

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 2 October 2017 at 5.30 pm in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

| Item | Business |
|------|---|
| 1 | Apologies for Absence |
| 2 | Minutes (Pages 3 - 8) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 24 July 2017. |
| 3 | Declarations of Interest Members of the Committee are invited to declare interests in any agenda items. |
| 4 | Appointment of Independent Person and Independent Members to the Audit and Standards Committee (Pages 9 - 10) Report of the Strategic Director, Corporate Services and Governance |
| 5 | Mazars Audit Progress Report (Pages 11 - 24) Report of the Strategic Director Corporate Resources |
| 6 | Results of 2016/17 CIPFA Audit Benchmarking (Pages 25 - 28) Report of the Strategic Director, Corporate Resources |
| 7 | Corporate Risk Management Quarterly Report to 30 September 2017 (Pages 29 - 38) Report of the Strategic Director, Corporate Resources |
| 8 | Review of Internal Audit Charter (Pages 39 - 52) Report of the Strategic Director Corporate Resources |
| 9 | Annual Governance Statement 2016/17 - Internal Review of Managers' Assurances (Pages 53 - 54) Report of the Strategic Director Corporate Resources |
| 10 | Treasury Management - Performance to 30 September 2017 (Pages 55 - 58) Report of the Strategic Director Corporate Resources |

11 Exclusion of the Press and Public

The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 3 of Schedule 12A to the Local Government Act 1972.

12 Internal Audit Plan 2017/18 Quarterly Monitoring Report to 30 September 2017 (Pages 59 - 66)

Report of the Strategic Director Corporate Resources

13 Counter Fraud Update (Pages 67 - 70)

Report of the Strategic Director Corporate Resources

14 Date and time of next meeting

**GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING**

Monday, 24 July 2017

PRESENT: Councillor J Turnbull (Acting as Chair)
Councillor(s): J McElroy, G Clark, B Jones

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

ASC73 MINUTES

The minutes of the last meeting held on 19 June 2017 were approved as a correct record.

ASC74 DECLARATIONS OF INTEREST

There were no declarations of interest raised.

ASC75 ANNUAL REPORT TO CABINET AND COUNCIL 2016/17

In accordance with the Committee's terms of reference, it was asked to consider the issues discussed during 2016/17, for inclusion in the annual report to Cabinet.

The annual report to Cabinet and Council allows the Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangement for:

- Risk management
- Maintaining effective internal control; and
- Reporting on financial and other performance

Details of the activity covered over the last year were appended to the report.

RESOLVED – that the draft report to Cabinet and Council be approved

ASC76 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2017 AND GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2016/17

The Accounts and Audit Regulations 2015 require that the Council's Statement of Accounts should be approved by a committee. In Gateshead's governance framework, this is the Accounts Committee. However, best practice guidance outlines that the Audit and Standards Committee should also review financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.

The annual audit of the Council's Statement of Accounts and use of resources has

now been completed for 2016/17 and the Council's external auditor, Mazars has issued its report.

The Audit Completion Report covers:

- The Council's Statement of Accounts including significant findings, internal control recommendations and a summary of misstatements;
- The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including a value for money conclusion.

The external auditor's report and the Council's Statement of Accounts were appended to the report.

Although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) work to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts. Despite assurances that the work by EY on the TWPF would be completed during July, the TWPF Audit Opinion has not yet been issued. It is anticipated that the Council's auditors will have received sufficient assurance from EY by the Accounts Committee date to allow the Council's accounts to be fully signed off.

The key messages from Mazars' Audit Completion Report were outlined as:-

- Audit Opinion – at the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements.
- Identified misstatements – the auditors' work identified a number of misstatements that have been discussed with management.
- Use of resources – at the time of issuing the report and subject to the satisfactory conclusion of the remaining audit work, Mazars anticipate having no matters to report in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Statement of Accounts is materially consistent with the 2016/17 revenue and capital outturn reports considered by Cabinet on 20 June 2017. Along with minor adjustments and presentational changes, the following misstatements to the Statement submitted for audit on 31 May 2017 have been identified through the audit process:

Short-term investments/short term debtors: £0.665m interest relating to a Newcastle Airport loan was incorrectly treated as a short term investment rather than a short term debtor.

Property, Plant and Equipment (PPE)/Revaluation Reserve: £4.481m relating to finance costs were incorrectly included in the valuations for Depreciated Replacement Cost (DRC), so overstating PPE Net Book Value (NBV) by this amount on the Balance Sheet.

Property, Plant and Equipment (PPE)/Revaluation Reserve: £2.307m relating to the valuation of the SITA Waste Disposal Site incorrectly calculating the residual economic useful life of the assets by one year, resulting in an error in the overall valuation amounting to the equivalent of one year's depreciation. The impact is to understate the PPE NBV on the balance sheet by this amount.

The Committee were advised that none of the changes to the Statement of Accounts impact on the revenue and capital outturn positions reported to Cabinet, nor do they affect the position of any usable reserves. Management have assessed the identified misstatements as not being material or in aggregate to the financial statements, and does not plan to adjust.

