

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 14 May 2018 at 10.00 am 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 5 March 2018

3 Declarations of Interest

Report of the Strategic Director, Corporate Resources

4 External Auditor: Audit Progress Report (Pages 9 - 18)

Report of the Strategic Director, Corporate Resources

5 The Internal Audit Strategy Statement and Annual Plan 2018/19
(Pages 19 - 36)

Report of the Strategic Director, Corporate Resources

6 Corporate Risk Management 2017/18, Quarterly Report to 31 March 2018
(Pages 37 - 50)

7 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 7 of Schedule 12A to the Local Government Act 1972.

8 Internal Audit Plan 2017/18, Quarterly Monitoring Report to 31 March 2018
(Pages 51 - 58)

Report of the Strategic Director, Corporate Finance

9 Counter Fraud Update (Pages 59 - 64)

Report of the Strategic Director, Corporate Resources

10 Date and time of next meeting

Monday 18 June 2018 at 10.00 am in the Blaydon Room, Civic Centre

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk
Tel: Date: Friday, 4 May 2018

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 5 March 2018

PRESENT: Councillor(s): J Green, J McElroy, G Clark, J Turnbull and Mr Stuart Bell (Independent Member)

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

ASC107 MINUTES

The minutes of the last meeting of the Committee held on 29 January 2018 were approved as a correct record.

ASC108 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC109 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME 2017-18

The Audit and Standards Committee work programme for 2017/18 was tabled and the contents noted.

ASC110 TREASURY POLICY STATEMENT AND TREASURY STRATEGY REPORT

The Committee received a report which reviewed the proposed Treasury Policy Statement and Treasury Strategy for 2018/19 to 2022/23 prior to consideration by Cabinet.

The Committee were advised that in order for the Strategic Director of Corporate Resources to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

The Treasury Policy and Treasury Strategy have been prepared considering the Local Government Act 2003, Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital and CIPFA's Code of Practice on Treasury Management (2017).

The Committee reviewed the Treasury Policy and Treasury Strategy as appended to the main report, thus ensuring that the Council fully complies with the requirements of good financial practice in Treasury Management.

- RESOLVED -
- i) That the information be noted
 - ii) That the Treasury Policy and the Treasury Strategy be agreed and submitted to Cabinet for consideration

ASC111 EXTERNAL AUDITOR: AUDIT STRATEGY MEMORANDUM YEAR ENDING 31 MARCH 2018

The Committee received the external auditor's Audit Strategy Memorandum for the year ended 31 March 2018.

The report set out:

- A summary of the engagement and responsibilities;
- The audit engagement team;
- Audit scope, approach and timelines;
- Significant risks and key judgements areas;
- Value for money;
- Fees for audit and other services;
- Commitment to independence; and
- Materiality and misstatements.

Key areas of risk were identified as:

- Management override of controls
- Revenue recognition
- Property, plant and equipment revaluation
- Defined benefit liability valuation
- Group Accounts Assessment

As previously reported to the Committee, the statutory timetable for the production and audit of the Council's financial statements changes for 2017/18. The Council is now required to produce accounts by 31 May 2018 (1 month earlier) and to publish audited accounts by 31 July 2018 (2 months earlier). The Council have successfully met the earlier deadline in both of the last two years. Officers have met and agreed a detailed plan in order to successfully achieve the revised timetable again in 2017/18.

RESOLVED - that the contents of the external auditor's Audit Strategy Memorandum be noted.

ASC112 ANNUAL GOVERNANCE STATEMENT 2017/18 - ASSURANCE FRAMEWORK

The Committee received a report which provided an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2017/18 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

The assurance framework supports the AGS and provides councillors with information on the Council's control environment and governance arrangements. It

maps the Council's strategic objectives to risks and controls and seeks assurance from a number of sources of Council activity.

The process of preparing the AGS should itself add value to the effectiveness of the Governance Assurance Framework. The assurance process will demonstrate four aspects:

- **Identify** – what do we want assurance on?
- **Assess** – what are the sources of assurance?
- **Review** – how is assurance validated?
- **Act** – what are the opportunities to improve?

The Committee were advised that in preparing the governance statement it will be necessary to review evidence from the following sources which together form the assurance framework:

- Governance arrangements
- Councillors
- Strategic and Service Directors
- The system of internal audit
- Risk management arrangements
- Performance management and data quality
- Views of the external auditor and other external inspectorates
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance

The Committee were advised that the Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committee in April 2007.

This was last updated and agreed by the Audit and Standards Committee on 29 January 2018. This Code defines how the Council complies with the principals of good governance as set out in the revised approach to a Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:

- Behaving with integrity
- Ensuring openness and comprehensive engagement
- Defining sustainable outcomes
- Determining interventions
- Developing capacity
- Managing risks and performance
- Implementing good practice in transparency

A corporate group, chaired by the Strategic Director, Corporate Resources will use the findings to form a view on the adequacy of the Council's overall internal control and governance arrangements.

Using evidence from this assessment the Group will prepare the AGS for 2017/18

for approval by the Audit and Standards Committee in June 2018. This will then accompany the Statement of Accounts for 2017/18

RESOLVED – The Assurance Statement was agreed

ASC113 INTERNAL AUDIT PLAN 2017/18 UPDATE REPORT

The Committee received a report on the review of outstanding planned audits to revise the audit plan to reflect and maximise the impact of anticipated resources available for the remainder of the audit year.

