grenfell Tower incident; and
- Engagement with Services in relation to Critical ICT Systems Service Planning

RESOLVED - that the information be noted

ASC89 REVIEW OF INTERNAL AUDIT CHARTER

The Committee received a report informing the Committee of the review of the Internal Audit Charter.

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). The Chief Internal Auditor must periodically review the internal audit charter and present it for approval.

The PSIAS have been revised from 1 April 2017 in line with new and revised IPPF Global standards and consequently amendments have been made to incorporate the additional public sector requirements and interpretations.

The Internal Audit Charter has been revised to accommodate the changes made to the PSIAS. It was last presented to Committee in October 2016, and final approval of the Internal Audit Charter resides with the Audit and Standards Committee.

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.

RESOLVED – that the revised Internal Charter be approved to comply with Public Sector Internal Audit Standards

ASC90 ANNUAL GOVERNANCE STATEMENT 2016/17 - INTERNAL REVIEW OF MANAGERS' ASSURANCES

The Committee received a report informing of the outcome of the work by the Internal Audit Service in reviewing assurances provided by Service Directors to inform the 2016/17 Annual Governance Statement.

The 2016/17 Annual Governance Statement Audit was carried out using a theme based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Governance Statement in response to the following questions:

- Partnership Arrangements
- Key Decision Making

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

The overall conclusion of this work, as included in the quarter one update from Internal Audit reported to the July Committee, is that the systems and processes for the completion of the Managers' Assurance Statements are operating well and that they provided a good level of assurance for the 2016/17 Annual Governance Statement.

RESOLVED - that the information be noted.

ASC91 TREASURY MANAGEMENT - PERFORMANCE TO 30 SEPTEMBER 2017

In accordance with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy, the Committee received the six months to 30 September 2017 performance report in respect of the Treasury Management Service, covering investments and borrowing

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending obligations.

The report set out performance in respect of Investments, Rate of Return and Borrowing and an update was provided in respect of the deposit the Council had made to Heritable Bank.

The summary of the mid-year performance highlighted that the projected net impact of investment and borrowing activity on the revenue budget in 2017/18 is an underspend of £1.056m, comprising £0.715m General Fund and £0.342m in HRA.

Investment returns are likely to remain relatively low during 2017/18 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

Internal borrowing does have an element of interest rate risk on the overall treasury management position, if interest rates were suddenly to rise but this is being taken into account when discussing potential borrowing options with our treasury management advisers, CAPITA>

RESOLVED - that the Treasury Management Performance to 30 September 2017 be noted.

ASC92 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - that the press and public be excluded from the meeting during consideration of the remaining business in accordance with paragraph

3 of Schedule 12A to the Local Government Act 1972

ASC93 INTERNAL AUDIT PLAN 2017/18 QUARTERLY MONITORING REPORT TO 30 SEPTEMBER 2017

A report was presented outlining progress made by the Internal Audit and Risk Service against the audit plan for the financial year 2017/18. The report also summarised the main findings arising from audit activity throughout the period 1 April 2017 to 30 September 2017.

RESOLVED - that the information be noted.

ASC94 COUNTER FRAUD UPDATE

A report was presented on activity undertaken since April 2017 by the Internal Audit and Risk Services in relation to Counter Fraud.

To support and further develop the counter fraud work currently carried out by the Internal Audit and Risk Service an invest to save budget option was included in the 2017/18 budget to create two dedicated Corporate Fraud Officer posts from 1 April 2017.

The Corporate Fraud Officers will carry out proactive anti-fraud and corruption work, targeting the areas which have been identified nationally as being at a high risk of fraud, and include:

- Council tax discounts and exemptions
- Council tax benefits
- Non-domestic rates relief
- Blue badge scheme misuse
- Procurement fraud, including links to organised crime
- Tenancy fraud (domestic and commercial)
- Employee corporate fraud
- Direct payments
- Insurance fraud

Other work will include carrying out fraud investigations, delivering training to increase awareness throughout the Council, drafting of a Council Counter Fraud and Corruption Policy and Fraud Response Plan and provision of increased support to management to prevent and detect fraud.

The Corporate Fraud Team has identified two initial areas to focus as proactive counter fraud reviews. These are non-domestic rates relief and blue badge scheme misuse.

An exercise is currently underway to identify cases of potential Business Rates/Charities Fraud. This review involves checking business rates accounts which are receiving both mandatory and discretionary charitable relief.

The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

The 2016/17 exercise is currently underway following the submission of data in

October 2016 and the release of data matches in January 2016 for the 15 data sets included in the NFI exercise. The data covers payroll, pensions, trade creditors' payment history and standing data, housing (current tenants) and right to buy, housing waiting lists, housing benefits, council tax reduction scheme, council tax, electoral register, student loans, private supported care home residents, transport passes and permits (including residents' parking, blue badges and concessionary travel), insurance claimants, licences (marker trader, taxi driver and personal licences to supply alcohol) and personal budget direct payments.

A total of 8,763 matches have been identified, of which 1,954 are 'recommended' matches which have been prioritised for investigation. All 'recommended' matches should be investigated by the end of January 2018. As at 19 September 2017, 793 of the 1,954 recommended matches are either processed or under investigated. Currently no overpayments have been identified which are recoverable.

It is the intention that a six monthly report will be presented to the Audit and Standards Committee which will provide an update on the work of the Corporate Fraud Team, action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation, reporting cases of potential fraud and irregularity, proactive counter fraud work completed and progress of the Council's participation in NFI.

RESOLVED – that the information be noted.

ASC95 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 29 January 2018 at 10.00 am

Chair.....