The Committee requested that training be arranged for Committee members in due course and wished to place on record their thanks to the Finance team.

- RESOLVED -
- i) That the contents of the report and review be noted.
 - ii) That the Accounts Committee be advised that the Audit and Standards Committee has no issues to raise on the outcome and findings of the Council's Statement of Accounts 2015/16.

ASC77 CORPORATE RISK MANAGEMENT 2017/18 - QUARTERLY REPORT TO 30 JUNE 2017

The Committee received a report on the developments in Corporate Risk Management during the period 1 April to 30 June 2017, in accordance with the requirements of good corporate governance.

The report covered progress against the Corporate Risk Management Developmental Objectives for 2017/18 as cited in the Corporate Risk Management Annual Report 2016/17 and any other risk management issues emerging within the period.

It was reported that work is continuing on the comprehensive review of the Strategic Risk register and a first draft was presented to the Corporate Risk and Resilience Group for comment prior to circulating for wider consultation.

The 2016/17 CIPFA Benchmarking return has been reviewed to identified areas for improvements, no areas were identified however a process for continuous improvements is in place and if any areas are identified during the course of the year these will be acted upon.

The Action Plan for the delivery of the Developmental Objectives for 2017/18 incorporating progress to date was appended to the report.

The Committee were advised that the Risk and Resilience Group met on 28 April 2017, when the first draft of the Strategic Risk Register was tabled. Other items for discussion were:

- The action plan arising from the Pandemic Influenza Business Continuity exercise completed in April;
- Resilience and emergency planning updates in relation 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

The Committee requested that examples of risk should be scrutinised in more detail and requested that an item be looked at, at each meeting in greater detail.

The Committee wished to place upon record their thanks to the Finance staff for a very thorough and informative report.

RESOLVED – that the information be noted.

ASC78 ACHIEVEMENT OF GOING CONCERN STATUS 2016/17

The Committee received a report which considered the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.

The report set out the context of the Council having a strong record of delivering within budget and achieving savings. During the period 2010/11 to 2016/17 savings of £130m have been identified and substantially delivered.

The last Annual Audit Letter from Mazars issued in 2015/16 concluded that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 22 September 2016.

The Council undertook a peer challenge earlier this year which was published in July 2017 and this described the Council as a consummate performer in respect of its financial management and this was a council wide achievement.

The Committee were advised of the current financial position 2016/17, the future position with regards the 2017/18 budget and the future position for the revised Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2022/23.

The Committee were advised that based on the assessment undertaken, the Council's Chief Finance Officer's (section 151 officer) view is 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 Statement of Accounts should be prepared on that basis

RESOLVED - The Committee agreed that the Council is considered to be a going concern based on the assessment provided in the report and that the accounts are prepared and approved on that basis.

ASC79 COMMITTEE ON STANDARDS IN PUBLIC LIFE

The Committee received a report informing of the activities undertaken by the Committee on Standards in Public Life (CSPL) during 2016-17 and its proposals for future work as set out in its latest Strategic Plan titled "Setting the Standards".

The Strategic Plan and Annual Report/Forward Plan provided an overview of the activities undertaken by the CSPL during 2016-17. Whilst not specifically related to the work of this Committee there are a number of matters reported on which will be of general interest including:

- The Conduct of Referendums
- 'Fake News'
- Party Funding
- MP's Business Costs and Expenses

The CSPL intends to undertake a review of local government standards during 2017-18, further details of which are set out in the 2017-18 Forward Plan. The review will be based around a consultation, to be launched in early 2018, with findings and recommendations published later the same year.

The Report also identifies a Forward Plan of other topics for consideration by the CSPL during 2017-18, including:

- Conduct of Referendums;
- Impact of Social Media;
- MP's outside interest;
- Party Funding, and
- Academies

RESOLVED – that the information be noted.

ASC80 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.

ASC81 INTERNAL AUDIT PLAN 2017/18 - QUARTERLY MONITORING REPORT TO 30 JUNE 2017

A report was presented outlining the 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 June 2017.

RESOLVED – that the information be noted.

ASC82 DATE AND TIME OF NEXT MEETING

Monday 2 October 2017 at 5.30 pm

Chair.....

TITLE OF REPORT: Appointment of Independent Person and Independent Members to the Audit and Standards Committee

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

Purpose of the Report

1. This report asks the Committee 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.

Background

2. The Council has responsibility for appointing the Independent Person for standards of conduct issues and also the Independent Members to the Audit and Standards Committee. The roles for these positions are set out in Appendix 1 for the Committee's information.
3. 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 process was undertaken. The opportunity was also taken to carry out a similar process for the Independent Member positions on the Audit and Standards Committee.
4. A Panel consisting of the Chair and Vice Chair of the Audit and Standards Committee, together with the Deputy Monitoring Officer and Deputy Strategic Director, Corporate Resources interviewed applicants for these positions on 27 July and 3 August 2007.
5. Following the recruitment processes 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 re-appointed to the positions and that a new Independent Member, Stuart Bell, should be appointed.
6. The Council on 21 September 2017 considered the recommendations of the Panel as set out in paragraph 5 and agreed to their appointments for a period of four years.