The Internal Audit Plan Quarterly Monitoring Report to 31 December 2017 reported to the Audit and Standards Committee on 29 January 2018 highlighted that due to delays experienced in recruiting to fill unplanned vacancies which arose during the year, further compounded by the impact of the necessary training and support for the new employees, progress to date was not on target to achieve the local performance target of 97.25% of actual hours against planned hours for the year.

To optimise the impact of a revised level of resources, it was agreed that a review of the outstanding planned audits and consideration of their relative risk ratings would be undertaken, following which high and medium priority audits would be prioritised and any outstanding audits would be carried out early in the new audit plan year.

A review of the audit plan and discussion with Service Directors highlighted changes to Service Delivery that enabled available resources to be optimized by some audits being either no longer required or combined with other audits, which removed 555 hours from the plan.

In previous years, audits of key systems were scheduled to take place at specified times on an annual basis to coincide with External Audit work on the financial statements as they placed reliance on this work. As External Audit no longer place reliance on this, it is reasonable to reprofile the audits into the next financial year, despite them being high priority, as the internal audit opinion has consistently been operating well and it is actually less than 12 months since the most recent audit opinion was issued and reported. This removed 1,200 hours from the plan.

The remaining audits in the plan were then assessed against a prudent estimate of the productive hours that could be delivered in the remainder of the financial year, and where necessary low and medium priority audits that would otherwise have taken place in the final quarter of the year will be rescheduled to the first quarter of the new audit plan year. These audits account for 1,040 hours.

The final vacancy within the Service will be filled when a new member of staff commences employment on 5 March 2018, which when coupled to the recent investment in recruitment and training will put the Service in a strong position for the sustained delivery of future audit plans.

The Committee were advised of the revised plan taking account of the review process, which revises the planned hours to 15,994.

RESOLVED - that the information be noted and the revised plan agreed.

ASC114 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.

ASC115 RISK MANAGEMENT WITHIN RESILIENCE AND EMERGENCY PLANNING

The Committee were presented with a report which provided an overview of the risks associated to the Council within the Resilience and Emergency Planning function; an overview of the statutory legislation; an overview of the Community Risk Register and how the Council operates to mitigate and manage these risks.

The Committee were advised that within Gateshead the current prevalent three risks are:

- Pandemic Influenza
- Adverse Weather and
- Flooding

The Committee were also advised on the work being undertaken to address Emerging Threats, the Strategic and Emergency Planning Framework, and the Training and Exercising Programme.

The Committee were advised that the Council has a Corporate Risk and Resilience Group that brings both areas together to work coherently. The aim of the Group is to promote and support risk management and resilience throughout the Council and to ensure compliance with the Council's Financial Regulations and Civil Contingencies Act 2004.

Regular updates are provided to members of Audit and Standards Committee on the working themes of the group. Live examples of work undertaken will also be provided to future meetings of the Committee.

RESOLVED -

- i) That the information be noted
- ii) That the Committee agree to receive any future updates and live examples of the work undertaken to future meetings of the Committee.

ASC116 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 30 April 2018 at 10.00 am

Chair.....

Title of Report: External Auditor: Audit Progress Report

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's progress against planned work.

Background

- 2 The report summarises the following:
 - 2017/18 audit progress
 - Bringing forward the accounts and audit timetable.
 - National publications and technical 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.

Contact name: Craig Oakes Ext - 3711

This page is intentionally left blank

Audit Progress Report

Gateshead Council

April 2018





CONTENTS

1. Audit progress
2. National publications and other updates
3. Contact details

This document is to be regarded as confidential to Gateshead Council. It has been prepared for the sole use of the Audit and Standards Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

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

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

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

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

Audit progress

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

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

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

Bringing forward the accounts and audit timetable

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

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

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

1. Financial difficulties experienced by Northamptonshire County Council

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

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

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

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

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

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

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

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

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

The full report is available to download for free.

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

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

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

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

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

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

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

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

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

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

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

4. Preparing for full GDPR implementation by 25 May 2018

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

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

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

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

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

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

The key principles of GDPR are:

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

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

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

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

Information Commissioner – Elizabeth Denham, 22 December 2017

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

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

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

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

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

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

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

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

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

3. CONTACT DETAILS

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

www.mazars.co.uk

Cameron Waddell

Partner

Email: cameron.waddell@mazars.co.uk

Phone: 0191 383 6314

Jim Dafter

Senior Manager

Email: jim.dafter@mazars.co.uk

Phone: 07815 876 042

Address:

Salvus House,

Aykley Heads,

Durham,

DH1 5TS

0191 383 6300



Title of Report: The Internal Audit Strategy Statement and Annual Plan
2018/19

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. The report sets out the proposed Audit Strategy Statement and annual plan of work to be undertaken by the Internal Audit & Risk Service in 2018/19.

Background

2. The terms of reference for Internal Audit are laid down in Financial Regulations, which forms part of the Council's Constitution and the Audit Charter.
3. The Internal Audit & Risk 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.
4. The Strategic Director, Corporate Resources has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require Councils to "*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*".
5. The Chief Internal Auditor manages the Internal Audit & Risk Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a systematic review and evaluation of all aspects of the internal control environment.
6. The principal objective of the Internal Audit & Risk Service is to assist service managers in delivering the priorities of the Council and its partners, through the assessment of exposure to risk and the continuous improvement of the control environment.

Basis for the Plan

7. Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). PSIAS state that the Chief Internal Auditor

“must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”.

- 8 In accordance with the PSIAS, the input of senior management must be considered in this process, all Strategic and Service Directors were given the opportunity to contribute towards the plan.
- 9 The Chief Internal Auditor forms an annual assurance opinion based on the programme of audit work as well as assurance obtained from other means. Combined assurance aims to optimise the assurance coverage obtained from management, and both internal and external assurance providers. This is a key area where development work will continue in 2018/19 to formalise assurance mapping across the Council.
- 10 In addition to audit, the Chief Internal Auditor considers any issues identified through counter fraud and irregularities or developing systems and processes insofar as they impact of the effective operation of governance, risk management or internal controls.
- 11 The plan for 2018/19 also includes two dedicated Corporate Fraud posts. These officers will work to develop and embed the Council’s Fraud & Corruption Strategy as well as conducting any fraud and irregularity investigations. Updates in relation to Counter Fraud activity will be presented bi-annually to the Committee.
- 12 The plan includes allocation for advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and our partners. Time is allocated to support developing systems, ensuring early engagement and audit support across the Council.
- 13 Rather than a traditional cyclical-based approach, the plan focusses on the main risks to the Council. It provides a balanced approach to traditional compliance work with advisory work as a catalyst for service improvement and to sharpen focus on emerging risks. The plan is flexible and is reviewed and adjusted throughout the year as necessary in response to changes in policies, systems, processes, risks and controls across the Council.
- 14 The Audit Strategy Statement and the annual plan for 2018/19 are attached at Appendix A. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to the Council, retaining flexibility to reprioritise assurance activities as required.

Recommendations

15 The Committee is asked to agree:

- the Audit Strategy Statement and the annual plan of work to be provided by the Internal Audit & Risk Service for 2018/19; and
- to receive quarterly monitoring reports showing progress made against the plan.

Contact name: Craig Oakes – Ext. 3711

This page is intentionally left blank

The Internal Audit Strategy Statement & Annual Plan 2018/19

Craig Oakes
Chief Internal Auditor
Internal Audit & Risk Service – Corporate Resources

Introduction

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2018/19 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the pledges within 'Making Gateshead a place where everyone thrives'.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service which is based within the Corporate Finance Service within Corporate Resources.

Purpose

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2018/19.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
 - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers;
 - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
 - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and
 - Support the Strategic Directors of Corporate Resources and Corporate Services & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.

Key Outputs Statement

5. The Internal Audit & Risk Service will deliver key responsibilities as follows:
 - To provide ongoing assurance to management on the Council's control environment comprising systems of governance, risk management and internal control;
 - To support the Council's values and expected standards of behaviour;
 - To be responsive to transformational change and service demands;

- To work together with the Council’s external auditors to ensure reliance can always be placed on audit work where appropriate;
- To continue to develop joint working relationships with other related regional and national groups and bodies;
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Council;
- To ensure agreed management actions to audit recommendations made are fully implemented;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
- To continue to develop and have a lead role in the Council’s corporate governance arrangements including the review and the production of the Annual Governance Statement; and
- To provide an effective corporate counter fraud and corruption service and response in accordance with the Council’s Counter Fraud and Corruption Arrangements and the Local Government Fraud Strategy - “Fighting Fraud and Corruption Locally”.

Key Characteristics of the Annual Plan

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2018/19:
 - The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council’s structure with ongoing activity to identify and deliver savings across all areas of Council services. The implementation of changes and public service reform with a reduced workforce and reduced funding, whilst delivering business as usual and achieving priorities remains a key challenge and risk for the Council during 2018/19 and beyond.
 - Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified.
 - Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The significant reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the proposed plan includes time for advice and consultancy and developing systems support to officers to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit’s work will be challenging and advisory, rather than design of controls which are a management responsibility.
 - The plan includes time to reflect the work the Corporate Counter Fraud Team will be doing in relation to further developing and embedding the Council’s counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.

- The plan also includes time for audits brought-forward from 2017/18 for completion in early 2018/19 to allow for the finalisation of workload that spanned year-end.
- The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
 - a. Provide assurance on the effectiveness of internal controls operating within the Council.
 - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
 - d. Investigate suspected or detected frauds or irregularities.
 - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Strategic and Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

2018/19 Annual Planning Process

7. The approach to audit planning in the Council for 2018/19 has been based on the following:
 - The Council's priorities;
 - The risks documented in the Council's strategic and operational risk registers;
 - Consultation with Strategic and Service Directors and the external auditors;
 - Changes in legislation;
 - The scope of planned external audit work;
 - The implications of external inspection reports;
 - Findings and outcomes from audit and investigation work in 2017/18 and earlier years;
 - Consultation with colleagues across the region;
 - Time elapsed since the previous audit; and
 - The availability of resources.
8. The audit plan has been mapped to the Strategic Risk Register. As reported elsewhere on the agenda, this is being reviewed to ensure it is relevant and covers all the key risks facing the Council. Once this is finalised, the audit plan will be revisited to ensure appropriate coverage of strategic risks.
9. Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as high, medium or low priority which dictates where they will be audited within a 3-year cycle. High priority areas are audited on an

annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.

10. The audit plan for 2018/19 is based on resources of 14.5 full time equivalent employees (FTE) (13.5 FTE's for 2017/18). Auditor's time has been allocated on the basis of an estimate of 73% productive hours after allowing for non-productive time including annual leave, sickness absence and training.
11. On this basis, the plan for 2018/19 has been broken down into 20,500 productive hours (18,789 productive hours for 2017/18) as shown below in paragraph 15.