Recommendation

7. The Committee is asked to note the Council's decision on the appointment of the Independent Person and Independent Members.

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Title of Report: External Auditor: Audit Progress Report

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on Mazars progress in delivering their responsibilities as external auditor.

Background

- 2 The report outlines:
 - 2016/17 audit
 - Objection to the accounts
 - 2017/18 audit
 - National publications and other updates.
- 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 report.

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| Contact name: Craig Oakes Ext - 3711 |
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Audit Progress Report

Gateshead Council



September 2017



Contents

| | |
|---|----|
| Audit progress..... | 3 |
| National publications and other updates | 4 |
| Contact details | 11 |

Our reports are prepared in the context of the Public Sector Audit Appointment Limited’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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 Audit and Standards 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 existing work Mazars does in the public sector.

2016/17 Audit

The 2016/17 audit was completed early this year, ahead of the statutory requirement to bring the timetable forward from next year.

Our audit opinion and VFM conclusion were issued on 31 July 2017.

We also provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your Whole of Government Accounts (WGA) consolidation pack with the audited statement of accounts. Work is ongoing in this area however we expect to report that your consolidation pack was consistent with the audited statement of accounts by the deadline of 29 September 2017.

The only work remaining to be completed is the certification of claims work in relation to housing benefits. The deadline for the completion of our

housing benefits work is 30 November 2017. This work is progressing and we fully expect to meet the deadline.

Objection to the accounts

The objection, made by a member of the public, was sent to us 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.

We have satisfied ourselves that this is a valid objection for consideration and work is now underway to determine the objection.

As a result of this objection we will be unable to issue our certificate to conclude the 2016/17 audit by 30 September 2017. Work is underway to determine the objection.

2017/18 Audit

In the next quarter, we will begin our planning work in relation to the 2017/18 audit.

We will discuss with officers the lessons learned from experience of bringing the accounts and audit timetable forward this year, and discuss ways in which we can make further improvements to streamline the process. This will include identifying ways of carrying out audit work earlier to reduce the pressure of work in the period between the preparation of your financial statements (by 31 May) and the audit deadline (31 July).

We will also discuss with officers the current risks in relation to our audit opinion and the VFM conclusion, and this will begin to shape our Audit Strategy Memorandum for the 2017/18 audit.

National publications and other updates

National publications and other updates

1. 2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017
2. Reality check: next steps in developing sustainability and transformation plans, CIPFA, April 2017
3. The levy, apprenticeships and the public sector, CIPFA, May 2017
4. Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017
5. Procurement of audit services delivers outstanding results, Public Sector Audit Appointments Ltd, June 2017
6. Online Fraud, NAO, June 2017
7. Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017
8. Cyber security and information risk guidance for Audit Committees, NAO, September 2017
9. Homelessness, NAO, September 2017

1. **2017-18 work programme and scale of fees, Public Sector Audit Appointments Ltd, March 2017**

PSAA has published the work programme and scales of fees for 2017/18 audits of principal local government and police bodies. There are no changes to the overall work programme for 2017/18. Scale fees for 2017/18 have therefore been set at the same level as the fees applicable for 2016/17. This is the final year for which PSSA will set fees under the transitional arrangements made by DCLG.

<http://www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

2. **Reality check: next steps in developing sustainability and transformation plans, CIPFA, April 2017**

CIPFA summarises this ‘think piece’ as follows:

The NHS planning guidance set out the notion of sustainability and transformation plans (STPs) in 2015. The plans aimed to bring together local leaders in health, local government and patient representation to plan how services would become sustainable between 2016 and 2021.

The STPs would facilitate health service providers and local authorities working together to ensure that services are delivered across the whole of the local health and care economy and not lead by any particular organisation’s priorities. Forty four local areas were established and initial plans were to be submitted in February 2017.

The 44 STPs which form the basis for NHS planning in the coming years, and explicitly link it to social care, are all now public in their draft forms. What conditions are likely to be critical to success, and do the STPs suggest that those conditions are in place?

This Insight analyses the 44 STPs for the answer.

<http://www.cipfa.org/policy-and-guidance/reports/reality-check-next-steps-in-developing-sustainability-and-transformation-plans>

3. The levy, apprenticeships and the public sector, CIPFA, May 2017

CIPFA summarises this 'think piece' as follows:

The arrival of the apprenticeship levy has been heralded with a mixture of eager anticipation, dread and a lot of discussion. It is likely to be a while before we see the levy running smoothly and guidance will inevitably need to be regularly updated as the system becomes embedded.

The introduction of the apprenticeships levy sees both opportunities and risks for the public sector and only time will tell how successful the system proves to be. There will be winners and losers and the targets to be achieved may prove a challenge, but the levy certainly can't be overlooked. Employers need to be aware of the options and ways to use the levy to develop a flexible and skilled workforce. CIPFA sees the levy as a further opportunity for widening access to the finance profession and providing a much needed platform to improve productivity in the economy.

This Insight provides background and introduction to what apprenticeships mean for the public sector.