Plan Structure

12. Based on the above, the Chief Internal Auditor considers that assurance is best obtained through a combination of different "types" of audits. This is not an uncommon approach but reflects a changing emphasis for the approach to the plan tailored to the specific needs of the Council during a period of significant change.
13. There are five different types of audit activity in the plan:
 - **Assurance review** – to provide assurance that systems and controls are operating as intended and defined by risk profiles of each audit area. The risk based approach also takes into consideration the views of Strategic and Service Directors.
 - **Advice and Consultancy** – early involvement of Internal Audit in new initiatives, ways of working or systems, particularly through periods of significant change, can help to maintain a robust control environment.
 - **Key systems** – assurance on core financial systems that are considered high risk requiring regular assurance. This work is important in providing annual assurance to the Council.
 - **Grant Certification** – assurance on grant returns and compliance with grant determinations.
 - **Counter Fraud**– proactive and reactive audit work on counter fraud and irregularity issues.
14. A balanced approach of using different types of audit and other work is considered the most effective way to deliver the Strategy for Internal Audit.

Plan Content

15. Following the planning process outlined above and the principles of the PSIAS, a draft plan has been developed. As outlined, the plan needs to remain flexible and will be subject to continuous review in consultation with Strategic and Service Directors and the Audit and Standards Committee. A summary of the draft plan is shown below with further detail in Appendix B.

Groups and Services	Audit Hours
Care, Wellbeing and Learning	2,260
Communities and Environment	1,970
Corporate Resources	4,210
Corporate Services and Governance	1,130
Office of the Chief Executive	295
Schools	925
Corporate	
Counter Fraud	3,000
Grant Certification	350
Audit Planning and Management	1,600
External Bodies	
Trading Companies	190
Gateshead Housing Company	1,870
Northumbria Police	2,700
Total Productive	20,500
Non-productive	7,605
Total Hours	28,105

Audit Type	Audit Hours
Advice and Consultancy	640
Assurance Review	7,900
Key Systems	2,250
Grant Certification	350
Audit Planning and Management	1,600
Counter Fraud	3,000
Non-productive	7,605
Total Council Plan	23,345
External Bodies	
Trading Companies	190
Gateshead Housing Company	1,870
Northumbria Police	2,700
Total Hours	28,105

16. Audit Planning and Management covers other audit activities including involvement in corporate initiatives, preparation of audit committee reports, audit planning, preparation of the Annual Governance Statement, liaison with the external auditors and development and support for new financial and internal audit management systems.

How the service will be provided

17. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle Council for ICT auditing. This arrangement will be kept under review on an annual basis.
18. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activities have the required mix of skills and experience.

All internal audit staff are either fully qualified CCAB Accountants, qualified Association of Accounting Technicians, Accredited Counter Fraud Specialists or studying for professional qualifications..

19. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
 - The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
20. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

Performance Management

21. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of the most recent external assessment against PSIAS was reported to the Audit and Standards Committee on 26 January 2015. A number of actions were identified and will be continuously reviewed and reported to the Audit and Standards Committee. Further examples include:
 - Internal self-assessments by the Chief Internal Auditor.
 - Customer satisfaction questionnaires.
 - Annual CIPFA benchmarking information.
 - External assessment every 5 years by a recognised, qualified and independent assessor.
22. To achieve the planned coverage for 2018/19, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	73%
Number of planned audits completed Whilst this will be measured, the approach to the plan is flexible and continuous review of the risks may mean changes are required to redirect resources to emerging risks	90% (annual)
Actual hours against planned hours achieved in year	97.25%
Number of audit recommendations implemented: High	100%

Medium	90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Average score (maximum 4)	3.4 (85%)
Average cost per chargeable day	Lower than average

Appendix B

Care, Wellbeing and Learning			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Assurance Review	Adoption Services	High	50
	Adult Social Care Assessment	High	50
	Children's Care Homes	High	100
	Commissioning Adult Services	High	100
	Commissioning of Children's Services	High	100
	Day Centres for Adults with Disabilities	High	100
	Early Years Educational Provision	High	100
	Fostering Services	High	80
	Pooled Budgets and the Better Care Fund	High	80
	Primary Care - Commissioning of Public Health	High	90
	Safeguarding - Adult Services	High	75
	Safeguarding - Children	High	75
	Primary Care - Emergency Hormonal Contraception	New	80
	Primary Care - Supervised Consumption	New	80
	Early Help	Medium	100
	Learning Skills	Medium	70
	Promoting Independence Centres	Medium	70
	Special Educational Needs - Early Help	Medium	70
	Special Educational Needs - Schools	Medium	50
	Behaviour, Attendance and Exclusion	Low	70
	Extra District Claims	Low	40
	Inspection Team	Low	70
	Music Service	Low	70
	Audit Follow Up Contingency	N/A	200
	Audits brought forward from 2017/18	N/A	230
		Total Assurance Review	
Total Audit Hours			2,260

Schools			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	Advice and Consultancy	N/A	40
	Total Advice and Consultancy		40
Assurance Review	School Audits	Low	660
	Audit Follow Up and Additional Contingency	N/A	200
	Audits brought forward from 2017/18	N/A	25
	Total Assurance Review		885
Total Audit Hours			925

Communities and Environment			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Assurance Review	Commercial Contracts	High	80
	Pre-Contractual Procedures	High	100
	Waste Management Partnership	High	100
	Commercial House Building	Medium	50
	Contracts	Medium	100
	Grounds Maintenance, Street Care and Cleaning	Medium	100
	Highways Trading Account	Medium	70
	Housing Company Monitoring	Medium	70
	Housing Joint Venture	Medium	50
	Right To Buy Scheme	Medium	70
	Trading Standards, Food Safety and Health and Safety	Medium	40
	Transport	Medium	80
	Transport Strategy	Medium	75
	Waste Collection	Medium	100
	Building Control and Planning Permission	Low	90
	Business Centres	Low	100
	Capacity Building Fund	Low	75
	Cemeteries and Crematoria	Low	50
	Quality Inspection	Low	40
	Resilience Planning	Low	40
	Section 106 Agreements / Community Infrastructure Levy	Low	80
	Travelling Community Caravan Site	Low	50
	Volunteering	Low	60
Audit Follow Up Contingency	N/A	50	
Audits brought forward from 2017/18	N/A	200	
	Total Assurance Review		1,920
Total Audit Hours			1,970

Office of the Chief Executive			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
			50
Key System	Partnership Arrangements	High	70
	Performance Indicators and Data Quality	High	60
	Audits brought forward from 2017/18	N/A	60
	Total Key System		190
Assurance Review	Audit Follow Up Contingency	N/A	50
	Audits brought forward from 2017/18	N/A	5
	Total Assurance Review		55
Total Audit Hours			295

Corporate Resources			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	400
	Total Advice and Consultancy		400
Key System	Annual Governance Statement Assurances	High	100
	Budgetary Control	High	40
	Business Rates	High	75
	Capital Accounting System and Programme	High	80
	Corporate Creditors	High	120
	Corporate Debtors and Income	High	120
	Corporate Payroll and Human Resources System	High	150
	Council Tax	High	75
	Counter Fraud Arrangements	High	80
	Local Council Tax Support Scheme and Housing Benefits	High	150
	Main Accounting System	High	70
	Risk Management and Business Continuity	High	150
	Service Creditors	High	80
	Service Debtors	High	80
	Service Payroll and Human Resources Administration	High	100
	Treasury Management	High	50
	VAT Arrangements	High	40
	Recovery of Benefit Overpayments	Medium	60
	Audits brought forward from 2017/18	N/A	360
	Total Key System		1,980
Assurance Review	Housing Revenue Account (HRA)	High	80
	Leisure Centres	High	90
	ICT Asset and Device Management	New	90
	ICT Data Centres	New	90
	ICT Security	New	90
	ICT Strategic Development	New	90
	BACS	Medium	40
	Banking Arrangements	Medium	50
	Facilities Management	Medium	50
	Fees and Charges	Medium	40
	Insurance	Medium	100
	Major Projects	Medium	80
	Catering and Building Cleaning	Low	100
	Culture Team	Low	70
	Disclosure and Barring Service Checks	Low	50
	Employee Administration	Low	80
	Petty Cash	Low	40
	St Mary's Heritage Centre	Low	50
	Audit Follow up Agency	N/A	100

	Audits brought forward from 2017/18	N/A	450
	Total Assurance Review		1,830
Total Audit Hours			4,210

Corporate Services and Governance			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Key System	Governance Arrangements	Medium	80
	Total Key System		80
Assurance Review	Corporate Procurement	High	100
	Mayor's Charity Fund	High	15
	Trading Arrangements	New	50
	Corporate Asset Management	Medium	80
	Litigation	Medium	60
	Print Point	Medium	60
	Property Management	Medium	80
	Health and Safety	Low	60
	Recruitment and Appointment Process	Low	80
	Redeployment and Redundancy	Low	80
	Sickness Monitoring	Low	50
	Training and Development	Low	50
	Audit Follow Up Contingency	N/A	50
	Audits brought forward from 2017/18	N/A	185
	Total Assurance Review		1,000
Total Audit Hours			1,130

Grant Certification			
Audit Type	Audit Area	Risk	Hours
Grant Certification	Grant Certification Contingency	High	150
	School Fund Audit Certification	High	200
	Total Grant Certification		350
Total Audit Hours			350

Counter Fraud			
Counter Fraud	Audit Area	Risk	Hours
	Counter Fraud Awareness	High	200
	Counter Fraud Development	High	200
	Counter Fraud General Advice	High	100
	Fraud Investigation	High	1,000
	Fraud Referrals	High	250
	National Fraud Initiative	High	250
	Proactive Fraud Work	High	1,000
Total Hours			3,000

Non-productive			
Non-productive	Audit Area	Risk	Hours
	Leave (annual, public holidays, sickness etc.)	N/A	5,092
	Training and Development	N/A	1,185
	Staffing and Supervision	N/A	1,328
Total Hours			7,605

This page is intentionally left blank

Title of Report: Corporate Risk Management 2017/18
Quarterly Report to 31 March 2018

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 January to 31 March 2018 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 21 May 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:
 - All of the operational risks on the Operational Risk register have been reviewed.
 - The annual review of Business Continuity Plans and Service Impact Assessments has been completed and all Services have reviewed their plans and impact assessments
 - The Risk Management and Business Continuity Policies have been reviewed and updated to reflect organisational changes.

Strategic Risk Register

5. The draft Strategic Risk Register was presented to Corporate Management Team to ensure all risks and controls have been included and are accurate and up to date. It was agreed that all strategic risks have been identified and included within the draft register, however a review of some planned controls was requested to ensure they effectively mitigate the identified risks.
6. It was also agreed that the Strategic Risk Register should be amended to reference the Council's Thrive Agenda, once approved by Council.
7. Following the approval of the Council's Thrive Agenda in March, the Strategic Risk Register has been updated and the Senior Officer Risk Management Group have met

to ensure the risks and controls are updated to reflect the work which has taken place since the previous review.

8. Further consultation will take place on the draft Strategic Register prior to it being finalised and reported to this Committee for consideration.