<http://www.cipfa.org/policy-and-guidance/reports/the-levy-apprenticeships-and-the-public-sector>

4. Building financial resilience: managing financial stress in local authorities, CIPFA, June 2017

CIPFA summarises this 'think piece' as follows:

With health and social care finances under increasing pressure and little sign that the government can afford to pump in the additional resources which would be needed to maintain historic arrangements, the integration of health with social care has emerged as the great hope across all political parties.

However, local health and social care providers don't yet have a secure basis for medium-term planning, and without that there is a danger that the promising start represented by the Better Care Fund, devolution initiatives and pilots linked to the five-year forward plan for the NHS will be dissipated. This CIPFA Briefing looks at the conditions needed for integration to be successful.

<http://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities>

5. Procurement of audit services delivers outstanding results, June 2017

In June 2017, Public Sector Audit Appointments Limited (PSAA) reported the outcome of its national procurement of audit contracts for local government and related bodies that will run for five years from the 2018/19 audits, with an option to extend by a further two years. The procurement applied to those bodies which opted to be part of it, which included Gateshead Council.

As part of the procurement, Mazars increased its national market share of this work from approximately 6% to 18%.

The other firms that were successful in winning market shares were Grant Thornton, EY, BDO and Deloitte.

The five current firms providing this work are Mazars, Grant Thornton, EY, BDO and KPMG.

PSAA estimated that the procurement pointed to a possible scale fee reduction of the order of 18% from 2018/19 audits. PSAA is currently consulting bodies on individual auditor appointments.

<http://www.psaa.co.uk/archive/press-release-procurement-of-audit-services-delivers-outstanding-results/>

6. Online Fraud, NAO, June 2017

Online fraud is now the most commonly experienced crime in England and Wales, but has been overlooked by government, law enforcement and industry.

<https://www.nao.org.uk/report/online-fraud/>

7. Annual Regulatory Compliance and Quality Report 2016-17, Public Sector Audit Appointments Ltd, August 2017

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2016/17 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work. The review included assessing compliance with the HB COUNT guidance;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;

- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2015/16 work.

The report concludes the following in respect of Mazars LLP:

"Mazars is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2016/17, Mazars' combined audit quality and regulatory compliance rating was green. The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor. Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2016/17 indicators scored as green".

Figure 1: 2017 Comparative performance for audit quality and regulatory compliance

| | BDO | EY | Deloitte | PwC | Grant Thornton | KPMG | Mazars |
|------|-------|-------|----------|-------|----------------|-------|--------|
| 2017 | Amber | Amber | n/a | n/a | Amber | Amber | Green |
| 2016 | Green | Green | Green | Amber | Amber | Amber | Green |
| 2015 | Amber | Green | Amber | Amber | Amber | Amber | Green |

For comparison, we have added in the previous years to the figure above taken from the report.

<http://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

8. Cyber security and information risk guidance for Audit Committees, NAO, September 2017

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

9. Homelessness, NAO, September 2017

Homelessness has increased across all measures since 2010, with many local authorities now seeing it as a risk to their financial sustainability.

<https://www.nao.org.uk/report/homelessness/>

Contact details

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

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TITLE OF REPORT: Results of 2016/17 CIPFA Audit Benchmarking

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 The report informs the Committee of the annual Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking results for 2016/17.

Background

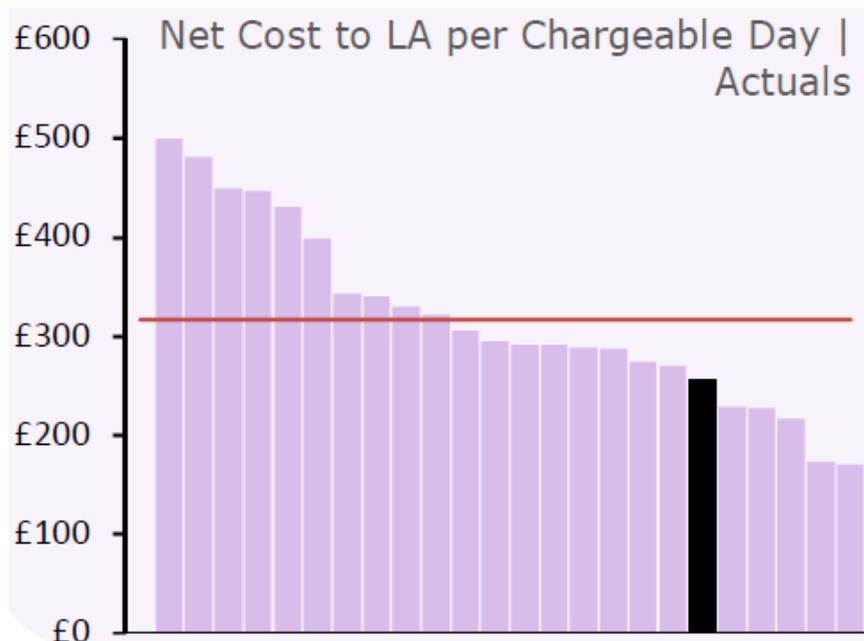
- 2 The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of the Council's resources.
- 3 Benchmarking data allows the comparison of the Council's Internal Audit Service with 20 other local authorities (29 in 2015/16).

Summary of Results for 2016/17

- 4 Attached at Appendix A is a summary report of the 2016/17 benchmarking results. Overall this continues the trend from previous years and highlights Gateshead Council's Internal Audit Service as being low cost with high productivity; in comparison with other local authorities in the benchmarking data.
- 5 The information is based upon 2016/17 actual results taken from the financial ledger and Galileo; the Internal Audit Management system.

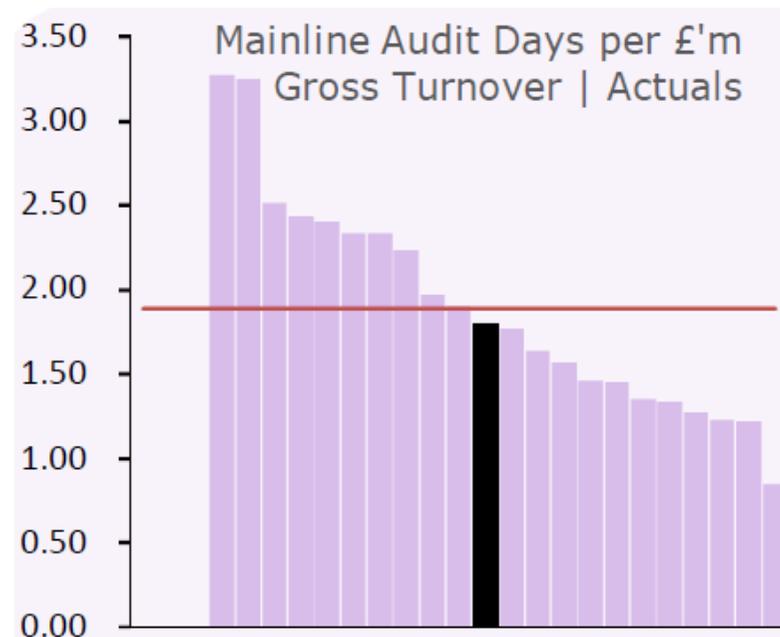
Recommendation

- 6 The Committee is asked to note this report.



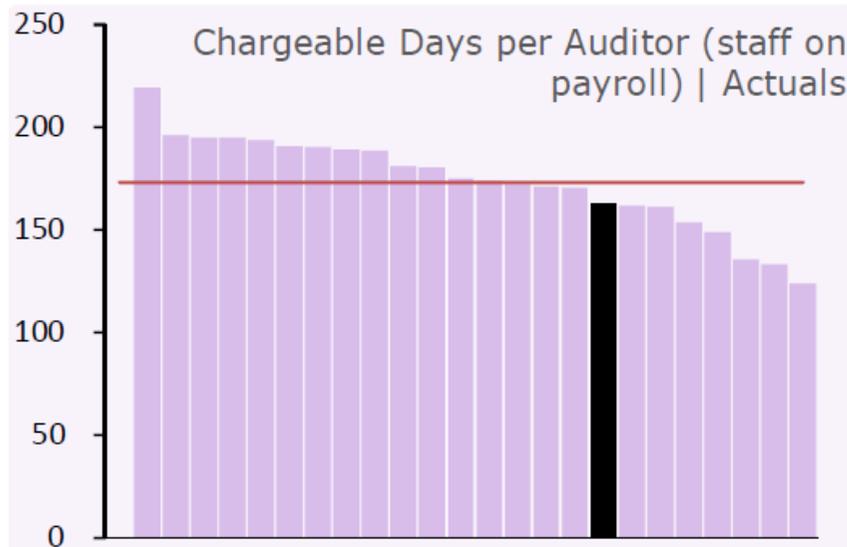
Gateshead Net Cost per Chargeable Day £256

Average £317



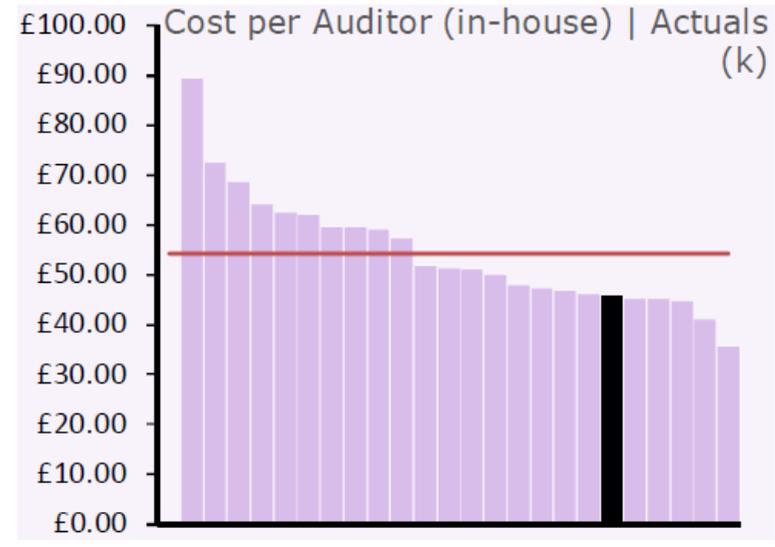
Gateshead Audit Days per £m turnover 1.80

Average 1.89



Gateshead Chargeable Days per Auditor 162

Average 173



Gateshead Cost per Auditor £45,804

Average £54,284

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Title of Report: Corporate Risk Management 2017/18
Quarterly Report to 30 September 2017

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

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

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 approved by Council on 6 June 2013.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2017/18 as cited in the Corporate Risk Management Annual Report 2016/17 and any other risk management issues emerging within the quarter under consideration.