Criminal Finance Act 2017

9. A new crime has been introduced in the Criminal Finance Act 2017, the failure to prevent the criminal facilitation of tax evasion, which took effect from 30 September 2017. To ensure the Council has mitigated the risks associated with the Act risk assessments have been completed and the results collated into a risk register.
10. The risk register has been presented to the Risk and Resilience Group with the Group implementing any actions and overseeing the annual review of the register.
11. The outcome of the assessment was that the Council has sufficient controls in place to mitigate the risk arising from the Act and the main action arising from the risk assessment is relating to the wider communication of the Act. In response to this finding a Tackling Tax Evasion Statement has been written which documents the Councils approach to tackling tax evasion and its commitment to preventing anyone facilitating tax evasion. It details the risk assessment process and how anyone suspecting someone of facilitating tax evasion can report their concerns.
12. This Statement has also been reported to the Risk and Resilience Group for comment and will now be communicated to all employees and Councillors. A copy of the Statement is attached as Appendix 2 and the risk assessment in Appendix 3.

Risk and Resilience Group

13. The Risk and Resilience Group met 25 April and the following items were discussed:
 - Risk Management and Business Continuity Plans:
 - Update on the changes to the draft Strategic Risk Register
 - Annual review of operational risk registers
 - Annual review of business continuity plans
 - Completion of risk register and publications of a policy statement relating to the Criminal Finance Act 2017
 - Resilience and Emergency Planning:
 - Corporate Resources OSC-six monthly update for April 2018
 - Update on Pandemic Influenza Plan
 - Update on Counter Terrorism Plans Review

Recommendation

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

CONTACT: Jane Wright extension: 3713

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	The annual review of Business Continuity Plans has commenced.
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 Revised date March 2018	The draft register has been circulated to Senior Managers for comment and will be progressed for approval through Autumn. Additional updates requested at Strategy Group and the inclusion of the draft Council pledges have delayed the approval process until after the consultation on the Council pledges has finished
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	The annual review of operational risk registers has commenced.
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 is complete and the updated versions have been published on the intranet.
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	As required	As requested

Ref:	Objective	Target Implementation Date	Progress to date
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.

Tax type potentially evaded	Business process	Risk	What could go wrong? <i>Identify the facilitator (employee or associated person)</i>	Identify the parties who would potentially evade tax.	Pre-control risk rating	Detail the controls that are in place. <i>Include date implemented</i>	Residual/net risk rating	Detail future controls <i>Include implementation date</i>
VAT	Debtor invoices	Invoices are raised without consideration of the VAT liability	If there is a VAT liability, the recipient of goods / services does not pay the VAT due to the Council which is ultimately owed to HMRC	The recipient of goods / services	3 – Moderate / Could Happen	<ul style="list-style-type: none"> VAT Manual in place accessible by all officers System prompts regarding VAT liability Fees & charges include relevant VAT rates VAT officer monthly checks on amounts over £5,000 Regular VAT training for officers across the Council Significant fines from HMRC for non-compliance 	2 – unlikely / rare	<ul style="list-style-type: none"> VAT officer to update VAT guidance. VAT officer to emphasise and enforce new law, incorporating it into training.
VAT	Creditors	Suppliers do not charge VAT on VATable goods / services	Purchaser could agree a lower cost through agreement with a supplier e.g. cash in hand payment	The Council would benefit from a lower cost but the supplier would be the one evading tax as it is their duty to pay the correct VAT to HMRC	3 - Moderate / Could Happen	<ul style="list-style-type: none"> All payments should be made via corporate systems, underpinned by a VAT invoice or other suitable documentary evidence For suppliers, payments are largely made electronically into bank accounts already set up in the system to avoid cash payments Cheques are made payable to the named companies so these must be paid into corporate accounts providing an audit trail for the funds No incentive for the Council to allow companies to exclude VAT from an invoice as the Council can recover all VAT from HMRC (Section 33 body) 	2 – unlikely / rare	<ul style="list-style-type: none"> As above
VAT	Creditors	Suppliers do not pay VAT across to HMRC where due	Supplier may not pass VAT paid by the Council across to HMRC where due	Supplier	Unknown	<ul style="list-style-type: none"> All payments should be made via corporate systems, underpinned by a VAT invoice or other suitable documentary evidence – this means that there is an audit trail for all payments that means it should be difficult for suppliers to evade payments due to HMRC As above, payments are either electronic or by cheque (rather than by cash) which minimises the risk of funds being hidden from HMRC Minor risks around use of petty cash now being reduced due to the rollout of purchase cards, meaning that there is an electronic audit trail for payments Contracts clearly stating liability. 	Unknown	<ul style="list-style-type: none"> As above

[Type text]