Development Objectives

4. The Action Plan for the delivery of the Developmental Objectives for 2017/18 incorporating progress to date is shown at Appendix 1, work is progressing as per the plan and further details about the specific areas are covered below.

Strategic Risk Register

5. 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 services or an impact on a community.

6. 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 is shown in Appendix 2.
7. 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.

Criminal Finance Act 2017

8. 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.
9. An example of the type of transaction which could be deemed a criminal offence under this act is shown below:
“Employee agrees to ‘mis-describe’ the nature of goods/services on an invoice (or invoice requisition) for more favourable tax treatment.”
10. 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.
11. The key risk areas within the Council are likely to include:
 - Exchequer Services;
 - Payroll; and
 - Business Rates
12. In addition to the service specific risk assessments 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.
13. An update on the progress of this work will be provided at the next Committee.

Risk and Resilience Group

14. The Risk and Resilience Group met 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 relation to recent planning exercises and operations;
 - Health and Safety overview including work that is taking place in Gateshead following the Grenfall Tower incident; and
 - Engagement with Services in relation to Critical ICT Systems Service Planning.

Recommendation

15. It is recommended that the Committee note the report.

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Corporate Risk Management: Developmental Objectives 2017/18

| Ref: | Objective | Target Implementation Date | Progress to date |
|------|--|----------------------------|---|
| 1 | Business Continuity Plans principles and guidance will be reviewed and applied. | April 2018 | |
| 2 | The Strategic Risk Register will be comprehensively reviewed and refreshed and a corporate working group has been established to facilitate this work. | September 2017 | The draft register has been circulated to Senior Managers for comment and will be progressed for approval through Autumn. |
| 3 | The Operational Risk Register will be refreshed to ensure consistency with the Strategic Risk Register. This will include a review of the template and supporting documentation. | April 2018 | |
| 4 | The Council's Risk Management and Business Continuity Policies will be reviewed to ensure they comply with best practice and are responsive to the challenges facing the Council. | December 2017 | The review of the policy has commenced in advance of the December completion date |
| 5 | The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities. | As required | |
| 6 | Assess the risk management performance indicators obtained through the participation in the ALARM/CIPFA benchmarking club to identify any areas of best practice that can be incorporated into the Council's Risk Management arrangements. | July 2017 | Review complete no specific areas identified for improvement. |

Appendix 2

Summary of Strategic Risks within the current and draft Strategic Risk Register

| Current Register | | Draft Register | |
|------------------|---|----------------|--|
| Risk | Risk Description | Risk | Further information |
| 1 | Reduction in local government finance | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 2 | Uncertainty over availability of capital finance to support key priorities. | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 3 | Clawback of grant funding for previous projects due to failure to meet grant conditions / targets. | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 4 | Reduced financial resource due to higher than anticipated costs from implementation of the Council's workforce transformation strategy and residual equal pay claims. | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 5 | Failure or delay in the transformation programme impacting on ability to deliver necessary scale of budget savings & long term planning. | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 6 | Failure to maintain or improve positive direction of travel in new environment of less centralised regulation. | 2 | Failure to manage demand and expectations |
| 7 | Reduction in scope to recruit and retain sufficient numbers of skilled staff in key areas. | 6 | Failure to address workforce planning and resourcing |
| 8 | Continued sickness absence levels significantly in excess of national average. | 6 | Failure to address workforce planning and resourcing |
| 9 | New approach to commission and deliver services through neighbourhood working fails to provide improved services. | n/a | Not covered by one specific risk but included within 1, 2 and 4 |
| 10 | Failure of Gateshead Council and neighbouring authorities to respond to changing national policy agenda. | n/a | Not covered by one specific risk but included within 1, 2 and 4 |

| | | | |
|----|--|---|--|
| 11 | Greater/ less than anticipated demand on key services resulting from demographic changes within Gateshead. | 2 | Failure to manage demand and expectations |
| 12 | Major incident (accident, natural hazard or act of terrorism) affecting the safety, health, welfare, security or prosperity of the people of Gateshead. | 7 | 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. |
| 13 | Major incident/ business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services (as a result of the need to respond to major incident and/or loss/damage to Council Infrastructure). | 7 | 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. |
| 14 | Failure to understand and plan to mitigate the impact of the climate change on the Borough. | 7 | 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. |
| 15 | Catastrophic failure in directly provided and commissioned service delivery. | 3 | Failure to safeguard vulnerable children and adults |
| 16 | Failure to understand and plan to mitigate the impact of the economic recession on the availability and sustainability of adequate financial resources to deliver objectives. | 1 | Failure to address the financial gap in the Council's budget and achievement of the Medium Term Financial Strategy |
| 17 | An increased number of schools either deciding to become academies or are forced to by the DfE. | | Not included in one risk specifically but covered within 2, 3 and 5 |
| 18 | The impact of increased demand on Council services as a result of the socioeconomic impact of the Government's Welfare Reform programme. | 2 | Failure to manage demand and expectations |
| 19 | Risk that the quality of care to Older People in residential and nursing care homes is compromised. | 3 | Failure to safeguard vulnerable children and adults |
| 20 | Risk of data breaches by staff, in relation to unauthorised disclosures of electronic, and paper based data and , | 5 | Non-compliance against current statutory duties and legislation affecting the whole Council (Corporate) |

| | | | |
|----|---|-----|---|
| | unencrypted file transfers. this causes a risk to the Council's reputation and as well as a potential fine of up to £500,000 per data breach can lead to claims for damages from those affected. | | |
| 21 | <p>Risk of legal challenge arising from the Council's decision making processes examples of which are:</p> <ul style="list-style-type: none"> • Challenges to procurement processes; • Allegations of ultra vires decisions; • Allegations of inadequate consultations; • Allegations that the Council has had insufficient regard to it's legal duties e.g. under equalities legislation; and • Claims brought in employment tribunals. | 5 | Non-compliance against current statutory duties and legislation affecting the whole Council (Corporate) |
| 22 | <p>Risk of Implementation of the Gateshead Volunteers Plan, and achievement of the 4 main aims including :</p> <ul style="list-style-type: none"> • Enable Everyone to make a recognised contribution to their community and become the volunteering capital of England, • Deliver economic growth and wellbeing, • volunteering activity adds value to local service provision, enabling neighbourhoods to have services that would not be otherwise provided and enhancing core public services, • 4 increase formal volunteering from 18% to 25% by 2015, increased informal volunteering from 34% to 40% by 2017 overall 20,000 new volunteers. | n/a | Not covered as a specific risk but included within 1 and 2 |
| 23 | HRA - Self Financing | n/a | No longer relevant as an individual risk but covered within risks 1 and 2 |
| 24 | Risk of procuring and implementing a new HR and Payroll system | n/a | No longer a risk as this new systems has been implemented |

| | | | |
|----|---|-----|---|
| 25 | Risk of not implementing the required changes resulting from the Care Act 2014 | n/a | No longer a risk as this in place |
| 26 | Failure to maintain effective partnership working between the Council and its partners (ie two or more independent bodies working collectively to achieve an objective) | n/a | No longer relevant as an individual risk but covered within risks 1 and 2 |

TITLE OF REPORT: Review of Internal Audit Charter

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report informs Committee of the review of the Internal Audit Charter.

Background

- 2 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.

- 3 The Public Sector Internal Audit Standards (PSIAS), that came into effect from April 2013, 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.’

- 4 These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 5 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.
- 6 The Internal Audit Charter attached at Appendix 1 has therefore been revised to accommodate the changes made to the PSIAS. It was last presented to Committee in October 2016 and report seeks comments on and approval of the Internal Audit Charter in line with best practice.

Revised Internal Audit Charter

- 7 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, authorises rights of access for internal audit staff and defines the scope of internal audit activity. Final approval of the Internal Audit Charter resides with the Audit and Standards Committee.
- 8 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.

Recommendation

- 9 The Committee is asked to approve the revised Internal Audit Charter to comply with Public Sector Internal Audit Standards.

INTERNAL AUDIT SERVICE

INTERNAL AUDIT CHARTER 2017/18

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), which came into effect in April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies set out in the Accounts and Audit Regulations 2015. The PSIAS were updated 1 April 2017 and the Charter has been updated to reflect these changes.

- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration 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 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-focussed; and
 - 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 that are 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; and
 - 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. 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.

8.1.2 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.

8.1.3 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 focussed 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, Corporate Resources 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 of 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, Corporate Resources, 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 at all reasonable times any Council premises or land;
- Have access to all records, documents, correspondence and any other sources of relevant information relating to any financial and other transactions of the Council;
- Require such explanations believed to be necessary in the course of an audit, concerning any matter; and
- Require any person to produce cash, stores or any other Council property.

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, Corporate Resources and free and unfettered access to all senior management, including 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 Deputy Strategic Director, Corporate Finance.

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, Service Directors and the Senior Insurance and Risk Officer 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 and 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 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, Corporate Resources 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, 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, Corporate Resources 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, Corporate Resources, 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.

Next Review Date – October 2018

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**Audit and Standards Committee
2 October 2017**

**TITLE OF REPORT: Annual Governance Statement 2016/17 –
Internal Audit Review of Managers’ Assurances**

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

Purpose of the Report

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

Background

- 2 The Accounts and Audit Regulations 2015 require Authorities to produce an Annual Governance Statement setting out its governance arrangements and reviewing their effectiveness.
- 3 The Audit and Standards Committee agreed on 30 January 2017 an assurance framework which would provide evidence for the completion of the 2016/17 Annual Governance Statement. Assurances from managers on the effectiveness of controls they have in place were a fundamental part of this framework.
- 4 Service Directors were asked to build on the work carried out in previous years and complete a self-assessment assurance statement detailing the level of assurance they felt they could place on their key control and governance processes. They were required to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance. There was also a requirement to detail the evidence to support this assessment. Internal Audit undertake an annual review of the assurance statements to ensure: -
 - Where key controls are not providing a sufficient level of assurance action has been taken to address these areas.
 - Where key controls are providing a good level of assurance, evidence exists to support this assessment.
- 5 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

Review Outcomes

- 6 The audit concluded that systems and controls were operating well and no recommendations were raised.
- 7 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.

Recommendation

- 8 The Committee is asked to note the report.

TITLE OF REPORT: Treasury Management – Performance to 30 September 2017

REPORT OF: Darren Collins – Strategic Director, Corporate Resources

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2017, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA’s Code of Practice on Treasury Management and the Council’s Treasury Policy Statement and Treasury Strategy which was approved by Council on 16 March 2017.
3. 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.
4. 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 operations.
5. Accordingly, treasury management is defined as:

“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
6. The primary objective of the investment strategy is to safeguard the Council’s assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Investment Performance

7. The latest projection of gross investment income for 2017/18 based on interest earned to date and expected interest to March 2018 is £0.315m, compared to the original estimate of £0.190m.

8. This gross investment interest is adjusted to account for £0.171m interest payable to third parties and interest receivable of £1.293m from various third parties, the most significant of which is Newcastle International Airport. This gives a projected net interest to the General Fund 2017/18 of £1.437m compared to the budget of £1.312m. The current variance to budget is mainly as a result of higher levels of investment balances than anticipated when the 2017/18 budget was set.

Rate of Return

9. The average rate of return is monitored for each investment type that the Council enters into and these are used to calculate an average rate of return for the Council for the year to date. The current rate of return is 0.49%, which is greater than the original estimate of 0.32%.
10. As a means of benchmarking, the average rate of return for the month and year to date is compared to the equivalent 7 day London Inter-Bank Bid Rate (LIBID), which is the rate that banks are willing to borrow money from each other. The monthly return of 0.04183% exceeds the LIBID 7 day rate equivalent of 0.00937%. The Council's average rate of return of 0.49123% is also well in excess of the equivalent LIBID 7 day rate of 0.11152%.
11. The quarterly Capita Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across other authorities. In the most recent report received, June 2017, the Council achieved a weighted average rate of return of 0.50% on its investments which is in line with the risk adjusted expectations defined in the benchmarking report. The Council is between the lower (0.43%) and upper (0.55%) performance boundaries which compares over 200 Local Authorities against an expected rate of return based on the amount of risk applied.
12. This rate of return would be expected to decrease during the year as investment balances reduce and current deposits are replaced with shorter, lower yielding deposits.
13. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. Capita Asset Services indicate in their forecast that there is no expectation of a Bank Rate rise until Q2 2019 which reflects huge uncertainty following the EU Referendum. Given this scenario investment returns are likely to remain relatively low for the remainder of the year.

Heritable Bank

14. The Council had a deposit of £2.792m at risk in Heritable Bank, a wholly owned subsidiary of an Icelandic bank, Landsbanki, when it entered administration in October 2008. The full deposit in Heritable was due to mature by the end of 2008/09 with interest. The majority of the investment has been recovered leaving a balance outstanding of £0.056. The most recent update from the administrators, Ernst and Young, advised of a further extension of the Administration for a year, to 6 October 2017, any final distribution will be made after this time.

Borrowing

15. The total borrowing for the Council and HRA as at 30 September 2017 was £645.189m, which was within the operational borrowing limit of £800m. This borrowing is made up of £500.189m PWLB loans and £145m market loans.
16. The Treasury Strategy estimates for the 2017/18 financial year were based on a borrowing requirement of £51.751m. To date this year the Council has taken a combination of £10m long term borrowing from the PWLB and £25m in the form of short term Market Loans. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates at the time.
17. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

| | General Fund | HRA |
|--------------------------|---------------------|------------|
| Interest Payable | £11.434m | £14.825m |
| Average rate of interest | 3.81% | 4.43% |

This represents a gross saving of £0.930m on the original estimate, of which £0.589m is a saving for the General Fund and £0.341m is for the HRA.

Summary of Mid-year Performance

18. 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 £0.341m HRA.

| General Fund | Estimate £m | Projected Outturn £m | Variance £m |
|---------------------|------------------------|-------------------------------------|------------------------|
| Investments | (1.312) | (1.437) | (0.125) |
| Borrowing | 12.024 | 11.434 | (0.590) |
| Net Position | 10.712 | 9.997 | (0.715) |

19. 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).
20. The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which is significantly outweighed by the savings achieved from avoiding external borrowing.
21. 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

Recommendation

22. The Committee is asked to note the Treasury Management Performance to 30 September 2017.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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