VAT	Purchase of goods/services	Payment by someone other than the purchaser (i.e. the Council or its subsidiaries)	Employee could make a payment from the incorrect client within the ledger (e.g. supply to GEC, invoice to Council)	N/A –see statement on error below*.	3 - Moderate / Could Happen	<ul style="list-style-type: none"> All payments should be made via corporate systems, underpinned by a VAT invoice or other suitable documentary evidence – this should result in errors being identified Checks by VAT officer should ensure that any errors between clients are identified and corrected VAT officer training and regular communications with high risk areas 	2 – unlikely / rare	<ul style="list-style-type: none"> As above
VAT	Completion of VAT exemption forms in respect of energy use.	Incorrect or falsified information	Officer/s within the Energy Services Team could agree to provide false information or fail to check supplied evidence in support of the occupier regarding energy use	Occupiers of sites owned by the Council / managed by GEC (incl. asset transfers) The Council where it is the occupier (not applicable to schools)	2 – unlikely / rare	<ul style="list-style-type: none"> Corporate systems and ongoing monitoring by the VAT officer ensures that, in the highly unlikely event that this occurs, it will be identified due to the high values of the energy invoices being raised 	2 – unlikely / rare	<ul style="list-style-type: none"> As above
Corporation tax	Payments from the Council to other businesses / organisations (including its subsidiaries)	Falsifying creditor payments to suppliers	Collusion or errors resulting in a misrepresentation of the nature of expenditure	Council and/or supplier	3 - Moderate / Could Happen	<ul style="list-style-type: none"> Risk negligible as the Council has corporate systems in place to procure and monitor contracts – the risk is mainly around cash “backhanders”, an issue that is not seen as possible with the Council’s systems and internal audit processes in place Some theoretical risk around transactions between the Council and its subsidiaries as the Council may wish to reduce the tax liabilities of its subsidiaries by reducing income levels – in practice, multiple layers of officer involvement and strong controls in place ensure that this is not deemed to be a significant risk (state aid also applies) 	2 – unlikely / rare	<ul style="list-style-type: none"> As above
Corporate Income Tax	Purchase of goods/services	Incorrect invoice amounts to reduce income	An employee could make an administrative error or agree with a supplier to misrepresent the amounts paid on an invoice (true amount paid being higher).	Supplier/Seller	3 – Moderate/ Could Happen	<ul style="list-style-type: none"> Counter fraud and corruption policy. VAT Controls Segregation of duties. 	2 – unlikely / rare	
Personal Income Tax	Payroll process	Misrepresenting employee as self-employed / Inaccurately describing the services	Protocols may not be followed as the recruiting/engaging officer could be pressured by workers who seek to	Employee	3 - Moderate / Could Happen	<ul style="list-style-type: none"> Protocol is available on the intranet for employees to follow who are looking to engage an individual 	2 – Unlikely/rare	<ul style="list-style-type: none"> Annual reviews with service areas

		<p>provided in a client's fee note to minimise the client's tax bill</p>	<p>only undertake work if they are registered as self-employed. Payments could therefore be incorrectly processed through a gesso without the applicable deductions.</p> <p>Protocols may not be followed as recruiting/engaging officers seeking to keep costs down may agree to a worker being registered as self-employed. Payments could therefore be incorrectly processed through a gesso without the applicable deductions.</p>			<ul style="list-style-type: none"> • Protocol has also been circulated to Service Directors to cascade through management teams to ensure all parties are aware of the correct procedures to follow • Gateshead Maintained schools and Gateshead Academies have received the protocol and related guidance documents • Payroll are identified in the document as contacts for services/schools to offer help and guidance with the procedure, • The updated policy and guidance notes on off payroll working were implemented 01/04/2017 in line with new regulations set out by HMRC • Budgets. • Adherence to the protocol has reduced the risk. 		
Personal Income Tax		<p>Hiding disallowable expenditure in a category which HMRC are unlikely to question, for example, personal expenditure which has not been declared on the individual's P11D as a benefit in kind.</p> <p>P11D is a tax form to be filed by an employer for each Director and employee that has been provided with expenses or benefits (and who is earning</p>		Employee	2 – unlikely / rare	<ul style="list-style-type: none"> • Procurement and Commissioning Protocols (inc • Off payroll working protocol • HR142 Form • Expenses Protocol • Schedules are sent to service and school contacts at the end of each financial year. • Schedules clearly identify to the user what needs to be declared and included on an employee's P11D form 	2 – unlikely / rare	<ul style="list-style-type: none"> • Updated guidance emailed to designated contacts at the end of each financial year

		over £8,500)						
Stamp Duty Land Tax	Property Transactions	Breakup of property portfolio sale for favourable Stamp Duty Land Tax.	(Insert person/s_) fraudulently or in error, processes the sale in smaller parcels so as to facilitate a more favourable tax treatment for the buyer.	Buyer		<ul style="list-style-type: none"> • Segregation of duties (including instruction of Council solicitors by Property Services) • Cabinet reports including clear monetary values. • Publication of decisions made under delegated powers. • Professionalism of key employees • TR1 Checks • Land Registry Transfer documentation • Where there is suspicion of money laundering the individuals would be reported in accordance with the Council's money laundering procedure. • Payments through solicitors by BACs transfer. 		
Stamp Duty Land Tax	Property Transactions 2	Agreeing to receive payment for an asset through misrepresented monetary values (lower sale price, with unnecessary additional payments).	(Insert person/s) fraudulently or in error, processing the sale of an asset in a way which hides its true value.	Buyer	2 – unlikely / rare	<ul style="list-style-type: none"> • Capital receipts – monitoring • Payments through solicitors by BACs transfer. • The Council's Constitution requires that all 'under-sales' are approved by the Cabinet. The Cabinet will agree in principle then subsequently agree to the specific sale. • Although not a control, it was noted that there are a low number of these transactions resulting in reduced risk. 	2	
Stamp Duty Land Tax	Property Transactions	False valuations	Banks undertaking valuations on behalf of the Council (Associated person)	Buyer	2 – unlikely / rare	<ul style="list-style-type: none"> • RICS obligations • ICS / Bank obligations • Valuations undertaken in the presence of two other valuers. • Although not a control, it was noted that there are a low number of these transactions resulting in reduced risk. • Assets sold on the open market with sealed bidding process to enable market value to be identified and obtained. 	2	<ul style="list-style-type: none"> • (Procurement Protocols/Framework) All new and renewed contracts will include a requirement of those, when acting on behalf of the Council, to commit to ensuring that they are taking all reasonable measures to prevent the

[Type text]

								facilitation of tax evasion.
Capital Gains Tax	Property Transactions	Property transactions not having correct capital gains tax processes applied.	Not applicable (Local Authority status)	N/A	N/A	N/A	N/A	<ul style="list-style-type: none"> N/A
Capital Allowances	Property Transactions	Property transactions not having correct Capital Allowances processes applied.	Not applicable (Local Authority status).	N/A	N/A	N/A	N/A	<ul style="list-style-type: none"> N/A
Construction Industry Scheme	Creditors	Gross payments could be made to Net Subcontractors.	If a subcontractor is not identified as liable for CIS deductions the Council could fail to make the appropriate deductions and pay them to HMRC.	Supplier	3 - Moderate / Could Happen	<ul style="list-style-type: none"> Qualified surveyors engage these suppliers and have received training in this area. Experienced Exchequer staff review all invoices before payment. 	2 - Unlikely / rare	<ul style="list-style-type: none"> Will be considered for future upgrades of the Financial System.

***Statement on error –** A distinction is made by the Council between deliberate attempts to evade Tax and administrative errors which, as a consequence result in the evasion of Tax. Where the risk of error has been identified the Council will ensure that checks and audits are undertaken which are proportionate to the level of risk of those administrative errors resulting in the facilitation of

Risk Likelihood

Assess the likelihood of the risk occurring within the next twelve months. Likelihood is classified 5 – 2 as categorised below:

Rating 5	Almost Certain
Rating 4	Likely
Rating 3	Moderate / Could Happen
Rating 2	Unlikely / Rare

This page is intentionally left blank

Tackling Tax Evasion Statement

This statement sets out the commitment of Gateshead Council to prevent a person criminally facilitating tax evasion in accordance with the Criminal Finance Act 2017.

Aim of the legislation

Relevant bodies should be criminally liable where they fail to prevent those who act for, or on their behalf from criminally facilitating tax evasion.

The new offences will be committed where a relevant body fails to prevent an associated person *criminally* facilitating the evasion of a tax, and this will be the case whether the tax evaded is owed in the UK or in a foreign country.

The new offence, however, does not radically alter what is criminal, it simply focuses on who is held to account for acts contrary to the current criminal law.

If a relevant body can demonstrate that it has put in place a system of reasonable procedures that identifies and mitigates its tax evasion facilitation risks, then prosecution is unlikely as it will be able to raise a defence.

Introduction

Tax evasion is when individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities. Organisations can be used by associated individuals or businesses to facilitate taxpayer evasion in the UK or overseas.

There are three stages that apply to the tax evasion facilitation offences.

Stage one: the criminal tax evasion by a taxpayer (either an individual or a legal entity) under existing law

Stage two: the criminal facilitation of the tax evasion by an “associated person” of the relevant body acting in that capacity

Stage three: the relevant body failed to prevent its representative from committing the criminal facilitation act

Defence: where the relevant body has put in place ‘reasonable prevention procedures’ to prevent its associated persons from committing tax evasion facilitation offences (stage two), or where it is unreasonable to expect such procedures, it shall have a defence

Risk Assessment

Gateshead Council has assessed the nature and extent of its exposure to the risk of those who act in the capacity of a person associated with it criminally facilitating tax evasion offences. The risk assessment is documented and kept under review.

Reasonable prevention procedures proportionate to the size, complexity and risk have been implemented.

Top Level Commitment

The Council is committed to preventing persons acting in the capacity of a person associated with it from engaging in criminal facilitation of tax evasion. The Council has fostered a culture in which activity intended to facilitate tax evasion is never acceptable.

Senior management have been involved in the creation and implementation of preventative procedures and have been involved in the risk assessment process.

Due Diligence

Due diligence will be undertaken in order to ensure that the risk of potential interactions with the Council being used by associated persons to engage in the criminal facilitation of tax evasion is clearly identified before any transactions take place. This due diligence will be proportionate to the identified risk.

Communication and Awareness

The Council seeks to ensure that its prevention policies and procedures are communicated, embedded and understood throughout the organisation, through internal and external communication, including training. This is proportionate to the risk to which the organisation assesses that it is exposed.

To facilitate this, the Council is committed to ensuring officers and Members are aware of their responsibilities with regard to preventing tax evasion. To this end, the Council will ensure that procedures are updated to reflect the finance Act and employees will be made aware of the changes to legislation and their roles and responsibilities.

Monitoring and Review

The Council will undertake regular review and practices will evolve as more is understood about the risks that it faces and lessons are learnt. The Council maintains a risk register which identifies the risks and controls, including future controls, to mitigate those risks. This register is reviewed annually and updated throughout the year as required, as a result of the changes in the Council's activities.

The Council's Corporate Risk and Resilience Group are responsible for monitoring and maintaining the register. Updates will be provided to Audit and Standards Committee as appropriate.

Reporting and Reference Documents

In the first instance any suspicions should be directed to the Corporate Fraud Team via email Fraudreporting@gateshead.gov.uk or via the fraud hotline 0191 4332805.

Other relevant documents:

Anti-money Laundering Policy

Whistleblowing Policy

Counter Fraud and Corruption Strategy

Counter Fraud and Corruption Policy

Fraud Response Plan

Criminal Finance Act 2017

Bribery Act

This page is intentionally left blank

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank