

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 18 June 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 5 - 10)

The Committee is asked to approve as a correct record the minutes of the meeting held on 14 May 2018.

3 Declarations of Interest

Members of the Committee are invited to declare interests in any agenda items.

4 Constitution

The constitution of the Committee, including the appointment of the Chair and Vice Chairs, was approved by the Council at its meeting on Friday 18 May 2018 as follows:

Chair Councillor Helen Haran

Vice Chair Councillor Jim Turnbull

Councillors Jill Green, Linda Green, John McElroy, John McClurey and Neil Weatherley

The Independent Members are Mr S Bell, Mr George Clark and Mr B Jones

5 GDPR Update

A verbal update will be given at the meeting by the Litigation and Information Rights Officer

6 Role and Remit (Pages 11 - 14)

Report of the Strategic Director, Corporate Services and Governance

7 Audit and Standards Committee Work Programme 2018-19 (Pages 15 - 16)

The Committee is invited to review and note the current work programme.

8 Grant of Dispensations (Pages 17 - 18)

Report of the Strategic Director, Corporate Services and Governance

- 9 Treasury Annual Report 2017/18** (Pages 19 - 32)
Report of the Strategic Director, Corporate Resources
- 10 Mazars Audit Progress Report June 2018**
A verbal report will be given at the meeting.
- 11 Oversight of Management Processes 2017/18** (Pages 33 - 44)
Report of the Strategic Director, Corporate Resources
- 12 Members' Assurance Statements 2017/18** (Pages 45 - 46)
Report of the Strategic Director, Corporate Resources
- 13 Managers' Assurance Statements 2017/18** (Pages 47 - 52)
Report of the Strategic Director, Corporate Resources
- 14 Review of Effectiveness of Internal Audit 2017/18** (Pages 53 - 62)
Report of the Strategic Director, Corporate Resources
- 15 Corporate Risk Management - Annual Report 2017/18** (Pages 63 - 76)
Report of the Strategic Director, Corporate Resources
- 16 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 [insert] of Schedule 12A to the Local Government Act 1972.
- 17 Internal Audit Annual Report 2017/18** (Pages 77 - 82)
Report of the Strategic Director, Corporate Resources
- 18 Re-admittance of the Press and Public**
The Committee is asked to readmit the press and public to the meeting.
- 19 Annual Governance Statement 2017/18** (Pages 83 - 98)
Report of the Strategic Director, Corporate Governance
- 20 Date and time of next meeting**
The next meeting will be held on Monday 23 July at 10.00am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk,
Tel: Date: Friday, 8 June 2018

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GATESHEAD METROPOLITAN BOROUGH COUNCIL AUDIT AND STANDARDS COMMITTEE MEETING

14 May 2018

- PRESENT:** Councillor H Haran (Chair)
- Councillors: J Green, L Green, J McElroy, J Turnbull and N Weatherley
- Mr Stuart Bell and Mr G Clark
- APOLOGIES:** Councillor J McClurey and Mr B Jones

ASC117 MINUTES

The minutes of the last meeting held on 5 March 2018 were approved as a correct record, subject to the inclusion of Councillor Weatherley in the list of attendees at the meeting.

ASC118 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC119 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT

The Committee received the external auditor's progress against planned work report.

The 2017/18 audit work is continuing and overall all work is on track.

Details of work completed and on-going were presented.

The key challenge this year is to adhere to the new statutory timetable for accounts production and audit. Work continues with officers to seek to streamline arrangements for preparing the statement of accounts. Officers plan to produce the draft accounts requiring certification by the end of May 2018 and the aim is to complete the audit by the end of July 2018.

The Committee also received an update on National Publications and Technical Updates and, in particular, the implementation of GDPR by 25 May 2018. The Committee received reassurance that the Council was well prepared for 25 May, having rolled out to all staff and elected members, training and briefing sessions on how GDPR will affect them. A DVD and staff leaflet was also in hand together with the development of web and intranet pages.

The Committee wished to place on record its thanks to Tanya Rossington, Litigation and Information Rights Officer, and her team for the work undertaken on rolling out GDPR training across the Council.

It was also agreed that Tanya be invited to the next meeting to provide an update on GDPR.

- RESOLVED -
- i) That the information be noted.
 - ii) That the Litigation and Information Rights Officer be invited to the next meeting of the Committee to provide an update on GDPR implementation.
 - iii) That the thanks of the Committee be placed on record for the work by staff on the GDPR implementation across the Council.

ASC120 THE INTERNAL AUDIT STRATEGY STATEMENT AND ANNUAL PLAN 2018/19

The Committee received the proposed Audit Strategy Statement and annual plan of work to be undertaken by the Internal Audit and Risk Service in 2018/19.

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS).

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.

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.

The plan for 2018/19 includes two dedicated Corporate Fraud posts.

Updates in relation to Counter Fraud activity will be presented bi-annually to the Committee.

The plan includes allocation for advice and consultancy to all services and partnerships where appropriate.

Rather than a traditional cyclical-based approach, the plan focusses on the main risks to the Council.

The Audit Strategy Statement and the Annual Plan for 2018/19 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.

- RESOLVED -
- i) That the information is noted.
 - ii) That the Audit Strategy Statement and the annual plan of work to be provided by the Internal Audit and Risk Services for 2018/19 be noted.
 - iii) That quarterly monitoring reports be received showing progress made against the plan.

ASC121 CORPORATE RISK MANAGEMENT 2017/18 - QUARTERLY REPORT TO 31 MARCH 2018

The Committee received a report updating them of developments in Corporate Risk Management during the period 1 January to 31 March 2018 in compliance with the requirements of good corporate governance.

The Action Plan for the delivery of the Development Objectives for 2017/18 incorporating progress to date shows that work is progressing as per the plan

Following the approval of the Council's Thrive Agenda in March, the Strategic Risk Register has been updated and the Senior Office 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.

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

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, which was then presented to the Risk and Resilience Group.

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 prepared which documents the Council's approach to tackling tax evasion and its commitment to preventing anyone facilitating tax evasion. It will now be communicated to all employees and councillors.

It was also suggested that further risk management training for councillors and officers appropriate to their responsibilities be rolled out in due course.

- RESOLVED -
- i) That the information be noted.
 - ii) That further risk management training for councillors and officers appropriate to their responsibilities be rolled out in due course.

ASC122 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.

ASC123 INTERNAL AUDIT PLAN 2017/18, QUARTERLY MONITORING REPORT TO 31 MARCH 2018

The Committee received a report outlining progress made by the Internal Audit and Risk Service against the audit plan for the financial year 2017/18 and summarised the main findings arising from audit activity throughout the period 1 January 2018 to 31 March 2018.

RESOLVED - That the information be noted.

ASC124 COUNTER FRAUD UPDATE

The Committee received a report which provided an update on activity undertaken since 1 April 2017 by the Internal Audit and Risk Service in relation to the work of the Corporate Fraud Team.

Two dedicated fraud officers were appointed in April 2017 and following a period of training are now Accredited Counter Fraud Specialists (ACFS) with CIPFA. The team are managed by a Senior Audit and Risk Officer.

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

In order to pro-actively support management in the prevention and identification of potential fraud and irregularity, the Corporate Fraud Team are members of several regional and national bodies.

A counter fraud communication and awareness strategy is currently being developed with the Communications Team to publicise the work of the Corporate Fraud Team, and to show the Council's commitment to preventing and reporting fraud and corruption.

Details of counter fraud awareness initiatives progressed to date were presented.

The Fraud Response Plan, which underpins the Counter Fraud and Corruption Strategy, requires that cases of attempted, suspected or proven corporate fraud or irregularities must be reported to the Corporate Fraud Team when they are identified or raised.

Corporate Fraud Officers are currently working with Legal and Democratic Services on a Right to Buy investigation that it is anticipated will be taken for prosecution with regard to a fraudulent claim.

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

Corporate Fraud Officers are conducting introductory meetings with senior managers in high risk areas to establish what fraud arrangements are in place and where the Team may be able to assist in the future and provide added value.

A standard counter fraud objective for testing is now included within appropriate internal audits in the 2018/19 audit plan to ensure that senior managers are aware of their responsibilities in relation to detecting and preventing fraud within their areas of responsibilities.

The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Details of this work were outlined. The next NFI exercise is due to start during 2018/19 with data being submitted to the Cabinet Office in October 2018.

RESOLVED - That the information be noted.

ASC125 OTHER BUSINESS

The Committee was advised that the terms of reference would be on the agenda for its next meeting together with a report reviewing the effectiveness of internal audit including an assessment of the effectiveness of the Committee. In addition, a quarterly report would be presented to the Committee giving an update on standards issues.

The Committee wished to place on record its praise to the staff in the Council's Resilience and Emergency Planning Team for the way they handled the recent fire evacuation at Regents Court.

ASC126 DATE AND TIME OF NEXT MEETING

The next meeting will take place on Monday 18 June 2018 at 10.00 am in the Blaydon Room, Civic Centre

Chair.....

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**AUDIT AND STANDARDS
COMMITTEE**

18 June 2018

TITLE OF REPORT: Remit of the Audit and Standards Committee

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

1. Purpose of the Report

To advise the Audit and Standards Committee that it has delegated power to:

- (i) consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements;
- (ii) seek assurances, and satisfy itself, that action is being taken on risk-related issues identified by auditors and inspectors;
- (iii) satisfy itself that the Council's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- (ii) approve the Council's Statement on Internal Control and Annual Governance Statement;
- (iii) approve, but not direct, the Council's internal audit strategy and audit plan, and monitor its performance;
- (iv) review reports on internal audit activity and the main issues arising, and seek assurances that action has been taken where necessary;
- (v) consider the annual audit report on internal audit activity;
- (vi) consider the reports of external audit and inspection agencies;
- (vii) review the scope and depth of external audit work, inspection agencies and other relevant bodies, and ensure that they provide value for money;
- (viii) raise the profile of audit, risk management and the internal control environment;

- (ix) review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;
- (x) consider the Council's arrangements for Corporate Governance and agreeing necessary actions to ensure compliance with best practice;
- (xi) consider treasury management performance reports;
- (xii) promote and maintain high standards of conduct by councillors and co-opted members;
- (xiii) assist the councillors and co-opted members to observe the Members' Code of Conduct;
- (xiv) advise the Council on the adoption or revision of the Members' Code of Conduct;
- (xv) monitor the operation of the Members' Code of Conduct;
- (xvi) advise, train or arrange to train councillors and co-opted members on matters relating to the Members' Code of Conduct;
- (xvii) grant dispensations to councillors and co-opted members from requirements relating to interests set out in the Members' Code of Conduct so far as not delegated to the Monitoring Officer including holding hearings as appropriate undertaken by a standards sub-committee set up for the purpose;
- (xviii) assist and advise parish councils in the Borough, if requested and as appropriate, in relation to their discharge of functions (xiv)-(xix) above on request of their parish councillors;
- (xix) in accordance with the approved delegations, deal with written allegations that a councillor or co-opted member (or former councillor or co-opted member) of the Council or a parish councillor or former parish councillor in the Borough has failed, or may have failed, to comply with the Members' Code of Conduct;
- (xx) set from time to time appropriate allowances and expenses payable to the statutory Independent Persons;
- (xxi) amend from time to time as it considers appropriate the arrangements to be followed in the initial consideration, investigation or hearing of any complaint of a breach of the Code of Conduct;
- (xxii) take any of the actions in respect of any member who after investigation the Committee decides, following a recommendation from a standards sub-committee, has failed to comply with the Code of Conduct;

- (xxiii) promote and maintain high standards of conduct by officers;
- (xxiv) assist officers to observe the Code of Conduct for Employees;
- (xxv) monitor the operation of the Code of Conduct for Employees.

Standards Sanctions

On a finding that a member has failed to comply with the Code of Conduct, the following actions have been delegated to the Committee:

- Issue a formal censure.
- Recommend to full Council (or to the Parish Council) the issue of a formal censure by the Council (or by the Parish Council).
- Refer its findings to full Council (or the Parish Council) for information.
- Publish its findings by such means as the Committee thinks fit.
- Recommend to the Council (or the Parish Council) that the member be removed from any or all Committees or Sub-Committees (subject to the approval of the member's Group if applicable).
- Recommend to the Council (or the Parish Council) that the member be removed from being the chair or vice –chair of any Committees or Sub-Committee.
- Recommend to the Leader of the Council that the member be removed from the Cabinet, or from particular portfolio responsibilities.
- Recommend to the Council (or the Parish Council) that the member be removed from one or more outside appointments to which s/he has been appointed or nominated by the Council (or the Parish Council).
- Instruct the Monitoring Officer to offer training to the member or recommend that the Parish Council should do so.

2. Recommendation

The Committee is asked to note this information.

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Audit and Standards Committee

Work Programme 2018/19

Committee Meeting Date and Time	Items to be considered
<p>18 June 2018 10.00am</p>	<ul style="list-style-type: none"> • Constitution • Role and Remit • Work Programme 2018/19 • Dispensations • GDRP Update • Treasury Annual Report 2017/18 • Mazars Audit Progress Report • Oversight of Management Processes • Members' Assurance Statements 2017/18 • Managers' Assurance Statements 2017/18 • Review of the Effectiveness of Internal Audit 2017/18 • Corporate Risk Management – Annual Report 2017/18 • Internal Audit Annual Report 2017/18 (exempt item) • Annual Governance Statement 2017/18
<p>23 July 2018 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Audit Completion Report Year Ended 31 March 2018 and Gateshead Council Statement of Accounts 2017/18 • Annual Report to Cabinet and Council 2017/18 • Corporate Risk Management 2018/19 – Quarterly Report to 30 June 2018 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 30 June 2018 (Exempt Item)
<p>1 October 2018 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Mazars Audit Progress Report • Results of the 2017/18 CIPFA Audit Benchmarking • Corporate Risk Management 2018/19 - Quarterly Report to 30 September 2018 • Review of Internal Audit Charter • Annual Governance Statement 2017/18 – Internal Audit Review of Managers' Assurances • Treasury Management – Performance to 30 September 2018 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 30 September 2018 (Exempt Item) • Counter Fraud and Corruption Arrangements Update Report (Exempt Item)

<p>28 January 2019 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Annual Audit Letter • Mazars AUDIT Progress Report • Corporate Risk Management 2018/19 – Quarterly Report to 31 December 2018 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2018 (Exempt Item)
<p>4 March 2019 5.30pm</p>	<ul style="list-style-type: none"> • Work Programme 2018/19 • Mazars – Audit Strategy Memorandum Year Ending 31 March 2019 • Treasury Policy Statement and Treasury Strategy • Local Code of Governance • Annual Governance Statement (Assurance Framework) • Internal Audit Update
<p>29 April 2019 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Mazars Audit Progress Report • Internal Audit Strategy Statement and Annual Plan 2018/19 • Corporate Risk Management 2018/19 – Quarterly Report to 31 March 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 March 2019 (Exempt Item) • Counter Fraud and Corruption Arrangements Annual Report (Exempt Item)

TITLE OF REPORT: Grant of Dispensations

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

Purpose of the Report

1. To ask Audit and Standards Committee to grant a dispensation to all Councillors:
 - who may have a prejudicial interest in any matter arising from consideration of reports dealing with outside bodies of which they are a member through appointment by the Council;
 - who may have a prejudicial interest in any matter arising from consideration, at Cabinet or Council, of reports dealing with:
 - the budget, including council tax precepts;
 - fees and charges;
 - capital and revenue monitoring; and
 - the medium term financial strategy.

Background

2. In accordance with the Localism Act 2011 (“the Act”) and the Council’s Code of Conduct for members, Councillors who have a registrable or non-registrable interest in a matter arising at a meeting which is ‘prejudicial’, must declare the interest, not participate in a debate or vote, and leave the room while the matter is discussed.
3. The Act allows Councils to grant dispensations for a specified period of time, not exceeding four years, in circumstances where:
 - (i) without the dispensation the number of persons prohibited would be so great a proportion so as to impede the transaction of the business;
 - (ii) without the dispensation the representation of different political groups on the body transacting business would be so upset as to alter the likely outcome of any vote;
 - (iii) without the dispensation all of the Executive would be prohibited from participating;
 - (iv) the granting of a dispensation is in the interests of persons living in the Authority; and
 - (v) it is otherwise appropriate to grant a dispensation.
4. On 31 May 2012 the Council delegated power to grant dispensations on grounds (i) to (iii) above to the Monitoring Officer. Power to grant under grounds (iv) to (v) was delegated to this Committee.

5. The Committee has previously granted dispensations to all councillors:
- who are appointed by the Council as members of a Board (or any other governing committee) of an outside body, from the need to leave a meeting, and desist from voting, when that meeting is considering business relating to the outside body; except when the business concerns a contract or agreement, with financial implications, directly between the Council and the outside body, or the giving of monetary grants to or from the outside body. In this context 'meeting' means a meeting of Cabinet, Council, Overview and Scrutiny Committees or the Health and Well-Being Board, but to no other committee meetings of the Council. The interest will still need to be declared to the meeting.
 - to enable them to participate fully in Cabinet and Council meetings (and any related pre-meetings or discussions) when considering reports dealing with:
 - the budget, including council tax precepts;
 - fees and charges;
 - capital and revenue monitoring; and
 - the medium term financial plan.

Proposal

6. The above dispensations were approved for a period of four years and are due for renewal. It is considered appropriate to renew the dispensations set out in paragraph 5 under ground (iv) and/or ground (v).

Recommendation

7. The Committee is recommended to extend the dispensations set out in paragraph 5 for a four year period to 17 June 2022.

For the following reason:

To allow all Councillors to participate in making decisions in the best interests of the people of Gateshead.

Contact: Deborah Hill Ext: 2100

Title of Report: Treasury Annual Report 2017/18

Report of: Darren Collins – Strategic Director, Corporate Resources

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed Treasury Annual Report prior to consideration by Cabinet.

Background

2. In line with what the Government defines as best practice and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council must consider a Treasury Annual Report each year.
3. The attached Treasury Annual Report has been prepared taking into account 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 Finance and CIPFA's Code of Practice on Treasury Management. The document is also consistent with the Council's approved Treasury Management Policy and Strategy, which require an annual report to be presented to Council prior to the end of September each year.

Proposals

4. The Committee is asked to review the Treasury Annual Report attached at Appendices 2 and 3, to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

Recommendation

5. The Committee is asked to review the recommendations on the Treasury Policy and the Treasury Strategy and submit any comments to Cabinet.

For the following reason:

To ensure that the Council fully complies with the requirements of Financial Regulations and good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management.

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular the priority of ensuring a sustainable Gateshead through ensuring the best use of its resources. The proposals are consistent with the framework for achieving the Council's new strategic approach "Making Gateshead a Place Where Everyone Thrives". The Council recognises there are huge financial pressures on not just Council resources but those of partners, local businesses and residents.

Background

2. The Council fully complies with the requirements of good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and its Prudential Code for Capital Finance and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Authority Investments, which include the:
 - a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
 - b. Creation and maintenance of Treasury Management Practice Statements which set out the manner in which the Council will seek to achieve those policies and objectives;
 - c. Receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year;
 - d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
 - e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to Audit and Standards Committee and receipt of a mid-year review report to Council.
3. Comprehensive details of procedures in place to ensure compliance with the Code are included within the Council's Treasury Management Practices and these procedures are followed without exception.
4. Treasury Management in this context is defined as:

"The management of the organisation's borrowing, 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."
5. Taking into account the annual reporting requirements stipulated in the Code of Practice, this Annual Treasury Report covers:
 - The strategy for 2017/18 (including investment and borrowing strategies);
 - Treasury Management approach to risk;
 - Outturn 2017/18 performance measurement (including market interest rates, investment and borrowing performance and compliance with treasury limits set prior to the start of the financial year as Prudential Indicators);
 - Any restructuring and repayment; and
 - Summary of Treasury Management performance for the year 2017/18.

Consultation

6. Consultation on the production of the Treasury Annual Report has taken place with the Council's treasury advisors Link Asset Services. The outcome of the consultation process, along with guidance issued by CIPFA, has informed the format and content of the annual report.

Alternative Options

7. There are no alternative options, as the Treasury Annual Report is required in order to comply with CIPFA's Code of Practice on Treasury Management.

Implications of Recommended Option

8. Resources:

1. **Financial Implications** - The Strategic Director, Corporate Resources confirms that there are no direct financial implications associated with this report. The Annual Report sets out a financial summary of Treasury Management activity for the 2017/18 financial year end and compares this to budget.
2. **Human Resources Implications** - There are no human resources implications arising from this report.
3. **Property Implications** - There are no property implications arising from this report.

9. Risk Management Implications

The Treasury Annual Report has been prepared to report on performance against the annual Treasury Policy and Strategy. These are prepared with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.

10. Equality and Diversity Implications

There are no equality and diversity implications arising from this report.

11. Crime and Disorder Implications

There are no crime and disorder implications arising from this report.

12. Sustainability Implications

There are no sustainability implications arising from this report.

13. Human Rights Implications

There are no human rights implications arising from this report.

14. Area and Ward Implications

There are no direct area and ward implications arising from this report.

15. **Background Information:**

The following documents have been relied on in the preparation of the report:

- Local Government Act 2003
- CLG Guidance on Local Government Investments (2004)
- CIPFA's Prudential Code for Capital (2013)
- CIPFA's Code of Practice on Treasury Management (2011)
- Council's approved Treasury Policy & Strategy Statements 2017/18 to 2019/20
- Council's approved Treasury Management Practice Statements

Treasury Management Annual Report 2017/18

The Strategy for 2017/18

1. The 2017/18 to 2019/20 Treasury Management Strategy was approved by Council on 16 March 2017.
2. The formulation of the 2017/18 to 2019/20 Treasury Management Strategy involved determining the appropriate borrowing and investment decisions with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.
3. The Treasury Management Strategy fully complies with the requirements of CIPFA's Treasury Management Code of Practice and covered the following:
 - prospects for interest rates;
 - treasury limits in force including prudential indicators;
 - the borrowing strategy;
 - the extent of debt rescheduling opportunities; and
 - the investment strategy.

Investment Strategy

4. Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest. These investment regulations came into force on 1 April 2004 and in conjunction with supplementary guidance are considered best practice.
5. Investments are managed in-house using counterparties listed in an approved lending list. Investments are placed over a range of periods and are dependent on the assessed security of the counterparty, the liquidity requirements of the cash flow, interest rate expectations and the interest rates actually on offer.
6. The expectation for interest rates within the Treasury Management Strategy for 2017/18 to 2019/20 anticipated a low, steady Bank Rate, with rate increases not expected until 2019. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
7. In this scenario, the Treasury Strategy was to delay borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

Borrowing Strategy

8. The borrowing strategy for 2017/18 was as follows:
 - When Public Works Loan Board (PWLB) rates fall back to or below 3.20% borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.
 - The use of short term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.
 - Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.
9. Any potential opportunities for repaying debt before the maturity date to reduce borrowing costs was monitored and assessed throughout the year. However, the cost of premiums on any early repayment of debt was considered prohibitive for any debt restructuring.

Treasury Management Approach to Risk

10. The primary objective is to safeguard the Council's assets. Procedures have been put in place to ensure this takes place and these are fully documented in the Council's Treasury Management Practice Statements (TMPS), which are constantly kept under review. These procedures are followed without exception. The Internal Audit report of 14th November 2017 concluded that Treasury Management control systems and procedures are operating well. All funds were safeguarded in 2017/18.

Outturn 2017/18 – Performance Measurement

11. It should be noted that procedures in relation to the Prudential Code were effective from 1 April 2004 and continue to apply to this report on 2017/18 performance. However, in December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Full implementation of the revised Codes of Practice is not expected until the 2019/20 budget cycle across all authorities.
12. The performance, against limits in respect of borrowing set prior to the start of the financial year as Prudential Indicators, will be reported to Cabinet on 19 June 2018 as part of the Capital Monitoring process. None of the approved Prudential Indicators set for 2017/18 were breached in the year. For completeness the Prudential Indicators are shown at Appendix 4.

Market Interest Rates

13. Performance must be considered in conjunction with actual rate movements over the financial year which were as follows:
 - **Shorter-term interest rates** – The Monetary Policy Committee (MPC) at its quarterly Inflation Report meeting of 2nd November agreed to increase Base Rate to 0.50% and it remained at that level for the rest of the year.
 - **Longer-term interest rates** – The 7th February 2018 MPC meeting revealed warnings of a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate,

therefore, shifted considerably during the second half of 2017/18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

Investment Performance

14. The major issue for treasury management in 2017/18 has been ensuring the security of investments whilst generating a reasonable rate of return. Due to the difference between the cost of borrowing and investment interest and the reduction in suitable counterparties the Council has continued to use investment balances to temporarily fund the capital programme. This has delivered a saving on borrowing costs.
15. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 16th March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.) The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
16. There has been a continued use of a range of investment instruments in order to increase flexibility, spread risk, maximise liquidity and obtain attractive rates. There has been an increased use of Notice Reserve accounts, and money market funds with high rated banks to maintain the security of the funds and enhance the rate of return on investments.
17. A summary of the year's activity is shown at Appendix 3. The investment interest earned in the year was £0.470m (2016/17 £0.413m) with an average interest rate of 0.51% (2016/17 0.55%). Interest earned on loans to third parties, agreed as part of the capital programme, increased total interest to £1.807m which was £0.345m more than the original budget of £1.462m. This includes £0.884m interest relating to Newcastle International Airport.
18. The overall return for the year of 0.51% exceeds the accepted benchmark for 2017/18, which was 0.22%. This benchmark is the 7-day London Interbank Bid Rate (LIBID), which is traditionally linked to the base rate.
19. Furthermore, the Council is a member of Link Asset Services Investment Benchmarking Group which assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return. This is used for comparison across other local authorities who also subscribe to this service across a number of groups. The Council achieved an average return of 0.546% on its investments for Quarter 4 2017/18 which is slightly below the risk adjusted expectations (0.55% to 0.65%) defined in the Benchmarking Report for our group. This is due to the portfolios longer dated weighted average maturity of 151 days compared to the benchmark average of 95 days and the weighted average risk of the credit profile.

Heritable Bank

20. 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.
21. To date dividends totalling £2.736m (98.00p in the £) have been received.
22. The most recent update from the administrators, Ernst and Young, in March 2018, provided detail of all dividends received to date and advised that no further dividend is expected until the administration is concluded. Ernst and Young intend to issue a further report early within the next accounting period.

Borrowing Performance

23. The total external borrowing at 31 March 2018 was £650.341m, which was within the operational borrowing limit of £800.000m. This is a net increase of £40.153m from the opening figure of £610.189m. The increase is represented by £85.000m of new borrowing offset by £44.847m repayment of borrowing.
24. Investment returns/interest rates were low during 2017/18 and were well below long term borrowing rates. Therefore, value for money considerations indicated that best value could be obtained by delaying new external borrowing by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing). At the end of the financial year 2017/18 the Council had internal borrowing of £15.317m. Any short-term savings gained from adopting this approach was weighed against the potential for incurring additional long-term costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.
25. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Council and the resources applied to fund the capital spend, as follows:

	31 March 2017 Actual £m	31 March 2018 Actual £m
Capital Financing Requirement for General Fund	301.792	320.153
Capital Financing Requirement for HRA	345.505	345.505
Total Capital Financing Requirement	647.297	665.658

25. The details of the borrowing taken during 2017/18 are as follows:

Date	Term (years)	Amount £m	Interest Rate (%)	Source
12/09/2017	48	5.000	2.26	PWLB
12/09/2017	46.5	5.000	2.26	PWLB
20/10/2017	48	5.000	2.43	PWLB
07/11/2017	48	10.000	2.41	PWLB
23/11/2017	50	5.000	2.38	PWLB
23/11/2017	50	5.000	2.38	PWLB
29/11/2017	49	5.000	2.38	PWLB
29/11/2017	49	5.000	2.38	PWLB
27/02/2018	50	5.000	2.48	PWLB
27/02/2018	50	5.000	2.48	PWLB
24/04/2017	6 months	10.000	0.47	Glasgow Council
30/06/2017	7 months	5.000	0.30	Derby City Council
25/07/2017	3 months	10.000	0.23	Middlesbrough Council
16/10/2017	1	5.000	0.53	London Borough of Havering
85.000				

26. At 31 March 2018 £525.341m of the total borrowing was from the PWLB and £125.000m was in the form of market loans. The average interest rate on borrowing has reduced from 4.37% in 2016/17 to 4.12% during 2017/18 which will reduce borrowing costs.

27. There was £30.000m of short-term borrowing taken during 2017/18 primarily to manage cashflow timing, with £25.000m being repaid prior to year-end. The majority of PWLB long term loans taken in 2017/18 were over 48 years which lengthens the life of the debt portfolio and provides long term security in terms of borrowing costs by securing loans at historically low rates.

28. The overall revenue cost of borrowing in 2017/18 was £26.174m. As a consequence of the level of capital expenditure and the application of the Treasury Management Strategy this was £1.016m less than the budget.

Debt Restructuring & Repayment

29. Due to the reintroduction of redemption rates on the early repayment of PWLB debt it was anticipated that there would be little scope to restructure PWLB debt.

30. The rates payable on the early redemption of debt was monitored throughout the year. The cost of early repayment outweighed any savings and therefore there was no early redemption of debt.

Summary of Treasury Management Performance for the Year 2017/18

31. Total interest income was £0.345m more than the budget, which was contributed to by the 0.25% increase in Base Rate on 2nd November 2017.
32. Borrowing costs were £1.016m less than budget due to a delay in taking borrowing and being taken at lower interest rates than estimated and the decision to temporarily fund the capital programme from cash balances.
33. There were no opportunities for restructuring debt during 2017/18.
34. Overall Treasury Management performance against budget for 2017/18 generated net savings of £1.361m, this is summarised in the following table:

	Budget	2017/18	
	£m	Actual	Saving
		£m	£m
Cost of Borrowing	27.190	26.174	(1.016)
Interest Income	(1.462)	(1.807)	(0.345)
Net Position	26.016	24.617	(1.361)

35. Treasury Management remained challenging throughout 2017/18 with the continuation of the lowest bank interest rate in history for most of the year and continuing pressure on available counterparties.

Appendix 3

Investment Activity

	2016/17	2017/18
Number of investments made in 2015/16 maturing in 2016/17	14	n/a
Number of investments made in 2016/17 maturing in 2016/17	41	n/a
Number of investments made in 2016/17 maturing in 2017/18	n/a	14
Number of investments made in 2017/18 maturing in 2017/18	n/a	23
Total number of investments maturing in year	52	37
Number of investments made in 2017/18 maturing in 2018/19	n/a	19
Number of investments made in 2017/18 maturing in 2020/21	n/a	1
Average duration of investments (including overnight)	4 days	11 days
Average duration of investments (excluding overnight)	84 days	118 days
Non-specified investments:		
Rated non-high		
Approved limit	55%	75%
Maximum level invested	41%	64%
Not Rated		
Approved limit	0%	0%
Investments greater than 364 days		
Approved limit	£15m	£15m
Maximum level Invested	£0m	£5m

Outstanding amounts relating to the impaired investment with Heritable Bank are not included within this appendix.

Prudential Indicators 2017/18

The 2017/18 Prudential Indicators were agreed by Council on 23 February 2017 (column 1). This is now compared with the 2017/18 actual outturn position as at the 31 March 2018 (column 2).

Certain Treasury Management indicators must be monitored throughout the year on a regular basis in order to avoid breaching agreed limits. The capital expenditure and capital financing requirement indicators have been revised in line with the revised budget and none of the other approved Prudential Indicators set for 2017/18 have been breached.

Capital Expenditure		
	2017/18 £000 Reported Indicator	2017/18 £000 Actual
Non-HRA	65,869	48,646
HRA	29,340	25,697
Total	95,209	74,783
To reflect the reported capital monitoring agreed by Council during the year		

Ratio of Financing Costs to Net Revenue Stream		
	2017/18 Reported Indicator	2017/18 Actual
Non-HRA	14.89%	12.82%
HRA	42.53%	43.44%

Capital Financing Requirement		
	2017/18 £000 Reported Indicator	2017/18 £000 Actual
Non-HRA	340,885	320,153
HRA	345,505	345,505

There were no breaches to the Prudential Indicators set for 2017/18.

Authorised Limit for External Debt	
	2017/18 £000 Reported Indicator
Borrowing	825,000
Other Long-Term Liabilities	0
Total	825,000
Maximum YTD £655.189m	

Operational Boundary for External Debt	
	2017/18 £000 Reported Indicator
Borrowing	£800,000
Other Long-Term Liabilities	0
Total	£800,000
Maximum YTD £655.189m	

The Council's actual external debt at 31 March 2018 was £650.341m. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

Estimated Incremental Impact on Council Tax and Housing Rents

This indicator is set at the time the Council's budget is set. Therefore, there is no requirement for this Indicator to be monitored on a quarterly or annual basis.

Adherence to CIPFA code on Treasury Management

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Upper Limit on Fixed and Variable Interest Rates Exposures		
Range	2017/18 £000 Reported Indicator	2017/18 £000 Actual Position
Fixed Rate	Max 652,940 Min 424,015	Actual 528,795 Max 528,795 Min 499,731
Variable	Max 160,751 Min (15,000)	Actual 30,000 Max 44,000 Min 19,000
All within agreed limits. (Max and Min YTD)		

Upper / Lower Limits for Maturity Structure of Fixed Rate Borrowing				
	2017/18 Reported Indicator		2017/18 Actual Position	
	Upper Limit	Lower Limit	Actual Percentage	Maximum YTD
Under 12 months	25%	0%	2.99%	9.66%
12 months to 24 months	25%	0%	6.28%	6.39%
24 months to 5 years	50%	0%	17.08%	20.84%
5 years to 10 years	50%	0%	9.45%	9.45%
10 years to 20 years	50%	0%	10.72%	14.71%
20 years to 30 years	50%	0%	1.20%	1.25%
30 years to 40 years	50%	0%	19.10%	19.39%
40 years to 50 years	60%	0%	28.57%	29.67%
50 years and above	30%	0%	0.00%	3.55%
All within agreed limits.				

On 8 March 2007, Council agreed to the placing of investments for periods of longer than 364 days in order to maximise investment income before forecast cuts in interest rates. An upper limit was set and agreed as a new Prudential Indicator.

Upper Limit on amounts invested beyond 364 days			
	2017/18 £000 Reported Indicator	2017/18 £000 Actual Position	2017/18 £000 Maximum YTD
Investments	15,000	5,000	5,000

Title of Report: Oversight of Management Processes 2017/18

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report details how the Audit and Standards Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

Background

- 2 The external auditor is required by auditing standards to develop a good understanding of the Council's management processes. This is a requirement as part of their work in respect of auditing the Council's financial statements and value for money conclusion.

Oversight of Management Processes

- 3 The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee is detailed in Appendix A.

Recommendation

- 4 The Committee is asked to consider the evidence in Appendix A and any other areas that members have knowledge of arising from their Council duties and agree that on this basis an effective level of oversight is in place.

Contact name: Craig Oakes Ext 3711

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Oversight of Management Processes 2017/18 – Response to External Auditor

Question	Response
<p>What processes are in place to:</p> <p>1. Undertake an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</p>	<ul style="list-style-type: none"> • The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Based on the 2017/18 plan, key systems were allocated 1,378 productive hours which represents 12% of the planned hours for Gateshead’s Groups and Services. Audits completed in 2017/18: <ul style="list-style-type: none"> ○ AGS Assurances 2016/17 – Operating Well ○ Budgetary Control – Operating Well ○ Business Rates – Operating Well ○ Council Tax – Operating Well ○ Capital Accounting System and Programme – Operating Well ○ Corporate Payroll and Human Resources – Significant Weakness ○ Corporate Debtors and Income – Satisfactory ○ Risk Management and Business Continuity – Operating Well ○ Treasury Management – Operating Well ○ VAT Arrangements – Operating Well • Managers Assurance Statements first line of defense • Revenue and Capital budget monitoring • Multiple review process within closedown timetable and year-end working papers • Analytical review process

<p>2. Identify and respond to the risk of fraud?</p>	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations • Biannual update to Audit and Standards Committee on fraud and irregularity investigations • Internal audit of key financial systems • Chief Internal Auditor attended CIPFA Fraud Forum November 2017 • Service Directors Assurance Statements • National Fraud Initiative (NFI) data matching • Council Counter Fraud and Corruption Arrangements • Proactive approach e.g. Single Person Discount use of Datatank • Whistleblowing Policy • Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group
<p>3. Communicate to employees the Council's views on business practice and ethical behavior (for example by updating, communicating and monitoring against relevant codes of conduct)?</p>	<ul style="list-style-type: none"> • Employee induction • Regular employee and team briefings • Regular Management and Supervision meetings • Employee Appraisal and Development including corporate values. • Employees' Code of Conduct (incorporated into employees' contracts of employment) • Protocol on Councillor / Officer Relations • Employee handbook • KnowledgeNet (source of training and development materials)

	<ul style="list-style-type: none"> • Corporate bulletins to raise awareness • Intranet content
<p>4. Communicate to the Audit and Standards Committee the processes for identifying and responding to fraud or error?</p>	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations • Biannual Counter Fraud Update reported to Audit and Standards Committee, October and April, including National Fraud Initiative and fraud and irregularity investigations • Internal audit of key financial systems • Service Directors Assurance Statements • National Fraud Initiative (NFI) data matching • Attendance at North East Fraud Forum
<p>5. How do management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2017/18?</p>	<ul style="list-style-type: none"> • Contribution to and compliance with internal assurance processes ie <ul style="list-style-type: none"> ○ Service assurance assessment ○ Local Code of Governance ○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2017/18. No significant internal control issues during the financial year 2017/18 that have resulted in: <ul style="list-style-type: none"> ▪ A need to take formal reporting action; ▪ A need for a full investigation relating to a member's conduct; ▪ Significant damage to the reputation of the Council; or ▪ An inability by the Council to meet its lawful objectives. ○ Annual Governance Statement • Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Corporate Resources on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for

documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based". - Protocol 3 – Report Formats and Preparing Reports).

- Annual (at least) review of the Constitution which takes into account legislative changes
- The Council's Financial Regulations, which are part of the Council's Constitution, provide the framework for managing the Council's financial affairs.

13.04 Functions of the Chief Finance Officer

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

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

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function, and the Council's external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

- Legal officers fully trained in accordance with continuing professional development principles, and able to 'horizon scan' through:
 - Legal section subscribe to Westlaw UK, an on-line legislation and research resource including updates
 - Legal section membership of Lawyers in Local Government, a national group (with links to the Law

	<p>Society) which provides training and special interest groups (two led by Gateshead lawyers) along with a topical discussion forum</p> <ul style="list-style-type: none"> ○ Regular training is provided through the North East legal services framework arrangements ○ All solicitors receive Solicitors' Gazette weekly ● Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory ● Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer ● Guidance issued to all Directors when new legislation requires changes to Council procedures ● Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors.
<p>6. Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal staff provide annual (and where required ongoing) updates on litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.</p>
<p>7. What controls are in place to: identify; authorise, approve, account for; and disclose related party transactions and relationships? For any related parties please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year ended 31 March 2018?</p>	<p>Guidance issued to all Councillors and Strategic Directors and requirement for signed declarations. Evidence will be available as part of the 2017/18 working papers</p>
<p>Questions in relation to fraud:</p>	<p>Response</p>
<p>8. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2017 – 31 March 2018 (if 'yes', please provide details)?</p>	<p>Yes, there were 32 fraud allegations reported to the Corporate Fraud Team during 2017/18, these are as follows:</p> <ul style="list-style-type: none"> ● Procurement Fraud: 0 allegations

	<ul style="list-style-type: none"> • Payroll and employee contract fraud: 1 allegation • Theft of equipment, cash or data: 8 allegations • Other: 23 allegations <p>Of the 32 allegations, 5 related to employees, and 27 to other parties. 14 of the reported cases were considered to merit investigation by the Corporate Fraud Officers.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee</p>
9. Do you suspect fraud may be occurring within the organisation?	Whilst we cannot provide 100% assurance that fraud is not occurring within the Council all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.
10. Have you identified any specific fraud risks within the Council?	The counter fraud and corruption strategy for local government 'Fighting Fraud and Corruption Locally' identifies nationally those areas that are at a high risk of fraud and this has formed the basis of the proactive fraud work allocated within the audit plan. These areas include council tax discounts and exemptions; council tax benefits; non-domestic rates relief; blue badge scheme misuse; procurement fraud; tenancy fraud (domestic and commercial); employee corporate fraud; direct payments and insurance fraud. At this point no specific fraud risks have been identified.
11. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)?	Yes, controls in place include e.g. <ul style="list-style-type: none"> • Internal Audit assurance, in particular annual key systems audits • Service Directors Assurance Statement • Functionality of systems, including Agresso and online banking

12. If not where are the risk areas?	
13. How do you encourage staff to report their concerns about fraud?	<p>Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasize both their role in preventing fraud and their responsibilities for reporting suspected fraud, along with options available to report concerns. The Council's Counter Fraud Arrangements, including Counter Fraud and Corruption Strategy and Policy and the Fraud Response Plan are available to all employees via the intranet. Link to documents referred to in these are also on the Council website and Intranet, including the Council's Whistleblowing Policy, reference to the fraud reporting email address fraudreporting@gateshead.gov.uk, the online fraud referral form and telephone hotline.</p>
14. What concerns about fraud are staff expected to report?	<p>Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the relevant employee guidance regarding counter fraud and corruption. Specific policies include:</p> <ul style="list-style-type: none"> • Whistleblowing Policy • Code of Conduct • Counter Fraud and Corruption Policy • Statement on Prevention of Bribery
15. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	<p>No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers</p>
16. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	<p>All Members and Senior Officers complete related parties disclosures annually. Register of Interests Internal Audit declarations of Independence</p>

17. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	Given the size and complexity of transactions reflected in the Council's accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.
18. Are there particular balances in the accounts where fraud is more likely to occur?	Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker
19. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?	No. Items are only excluded on the grounds of materiality. Reliance on 3 rd party data e.g. Actuarial calculations for pensions
20. Could a false accounting entry escape detection? If so, how?	All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring
21. Are there any external fraud risk factors, such as collection of revenues?	Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank
22. Are you aware of any organisational or management pressure to meet financial or operating targets?	All Services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.
23. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	No
24. What arrangements has the Council put in place in response to the Bribery Act 2010?	Employee counter fraud and corruption guidance has been updated to reflect the Bribery Act 2010, this is made available to all employees via the intranet.

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Title of Report **Members' Assurance Statements 2017/18**

Report of: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. To inform the Committee of the opinion of Members of the Cabinet on the effectiveness of the Council's governance arrangements to feed into the Annual Governance Statement.

Background

- 2 The Audit and Standards Committee agreed on 5 March 2018 an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from Members of the Cabinet on the effectiveness of the Council's governance arrangements are fundamental within the framework.

Governance Framework

- 3 The Council adopted a Local Code of Governance in 2007, which set out how it complies with best practice in relation to its governance arrangements. This Code was redrafted and agreed by the Audit and Standards Committee on 29 January 2018 to ensure compliance with and to get best value from the revised approach to local governance issued by CIPFA/SOLACE, Delivering Good Governance in Local Government: Framework. The seven 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; and
 - Implementing good practices in transparency.
- 4 The Council's governance framework is consistent with these principles which ensure they are fully integrated in the conduct of the Council's business.

- 5 The Council's Constitution sets out the role of the Cabinet as follows:
- To lead change and make recommendations for change to the Council, in consultation with a range of stakeholders;
 - To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
 - To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role; and
 - To provide a public face on specific issues.
- 6 Assurance was sought from Councillors who served in the Cabinet during 2017/18, in the form of a self assessment statement, on the effectiveness of the Council's corporate governance arrangements, by reference to the principles set out above.
- 7 All Cabinet Members considered that governance arrangements are effective.

Overall Opinion

- 8 Based on the evidence identified in the assurance statements from Members of Cabinet governance arrangements are considered to be effective.

Recommendation

- 9 The Committee is asked to note the assurances of Members of Cabinet and the evidence on oversight and endorse the opinion that the Council's governance arrangements are effective.

Contact name: Craig Oakes Ext. 3711



Title of Report: Managers' Assurance Statements 2017/18

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. To inform the Committee of the assurance which Service Directors have placed on their control systems to feed into the Annual Governance Statement.

Background

- 2 The Accounts and Audit Regulations 2015 require Authorities to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness.
- 3 The Audit and Standards Committee agreed on 5 March 2018 an assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances from senior managers on the effectiveness of controls they have in place are fundamental within the framework.
- 4 Service Directors were asked to complete self-assessments which took the form of a questionnaire covering the processes in place to manage their key control and governance processes. This included a requirement to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance in 18 key areas, with a requirement to detail the evidence to support their assessment.
- 5 The process demonstrates 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?
- 6 Where managers agreed that they had in place effective controls they could still identify further system enhancements where considered appropriate.

- 7 If managers felt that they did not have sufficient evidence to agree with a statement they were required to identify actions for improvement which would strengthen systems in place to an effective level.

Overall Opinion

- 8 Based on evidence arising from the self-assessments for 2017/18, managers agreed that necessary controls were in place in key processes to allow them to achieve their service objectives and therefore the objectives of the Council.
- 9 All assessments issued have been returned detailing satisfactory evidence. A summary of returns is attached at Appendix A showing each process being assessed. The most common areas of improvement identified by managers were in relation to business planning and data quality and performance management.
- 10 An audit of managers' assurances for 2016/17 has been progressed during the year and an update was reported to the Audit and Standards Committee on 2 October 2017 as part of the Internal Audit quarterly monitoring report. The overall conclusion of this work was that the systems and processes for the completion of the Managers' Assurance Statements were operating well and that they provided a good level of assurance for the 2016/17 Annual Governance Statement.
- 11 Internal Audit has time in the 2018/19 audit plan to review the evidence and actions identified by managers on their assurance statements for 2017/18, including any actions managers have identified to enhance controls.

Recommendation

- 12 The Committee is asked to note the assurances provided by senior managers.

Contact name: Craig Oakes Ext. 3711
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Service Directors' Assurance 2017/18

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>1. Controls are in place to ensure employees are aware and comply with legal requirements, the Council's Constitution and corporate policies.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>2. A clear up to date business plan is in place which should:</p> <ul style="list-style-type: none"> • Include Service objectives and priorities with demonstrable links to the Council's overall objectives in the Council Plan. • Include demonstrable links to agreed revenue and capital resources, which clearly link to the agreed budget, Medium Term Financial Strategy and Change Programme. • Include information on business continuity arrangements such as workforce strategy and asset management. • Consider, assess and monitor all strategic and operational risks relating to the Service. • Be reviewed on an annual basis to measure progress against objectives and relevant performance targets. 	<p>16 managers agreed that effective controls are in place.</p> <p>Two managers agreed partial compliance and identified actions for further improvement including:</p> <ul style="list-style-type: none"> • Finalising the draft of the Business Plan. • Reviewing and updating the Business Plan and service performance indicators.
<p>3. There are effective data quality and performance management processes with accurate and adequate performance information generated. These are reported on a timely basis, with appropriate action taken to address performance issues.</p>	<p>16 managers agreed that effective controls are in place.</p> <p>Two managers agreed partial compliance and identified actions for improvement including:</p> <ul style="list-style-type: none"> • Improving spend analysis data; reviewing performance indicators and updating documentation following tender process review. • Setting up data processing arrangements and new Quality and Standards function carrying out audit of all processes throughout the Service.
<p>4. There are well defined reporting arrangements to Councillors and senior management, including a clear reporting structure with adequate, accurate and timely information being provided, to ensure that decisions are taken with reference to relevant information and data.</p>	<p>All 18 managers agreed that effective controls are in place.</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>5. Management and staffing structures are clearly defined and responsibilities including job descriptions are clearly established. There is a competent and adequately trained workforce to deliver the objectives and priorities of the Service, including up to date A&D reviews for all employees, effective management of succession planning and retention/recruitment of appropriate skills.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>6. All Partnership Arrangements are included in the Council's Corporate Partnership Register and have been established in compliance with the Council's Guide to Partnership Working strategy, and have:</p> <ul style="list-style-type: none"> • Clearly defined, written and agreed governance arrangements in place. • Clear objectives, priorities, and performance targets, which are regularly monitored for effectiveness, and ensure financial and non-financial performance is being achieved. • Evaluated and documented risks to the partnership and the Council within the Services Operational Risk Register. • A clear exit strategy in place. 	<p>16 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance.</p> <p>One manager stated this question was not applicable to their Service.</p>
<p>7. Standards of conduct within the Service are in accordance with corporate codes and policies.</p> <p>Controls are in place to deter, prevent, detect, and reduce the risk of fraud and corruption (including bribery), such as employee training/awareness sessions.</p> <p>Controls are in place to ensure employees are fully aware of the Council's Counter-Fraud Arrangements and Whistleblowing Policy and all suspected frauds and financial irregularities are referred to Internal Audit.</p> <p>All employees promote the values of the Council and uphold high standards of conduct and behaviour.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>8. There are effective financial planning and budgetary control procedures in place.</p> <p>Budgetary decisions are linked to planned outcomes and the Service objectives which support the Council Plan and Vision 2030.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>9. Financial Regulations are understood and complied with by all employees who ensure:</p>	<p>All 18 managers agreed that effective controls are in place.</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<ul style="list-style-type: none"> • All expenditure transactions are properly recorded and authorised. • All income is promptly collected and banked; ensuring fees and charges have been applied at the approved rate. • All assets are recorded and protected from loss. 	
<p>10. Where applicable, the Service can demonstrate that the effective application of the Council's Commissioning Framework has resulted in the delivery of improved outcomes, the achievement of value for money and that, where this has been delivered via a procurement process, compliance with the Council's Contract Procedure Rules can be evidenced.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>11. Trading opportunities have been considered in accordance with the Governance Framework for Decision Making on Traded Activities.</p>	<p>17 managers agreed that effective controls are in place.</p> <p>One manager disagreed and identified actions for further improvement including considering trading opportunities on implementation of new structure and new ways of working.</p>
<p>12. IT systems used by the Service are secure and operate satisfactorily for their purpose.</p> <p>Controls are in place to ensure employees are fully aware of information security and adhere to Council policy.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>13. There are effective business continuity arrangements in place which are reviewed and tested on a regular basis.</p> <p>There are effective plans in place to manage change and ensure business continuity during any transition period.</p>	<p>17 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for further improvement including testing of Business Continuity Plans.</p>
<p>14. Recommendations from relevant external Inspectorates and Internal Audit reports are monitored by management and are implemented by the agreed date.</p>	<p>All 18 managers agreed that effective controls are in place.</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>15.Key decisions are taken with due regard to all:</p> <ul style="list-style-type: none"> • Financial implications • Human Resource implications • Property Implications • Risk Management implications • Equality and Diversity implications • Crime and Disorder implications • Health implications • Sustainability implications • Human Rights implications • Area and Ward implications • Consultation, communication and engagement. 	<p>All 18 managers agreed that effective controls are in place.</p>
<p>16.The risks of not achieving the Service’s savings targets included in the Council’s budget have been identified and are being managed.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>17.There is effective management of risk within the Service including the effective identification, recording, control and ongoing monitoring of risks associated with the achievement of Service objectives, with appropriate oversight by Group Management Teams.</p> <p>This includes the different internal and external sources of assurance of these risks and any gaps in assurance provision.</p> <p>Strategic risks are also regularly reviewed to ensure they remain valid and support the achievement of Vision 2030 and the Council Plan.</p>	<p>All 18 managers agreed that effective controls are in place.</p>
<p>18.The Service has identified its sources and flows of information including rights of access.</p> <p>Threats and risks to information assets owned by the Service have been assessed and recorded with corresponding action plans for reducing risks where appropriate.</p> <p>All staff have received appropriate training in relation to data protection. Any data breaches are formally reported and where a data breach has occurred a review of the incident is carried out and, where appropriate, additional training is provided and systems and procedures assessed to identify any improvements to the controls to prevent future data breaches.</p>	<p>17 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance.</p>

Title of Report: Review of the Effectiveness of Internal Audit 2017/18

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. To ask the Committee to review the effectiveness of internal audit within the Council for 2017/18.

Background

- 2 The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best practice highlights that “internal audit”, in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2017/18.
- 3 The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.
- 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.
- 5 The review of the effectiveness of the system of Internal Audit for 2017/18 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Corporate Resources and Corporate Services and Governance. This review is based upon the following:
 - Self-assessment against Public Sector Internal Audit Standards (PSIAS).
 - Self-assessment against the CIPFA Statement on the Role of the Head of Internal Audit.
 - Reliance placed upon Internal Audit by the Council’s external auditor.
 - Assessment of the effectiveness of the Audit and Standards Committee.
 - Relevant performance information.

Self-assessment against PSIAS

- 6 The PSIAS require an external assessment of internal audit functions to be completed every five years. In compliance with PSIAS the Internal Audit Service

was assessed against current Internal Audit practices and compliance with professional standards by external auditors, Mazars during 2014/15.

- 7 The standards have 4 areas as detailed below:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards; and
 - Performance Standards.
- 8 As previously reported to Audit and Standards Committee on 26 January 2015, the outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with the standards in all significant aspects and that there are no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the system of internal control.

Self-Assessment against the CIPFA Statement on the Role of the Head of Internal Audit

- 9 This assessment requires an evaluation of how the five principles of this statement are embedded within the Council and the Chief Internal Auditor's skills and personal experience. The statement has common themes with the PSIAS. The self-assessment found arrangements to be compliant with the statement and a copy is attached at Appendix A.

Reliance Placed Upon Internal Audit by the Council's External Auditor

- 10 A joint working protocol is in place between Internal Audit and the Council's external auditor, Mazars. Wherever possible the external auditor will seek to rely upon the work of Internal Audit in discharging their own responsibilities. During 2017/18 Mazars did not place specific reliance on any of Internal Audit's work but through regular monthly meetings work has been co-ordinated wherever possible and intelligence shared.

Assessment of the Effectiveness of the Audit and Standards Committee

- 11 CIPFA's guidance "Audit Committees – Practical Guidance for Local Authorities (2013)" includes a checklist for measuring the effectiveness of the Council's Audit and Standards Committee. This assesses in more detail some of the areas examined in the assessment against PSIAS.
- 12 A review, based on this guidance, was carried out by the Council's Internal Control Group on 15 May 2018. This covered the following areas:
- Purpose and Governance
 - Functions of the Committee
 - Membership and Support
 - Effectiveness of the Committee
- 13 Evidence includes the Constitution and the Audit and Standards Committee's overseeing of risk management, counter-fraud arrangements and the Annual Governance Statement. This review found the Audit and Standards Committee

to be operating effectively with some minor areas for action. A copy of the assessment is attached at Appendix B.

Performance Information

- 14 Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole. During 2017/18 the following key performance indicators are relevant:
- 94% of audits were completed within budgeted time against a target of 90%.
 - Productive or chargeable time was recorded at 70% of overall time against an annual target of 73% of overall time. This is mainly due to additional training provided to the new auditors.
 - The average score of the customer satisfaction questionnaires returned is 3.92 (98%) against a target of 3.4 (85%).
 - The target for implementation of audit recommendations is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendation is 100%, with 100% of all medium priority and 100% of all high priority recommendations having been implemented.
- 15 As previously reported to the Audit and Standards Committee on 2 October 2017, benchmarking continues to highlight the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The net cost per chargeable day for Gateshead Council was £256 compared to an average of £317, with 162 chargeable days compared to an average of 173 days demonstrating that the Council is receiving value for money from its Internal Audit Service.

Opinion of the Effectiveness of Internal Audit

- 16 Based on the review detailed above the Council's Internal Control Group concluded that the Council's System of Internal Audit is operating effectively.

Recommendations

- 17 The Committee is asked to consider and endorse the opinion that the Council's system of internal audit is operating effectively.

Contact name: Craig Oakes Ext. 3711

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**Appendix A
2017-18 Self-Assessment Against the CIPFA Role of the Head
of Internal Audit (HIA) Statement**

The Statement sets out what CIPFA considers to be best practice for HIAs

	Principle Definition	The Organisation: Governance Requirements	The Role: Core HIA Responsibilities	The Individual: Personal Skills/ Professional Standards
1	The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments	<p>CIA's role in the organisation's governance is set out in the Audit Charter which comply with PSIAS. The ToR establishes:</p> <p>The responsibility & objectives of IA;</p> <ul style="list-style-type: none"> • Organisational independence; • Accountability & reporting lines; • The contribution made by the CIA to the internal control environment (including an assessment of its effectiveness) which in turn contributes to the Annual Governance Statement; • The access to all records, assets, personnel premises; • The requirement of the HIA to provide an annual audit opinion on the internal control environment. 	<p>CIA helps promote good governance through an annual risk based audit programme, quarterly progress reports to the Audit and Standards Committee and an annual audit opinion report. CIA leads an Internal Audit section which contributes to major projects, both on an ongoing or an ad-hoc basis, through a programme of proactive systems development and project work through agreed consultancy arrangements.</p> <p>Role of the Internal Audit Service are defined in the scope of the Audit Charter which is reviewed annually</p>	<p>The Internal Audit Strategy is reviewed by the CIA annually and revised as necessary to reflect any prevailing risks to client organisations.</p> <p>CIA undertakes consultation exercises with Senior Management Teams to feed into annual plan.</p> <p>CIA regularly identifies and disseminates 'best practice' through audit provision across several clients both in and outside of the public sector.</p>
2	The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.	<p>Established through the Audit Charter the CIA has clear lines of responsibility to the Strategic Director, Corporate Resources and the Audit and Standards Committee.</p> <p>CIA produces an annual Audit Strategy and Plan which is approved by the Audit and Standards Committee.</p> <p>Protocols that define IA working relationships are also set out in Financial Regulations.</p>	<p>CIA produces an Annual Audit Opinion Report which gives assurance to the Council on the effectiveness of the system of internal control.</p> <p>CIA liaises regularly with those discharged with the organisation's external audit responsibilities. CIA ensures that audit work is not driven by priorities of EA. As a minimum 'managed audit' requirement CIA ensures that audits of the key financial systems are performed on an annual basis.</p>	<p>CIA reports both in detail or in summary on all principal audit findings and control / system weaknesses to the Audit and Standards Committee (or equivalent) without interference or influence from the Council or auditees.</p> <p>All audit findings are evaluated and assessed against the risk to the organisation.</p>

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			<p>CIA produces an Internal Audit Strategy which is reviewed annually to reflect the organisation's key risks. The strategy and plan are flexible, supportive, challenging, prioritised and timely which ensures the plan maintains focus on emerging risks.</p> <p>Risk based Audit Plan developed in consultation with all Service Directors</p> <p>The annual audit planning process is aligned (as closely as possible) to the corporate / departmental / divisional risks. To place reliance on the risk registers the CIA must regularly evaluate and assess the organisation's risk maturity and risk appetite.</p> <p>CIA liaises regularly and where necessary with other external bodies including those with inspection/assurance responsibilities such as CQC, External Auditor, Home Office & HMIC.</p>	<p>CIA ensures that recommendations presented are realistic, pragmatic and risk based with a focus on added value.</p> <p>CIA ensures that all high and medium recommendations are followed up on a regular and timely basis and that the progress in actioning these is reported regularly to the Audit and Standards Committee.</p>
3	The HIA in a public service organisation must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and	<p>Internal Audit Charter outlines terms of reference and management structure.</p> <p>CIA line managed by Deputy Strategic Director, Corporate Resources but with direct line of reporting to Strategic Director, Corporate Resources and Chief Executive.</p>	<p>CIA liaises and consults with key Council stakeholders in, both, revising the annual audit strategy and in the drafting of the annual audit plan for each organisation.</p> <p>CIA provided with an unfettered opportunity to escalate any significant concerns through reports or direct submissions to the</p>	<p>CIA has developed and maintained effective professional working relationships with a range of internal & external stakeholders.</p> <p>CIA attends and reports to each meeting of the Council's Audit and Standards Committee.</p>

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	Principle Definition	The Organisation: Governance Requirements	The Role: Core HIA Responsibilities	The Individual: Personal Skills/ Professional Standards
	with the Audit Committee.	<p>CIA has clear lines of responsibility and reporting to the Audit and Standards Committee.</p> <p>The CIA has access to the senior management/leadership teams within the Council as required.</p> <p>As established within the Audit Charter the CIA leads an audit function which has unrestricted access to all people, systems and records within the organisation including, where applicable, access rights under significant partnership arrangements.</p>	Audit and Standards Committee, through senior management teams.	<p>CIA ensures that all audit plans are flexible in nature and reflect the developing needs and emerging risks facing the Council.</p> <p>CIA networks both internally and externally.</p>
4	The HIA in a public service organisation must lead and direct an internal audit service that is resourced to be fit for purpose.	<p>All internal auditors are fully or partially qualified (CCAB & AAT) or are currently undergoing professional training.</p> <p>Monthly local performance targets produced which are reported into Audit and Standards Committee.</p> <p>Client Questionnaire are circulated electronically which are incorporated into the CIA's quality control function.</p> <p>Plan is developed on risk based approach prior to looking at resource implications.</p>	<p>CIA ensures that the IA service is resourced to be fit for purpose through:</p> <ul style="list-style-type: none"> • Training support to undertake professional qualifications; • On the job/in-house training (e.g. Risk Management); • Regular A&D's and client surveys which are used to identify training and development needs; • Reviewed job profiles to ensure all staff responsibilities are clearly defined and recognised. • Internal Audit Development Plan. <p>CIA regularly attends conferences, courses and other networking opportunities (e.g., NEFF, NEGF, TWHIAG), keeping up</p>	<p>Internal Audit strategies comply with PSIAS.</p> <p>Annual planning involves extensive consultation with all stakeholders, including Committee members and senior managers.</p> <p>Client questionnaires are circulated electronically for feedback in relation to audits performed. These aim to enhance customer focus.</p> <p>Innovative arrangements to manage skills gaps i.e. Newcastle IT audit arrangement.</p> <p>Works in partnership where appropriate with other audit providers e.g. Newcastle Council IT auditor</p>

**Appendix A
2017-18 Self-Assessment Against the CIPFA Role of the Head
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	Principle Definition	The Organisation: Governance Requirements	The Role: Core HIA Responsibilities	The Individual: Personal Skills/ Professional Standards
		The service has undergone external assessment against PSIAS and was assessed as substantially compliant	to date with recent audit developments and current best practice in the public sector. Internal Audit always represented in recruitment process for Corporate Finance	
5	The HIA in a public service organisation must be professionally qualified and suitably experienced.	CIA has 26 years local authority experience and has been CIPFA qualified for 23 years. The core responsibilities of the CIA role are clearly defined in the job profile, the Internal Audit Charter and the respective Financial Regulations. CIA has the appropriate experienced and qualified resources (see above) within the audit section to fulfil the audit provision across the current client base.		CIA is CIPFA qualified and takes personal responsibility for continuous professional development (CPD) in accordance with institute requirements. CIA manages an Internal Audit Section which operates according to PSIAS and has been externally assessed as substantially compliant. CIA has 21 years' experience in the Council, 10 of which in Internal Audit. CIA is an affiliate member of the Chartered Institute of Internal Auditors

Audit committee purpose and governance	YES	PARTLY	NO	Comments
1 Does the authority have a dedicated audit committee?	YES			Merged with Standards Committee reported to Cabinet 13 May 2014
2 Does the audit committee report directly to full council?	YES			Report to Cabinet 13 September 2016 and Council 19 Sept 2017
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	YES			Set out in Constitution
4 Is the role and purpose of the audit committee understood and accepted across the authority?	YES			Some minor areas in relation to independence from executive and attendance at committee by Chief Executive
5 Does the audit committee provide support to the authority in meeting the requirements of good governance?	YES			
6 Are the arrangements to hold the committee to account for its performance operating satisfactorily?	YES			Annual report to Cabinet 19 Sept 2017 and Council 21 Sept 2017 outlining activity during previous year
Functions of the committee	YES	PARTLY	NO	
7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
☞☞ - good governance	YES			
☞☞ - assurance framework	YES			
☞☞ - internal audit	YES			
☞☞ - external audit	YES			
☞☞ - financial reporting	YES			Statement of Accounts now reviewed by Audit & Standards Committee prior to Accounts Committee
☞☞ - risk management	YES			
☞☞ - value for money or best value	YES			
☞☞ - counter-fraud and corruption.	YES			
8 Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	YES			Evidenced by this self-assessment and annual report to Cabinet. Annual evaluation to assess this will also be an annual item on the Committee Agenda.
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	YES			Now merged with Standards Committee. Treasury Management Strategy and six-month progress reported. Wider areas to be considered at a future agenda.
10 Where coverage of core areas has been found to be limited, are plans in place to address this?	YES			Subject to minor areas in question 4
11 Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	YES			
Membership and support	YES	PARTLY	NO	
12 Has an effective audit committee structure and composition of the committee been selected? This should include:				
☞☞ - separation from the executive	YES			Chair and Vice Chair non-Cabinet members. Two Cabinet members serve on the Audit & Standards Committee but the Council welcomes this as a balance between separation and the inclusion and awareness of the Committee's activities by the Executive
☞☞ - an appropriate mix of knowledge and skills among the membership	YES			Committee membership to consider skills audit to identify training gaps.
☞☞ - a size of committee that is not unwieldy	YES			
☞☞ - where independent members are used, that they have been appointed using an appropriate process.	YES			See Cabinet report 13 May 2014, Review of the Council's Decision Making Structures.
13 Does the chair of the committee have appropriate knowledge and skills?	YES			
14 Are arrangements in place to support the committee with briefings and training?		Partly		Committee members asked to consider training requirements. Committee training matrix drafted by officers, to be reported to future Audit and Standards Committee for member approval. A membership skills audit needs to be completed against this, training requirements identified and a plan to address agreed.
15 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			No	Assessment needs to be considered as above, and also to take account new membership.
16 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	YES			Strategic Director of Finance to be requested to attend a future meeting of the Committee
17 Is adequate secretariat and administrative support to the committee provided?	YES			
Effectiveness of the committee	YES	PARTLY	NO	
18 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	YES			Not proactively sought but mechanism exists through annual report to Cabinet
19 Has the committee evaluated whether and how it is adding value to the organisation?	YES			As above
20 Does the committee have an action plan to improve any areas of weakness?		Partly		Skills analysis to be undertaken and overlaid with training matrix, following which a Development Action Plan will be drawn up which will be subject to continuous formal committee review

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Title of Report: Corporate Risk Management – Annual Report 2017/18

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. The assurance derived from risk management forms part of the evidence to inform the Annual Governance Statement. This report presents to the Committee the arrangements that exist within the Council for managing risk, the impact that these have had and also the plans for further development of risk management arrangements.
2. The Committee is asked to consider the Corporate Risk Management Annual Report for 2017/18 and agree the adequacy of the Council's risk management arrangements contained therein.

Background

3. Robust risk management arrangements are a key element of a sound system of internal control and therefore essential to the Council being able to demonstrate that it has good systems of corporate governance. It also provides evidence to inform the Annual Governance Statement, which is reviewed annually and accompanies the Statement of Accounts.
4. Quarterly reports to the Audit and Standards Committee have updated on progress throughout 2017/18.

Proposal

5. The report recommends that the Committee consider the Corporate Risk Management Report for 2017/18 attached at Appendix 1 as the basis for assessing the effectiveness of risk management arrangements. The report outlines the prevailing arrangements that exist within the Council for managing risk, the impact that these have had on the Council's operations and also the plans for further development of risk management arrangements.

Recommendations

6. It is recommended that the Committee note the Corporate Risk Management Annual Report 2017/18 as shown in Appendix 1 and agree that the Council has effective risk management arrangements in place.
-

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Corporate Risk Management

Annual Report 2017/18

Background

1. Risk management is “the identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objectives of an organisation.”
2. Risk management enables the Council to effectively manage strategic decision making, service planning and delivery both to safeguard the well being of its stakeholders and increase the likelihood of achieving objectives. The aim is to manage risks that cannot be economically eliminated or transferred.
3. Effective risk management, which is integrated into policies and procedures, is an essential element of a sound internal control system and therefore necessary if the Council is to demonstrate that it has good systems of Corporate Governance. It also provides evidence to inform the Annual Governance Statement, which is reviewed annually and accompanies the Statement of Accounts.

Current Position

4. The structures and processes, which are employed within the Council to manage risk, are described below.
5. The Chief Executive and the Corporate Management Team are essential to the embedding of risk management within the Council by promoting a culture of risk management being practised throughout the organisation as an integral part of normal activities and fostering the sharing of best practice between Groups and Services.
6. Under the Council’s Constitution, (Financial Regulation 16.1), the Strategic Director, Corporate Resources, in consultation with the Chief Executive is responsible for advising the Council on risk management and is therefore responsible for the development, monitoring and review of the Council’s Risk Management Policy.
7. Strategic and Service Directors who have ownership for the management of operational risks which impact on their Service(s), are required to incorporate risk management principles into the service planning process and ensure that the risk management process is embedded in all operations, major projects, partnership working, arrangements with key suppliers and change management initiatives.
8. All managers are required to understand risk and its potential impact on the achievement of the Council’s targets and objectives and be able to anticipate, assess and manage risks that relate to their areas of responsibility.

9. The Deputy Strategic Director, Corporate Finance provides both strategic support to the Strategic Director, Corporate Resources on risk management issues and operational guidance to the Risk Management Team, which fulfils the role of the Corporate Risk Management function in the delivery of Corporate Risk Management objectives.
10. The role of the Corporate Risk Management function is to:
 - Formulate strategies to manage the corporate risk process;
 - Develop, implement, monitor and review an action plan to minimise corporate strategic risks;
 - Support and develop Service Risk Management Co-ordinators through the Corporate Risk and Resilience Group;
 - Co-ordinate risk management and business continuity planning activity through the Corporate Risk and Resilience Group;
 - Review Service risk management action plans for relevance and consistency;
 - Monitor implementation of Service risk management plans;
 - Report to the Audit and Standards Committee, and
 - Co-ordinate risk management activity, ensuring that it is joined up with business continuity management, emergency and resilience planning.
11. The Corporate Risk Management Team, which is an integral part of the Council's Corporate Resources Group, co-ordinates risk management activity and delivers technical support, advice, guidance and training to all Groups and Services either directly or via Service Risk Management Co-ordinators.
12. Each Group has a Risk Co-ordinator. The role of the Group Risk Co-ordinator is to act as a risk management champion within the Group, providing guidance and support to service managers in the administration of risk management activities in addition to acting as the channel of communication between the Corporate Risk Management function and the Group Management Team.
13. The principal forum for risk management development is the Corporate Risk and Resilience Group, which consists of the Corporate Risk Management Team, Group Risk Co-ordinators and a representative of the Council's Emergency and Resilience Planning, ICT and Health & Safety functions.
14. The role of the Corporate Risk and Resilience Group with regards to risk management is to:

:

 - Engage with Strategic Groups in relation to risk management and resilience to ensure it is consistently updated and embedded throughout the Council and within governance arrangements.
 - Identify opportunities for improvements and best practice in relation to risk management and resilience.
 - Co-ordinate and oversee the implementation and embedding of identified changes and improvements.
15. The Council's Internal Audit Service assists in the risk management process by reviewing risk management systems and verifying compliance by Services direct to the Strategic Director, Corporate Resources and the Audit and

Standards Committee. In addition, risks are identified in the execution of the annual audit plan, which are fed in to the relevant risk action plans.

16. The above structure is set out in diagrammatical form at Appendix 2.

Major Developments in 2017/18

17. The work of the Council's Corporate Risk and Resilience Group has supported the annual review of the Operational Risk Register, which may be used to inform the development of Business Plans. The Group has also been actively involved in the work being carried out to assess the Council's resilience and business continuity arrangements in relation to Critical IT Systems and the refresh of the Council's pandemic influenza continuity plan.
18. The fulfilment of the Council's responsibilities under the Civil Contingencies Act 2004, requires that the organisation has a sound business continuity planning framework at the heart of which is the Business Continuity Planning Policy approved by Council in October 2008. The existing Policy was reviewed and approved by Cabinet in June 2013, and updated in 2017/18 to reflect organisational changes.
19. The Council's Strategic Risk Register is used as a platform to identify and manage the risks to achieving key objectives was introduced as the basis for regular reporting to the Audit and Standards Committee on strategic risks. The Strategic Risk Register was reviewed during 2012/13 and reported to Cabinet in May 2013. A comprehensive review of Strategic Risk Register has been carried out during 2017/18 and the final iteration is due to be presented to Corporate Management Team shortly.
20. Work has been undertaken to ensure the Council has controls in place to mitigate the risks arising from the Criminal Finance Act 2017, with regards to the criminal facilitation of tax evasion, which took effect from 30 September 2017.
21. The Audit and Standards Committee have received quarterly risk management reports and risk management training is available for councillors.
22. Corporate Risk Management officers will continue to participate in benchmarking on a national basis through the ALARM/CIPFA Risk Management Benchmarking Club.

How well has the Council managed Risk?

23. The overall risk management structure which is reviewed annually, as outlined in paragraphs 4 to 16 and shown at Appendix 2, provides a joined-up approach to the identification, assessment, mitigation and management of the numerous risks which could threaten the achievement of the Council's policy objectives.
24. Progress has been made against the risk management developmental objectives for 2017/18 identified in the Corporate Risk Management Annual Report 2016/17 as shown at Appendix 3.

25. The Council has in place a formalised ISO 22301 compliant business continuity framework to mitigate key risks for all services and a Corporate Continuity Plan, which can facilitate the prioritisation of action in response to a large scale event without inhibiting any response to Emergency Response Arrangements should the event be related to a civil emergency. This supports the Council's resilience planning to meet the requirements of the Civil Contingences Act 2004.
26. The Council suffered no major service interruptions in 2017/18 which further demonstrates how corporate risk management arrangements support service delivery.
27. The Council participates in the ALARM/CIPFA Risk Management Benchmarking Club and uses the outcome of the performance assessment to further develop risk management performance and enable comparison with other public sector organisations.
28. Membership of the Club provides access to a performance measurement tool designed to test the organisation's performance against the major risk management standards, expectations of inspection bodies and criteria that inform the risk management element of the Annual Governance Statement. The model breaks down risk management activity into seven strands, (leadership & management, policy & strategy, people, partnership & resources, processes, risk handling & assurance and outcomes & delivery) and aims to provide an in-depth picture of the maturity of risk management within the organisation.
29. Scores of levels 1 to 5 are awarded for each strand to identify the level of maturity that the organisation has reached with level 5 being the highest possible score. The categories are as follows:-
- 1 Engaging
 - 2 Happening
 - 3 Working
 - 4 Embedded and Integrated
 - 5 Driving
30. The latest benchmarking results for Gateshead over the seven strands were as follows:-
- | | | |
|-------------------------------|---|-------------------------|
| • Leadership and Management | 4 | Embedded and Integrated |
| • Policy and Strategy | 4 | Embedded and Integrated |
| • Partnership and Resources | 5 | Driving |
| • People | 4 | Embedded and Integrated |
| • Processes | 3 | Working |
| • Risk Handling and Assurance | 4 | Embedded and Integrated |
| • Outcomes and Delivery | 3 | Working |
31. Overall the Council achieved good scores for each of the seven strands, with the scores the same as the previous year.

Development Objectives 2018/19

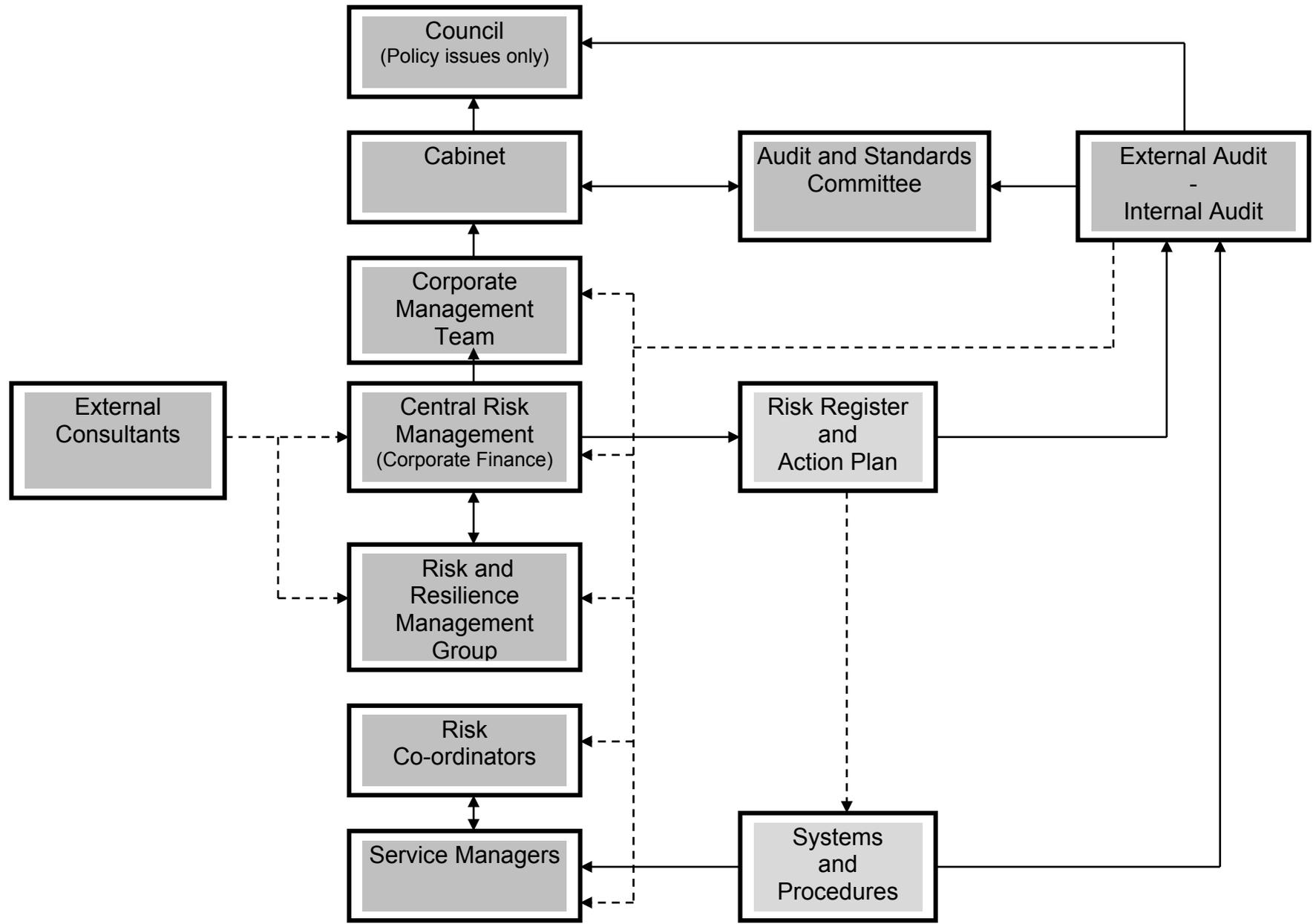
32. The proposed development objectives for 2018/19 are attached at Appendix 4 for consideration.

Conclusion

33. This report outlines the arrangements for managing risk within the Council, their effectiveness and the steps, which are being taken to ensure continuous improvement of the function and minimisation of loss.
34. On the basis of these arrangements and evidence of their operation it can be concluded that arrangements for managing risk within the Council are effective.

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Gateshead Council Corporate Risk Management Structure



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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	The annual review of Business Continuity Plans has been completed.
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	<p>The draft register has been circulated to Senior Managers for comment and will be progressed for approval through Autumn.</p> <p>Additional updates requested by Corporate Management Team and the inclusion of the draft Council pledges have delayed the approval process until after the consultation on the Council pledges has finished.</p> <p>Revised register to be presented to CMT shortly</p>
3	The Operational Risk Register will be refreshed. This will include a review of the template and supporting documentation.	April 2018	The annual review of operational risk registers has been completed.
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 Policies to reflect organisational changes has been completed and the updated versions have been published on the

Ref:	Objective	Target Implementation Date	Progress to date
			intranet.
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	As required	As requested
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 completed, no specific areas identified for improvement.

Corporate Risk Management: Developmental Objectives 2018/19

Ref:	Objective	Target Implementation Date
1	Business Continuity Plans will be updated, enhanced and, where appropriate, formal testing against incident scenarios and best practice requirements will be carried out.	April 2019
2	The review of the Strategic Risk Register will be completed and the revised register agreed.	October 2018
3	The Operational Risk Register will be refreshed to ensure consistency with the revised Strategic Risk Register.	April 2019
4	The Council's Risk Management and Business Continuity Policies will be reviewed and updated to ensure they comply with best practice and are responsive to the challenges facing the Council	December 2018
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	January 2019
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.	December 2018
7	Review and update the Tackling Tax Evasion and the Money Laundering Risk Assessments for any new or emerging risks	April 2019

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

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18 June 2018



Title of Report: Annual Governance Statement 2017/18

Report Of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 The Committee are asked to review the evidence of assurances provided on the Council's internal controls, risk management and governance arrangements, and approve the Annual Governance Statement 2017/18, attached at Appendix A.

Background

- 2 The Accounts and Audit Regulations 2015 require Councils to produce an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness. This accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and the Chief Executive.
- 3 The Audit and Standards Committee agreed on 5 March 2018 the assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances were required in the following areas:
 - Governance arrangements
 - Councillors
 - Strategic and Service Directors
 - The system of internal control
 - 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

Governance Arrangements

- 4 The Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committees in April 2007. This was last updated and agreed by the Audit and Standards Committee on 29

January 2018. The code defines how the Council complies with the principles 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.

- 5 The effectiveness of the Council's governance arrangements will be considered through the assessment of assurances below.

Councillors

- 6 As in the previous year assurance has been sought from Members of the Cabinet on the effectiveness they feel can be placed on the Council's corporate governance arrangements. A report elsewhere on this agenda sets out the evidence to show that effective governance arrangements are in place.

Strategic and Service Directors

- 7 Service Directors have completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes and governance arrangements. The conclusion of this exercise is reported elsewhere on this agenda and found that managers agreed that effective control systems were in place.

The System of Internal Control

- 8 The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition the Council has a framework of assurance available to satisfy that its risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service, for example, the Health and Safety team. These other assurance sources have been assessed as part of the Audit Plan.
- 9 The system of internal control, which includes the Audit and Standards Committee, has been reviewed and found to be operating effectively by the Council's Internal Control Group which met on 15 May 2018.
- 10 Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2017/18, which is reported elsewhere on this agenda in the Internal Audit Annual Report 2017/18, is that internal control systems and governance arrangements are considered to be effective.

Risk Management Arrangements

- 11 The Strategic Director, Corporate Resources reports elsewhere on this agenda that risk management arrangements during the year were effective.

Performance Management and Data Quality

- 12 The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
- 13 In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
- 14 The evidence arising from the performance management framework process for 2017/18 was presented to the Council's Internal Control Group on 15 May 2018. Based on this evidence the Group found that effective controls are in place.

Views of the External Auditor and other External Inspectors

- 15 Mazars, the Council's external auditor, issued an Annual Audit Letter in October 2017 covering the financial year 2016/17. This comprised of two elements:
 - the audit of the Council's Statement of Accounts – an unqualified opinion was issued and presented to the Council's Accounts Committee on 28 July 2017.
 - Value for Money Conclusion - the conclusion was that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 16 Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

The Legal and Regulatory Framework

- 17 Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body. This evidence supporting an effective Legal and Regulatory Framework was presented to the Council's Internal Control Group on 15 May 2018.

Financial Controls

- 18 Assurance has been obtained from the Strategic Director, Corporate Resources, who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit. This evidence supporting effective financial controls was presented to the Council's Internal Control Group on 15 May 2018.

Partnership Arrangements & Governance

- 19 Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.
- 20 Based on evidence arising from partnerships for 2017/18 effective controls are in place. This evidence was presented to the Council's Internal Control Group on 15 May 2018.

The Annual Governance Statement

- 21 As reported to the Audit and Standards Committee on 5 March 2018, a corporate group uses the findings of the above sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements. Using evidence from this assessment the Group prepares the Annual Governance Statement for approval by this Committee, which will then accompany the Statement of Accounts.
- 22 This Group, the Internal Control Group, which is chaired by the Strategic Director, Corporate Resources and includes the Strategic Director, Corporate Services and Governance along with representatives of the Chief Executive, Internal Audit and Corporate Risk Management has reviewed the evidence from the sources of assurance above and prepared the Annual Governance Statement for 2017/18 which is attached at Appendix A.
- 23 Based on the review of the Council's governance arrangements during 2017/18, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.
- 24 The Annual Governance Statement therefore reflects this opinion and gives details of the evidence obtained to achieve it, actions taken to

improve governance following the previous AGS, and an action plan for the next year.

Recommendation

- 25 The Committee is asked to approve the Annual Governance Statement to accompany the Statement of Accounts 2017/18 prior to it being passed to the Leader of the Council and Chief Executive for signature.

Contact name: Craig Oakes Ext. 3711

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Gateshead Council

Annual Governance Statement 2017/18

Scope of Responsibility

- 1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions and which includes arrangements for the management of risk.
- 3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government:Framework*. A copy of the Code is on the Council's website at:

<http://www.gateshead.gov.uk/Council%20and%20Democracy/About-the-Council/policies/governance.aspx>
- 4 This statement explains how the Council has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

The Purpose of the Governance Framework

- 5 The Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services. Good governance combines robust systems and processes, such as risk management, financial management, performance management and internal controls, with effective leadership based on openness and strong ethical standards to create a culture that underpins the delivery of the Council's new strategic approach, Making Gateshead a Place Where Everyone Thrives.
- 6 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

- 7 The Governance Framework has been in place at the Council for the year ended 31 March 2018 and approval of the Statement of Accounts 2017/18.

The Governance Framework

- 8 The Council continually reviews and improves its Governance Framework and during 2017/18, it has been updated to take account of the following:
- Review of Local Code of Governance
 - Review of Corporate Counter Fraud and Corruption Arrangements
 - Policy on Criminal Offence of Tax Evasion
 - Implementation of GDPR
 - New Strategic Approach agreed, Making Gateshead a Place Where Everyone Thrives
 - Employee Disability Survey 2017
- 9 The Council continues to face a number of challenges managing significant budgetary pressures, whilst meeting increasing demand as a consequence of demographic changes and a rapidly changing policy context. It is anticipated that the scale and depth of these changes will continue until at least 2020, so the Council needs to ensure it can adapt with pace and purpose to continue to provide the best possible services to its residents.

Organisational Structures

- 10 The Council's functions are delivered through the following service groups:
- Office of the Chief Executive
 - Care, Wellbeing and Learning
 - Communities and Environment
 - Corporate Services and Governance
 - Corporate Resources
- 11 The Gateshead Housing Company, the Council's arms length management organisation, are responsible for managing Council housing stock on behalf of the Council. They play a significant role in delivering the Council's priority outcomes. The main features of their governance and internal control arrangements are assessed each year through written assurance statements and their accounts have been consolidated into the Council's group accounts on a line by line basis.
- 12 A clear statement of the purpose and vision for Gateshead is set out in the Sustainable Community Strategy, Vision 2030, owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives are set out in the Council Plan 2015-2020, (to be replaced in 2018/19 with a new strategic approach, Making Gateshead a Place Where Everyone Thrives) which provides a framework to demonstrate how the Council will work and make decisions in the future which will be policy and priority led. These are translated into more specific aims and objectives in the business plans which each Council service prepares annually. The achievement of

these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

- 13 The Council has a corporate performance management framework through which quality of service is measured via strategic outcome indicators. The Council's Corporate Management Team are leading on performance management with the development of a new balanced scorecard for the Council, which will be scrutinised every two months. Performance is also monitored by Group and Service management teams and scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who invite portfolio holders into OSC for performance discussions as per Council Protocol 28. The Council has a performance management IT system which brings together performance indicators, action and financial information to provide real time reporting.
- 14 The Localism Act, 2011 introduced a duty on Councils to promote and maintain high standards of behaviour by members of the Council. While the Act removed the requirement to have a Standards Committee, the Council has set up a politically balanced Committee to deal with any such issues and this was combined with the Audit Committee during 2014/15 as part of the changes to the decision making structures. Employees are also subject to a Code of Conduct and number of specific policies as set out in the Employee Handbook.
- 15 Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution. This sets out, among other things, where responsibility lies for developing and delivering policy, and for taking decisions. The Constitution provides for extensive delegation to officers but within a policy framework laid down by the Council, and with the more significant executive decisions being taken by the Leader and Cabinet. The Constitution, which was updated to reflect the Council's new operational structure, is subject to an annual review which ensures it is up to date in terms of changes to Council policy, revised delegations and legislative changes.
- 16 Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. The Audit and Standards Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.
- 17 The Strategic Director, Corporate Resources is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety and budget issues; giving financial information; and acting as the Council's money laundering reporting officer. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

- 18 The Audit and Standards Committee reviews and approves the Council's Local Code of Governance; the original code was reviewed by the Audit and Standards Committees and approved by the full Council following referral from the Cabinet. The terms of reference for the Audit and Standards Committee state it will "*consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements*". The Committee reviews internal control and governance issues relating to the Council and submits an annual report to the Cabinet and Council, based on its activity over the year including the approval of the Annual Governance Statement.
- 19 Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every report submitted to a decision-making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making. This includes acting as the Council's Senior Information Risk Owner with overall responsibility for the Council's Information Governance procedures.
- 20 The Council maintains an independent Internal Audit Service. 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. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit and Standards Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year. During 2014/15, the Internal Audit Services was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant and identified no areas of concern that the Internal Audit Service is unable to form a judgement as to the proper and effective working of the Council's system of internal control. There were some minor areas for improvement which were not considered material to impact on the overall scope of operation of the Service and were actioned in 2015/16. The results of the assessment were reported to the Audit and Standards Committee on 26 January 2015.
- 21 The Council is committed to the training and development of all its councillors. All councillors are encouraged to take the opportunity to draw up a Personal Development Plan (PDP) which is monitored on an annual basis. The PDP helps to identify areas where individuals would like extra training or development. Councillors are also encouraged to attend training courses on specific issues including Ethics and Probity and Risk Management. In addition, a development pool has been established into which councillors can nominate themselves, to further develop their chairing skills. The Council has for many years, provided an induction programme for new councillors, giving the opportunity to meet with the Chief Executive and senior officers of the Council. The aim of the programme is to give an insight into how the Council works and the different services it provides to residents.

22 A Corporate Partnership Register is maintained which is updated by Strategic/Service Directors in a timely manner and then reviewed on an annual basis. A guidance document is available to Strategic/Service Directors to support the maintenance of the register. Examples of partnerships on the register include the Gateshead Strategic Partnership, the Local Safeguarding Children Board and the South Tyne & Wear Waste Management Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.

Review of Effectiveness

23 The Accounts and Audit Regulations 2015 and the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework have established requirements that all local authorities must adhere to in relation to governance arrangements. The Council must ensure that it has a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the Council is effective; and
- Includes effective arrangements for the management of risk.

24 The Council must, each financial year, conduct a review of the effectiveness of the system of internal control and to include the results in an Annual Governance Statement which accompanies the Statement of Accounts.

25 The review of the effectiveness of governance arrangements is informed by:

- The opinion of the Members of the Cabinet;
- The work of senior managers within the Council who have responsibility for the development and maintenance of the governance environment;
- An assessment of the Systems of Internal Audit, incorporating a review of the Internal Audit Service and the Audit and Standards Committee, and the Chief Internal Auditor's annual report;
- Corporate Risk Management arrangements;
- The robustness of Performance Management and Data Quality information;
- Views of the external auditor and other external inspectorates;
- Assurance from the Strategic Director, Corporate Services and Governance on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Corporate Resources on the operation of the Council's financial controls;
- Partnership governance arrangements; and
- Counter fraud and corruption arrangements.

26 The Council's Constitution sets out the role of the Leader and Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;

- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
 - To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role; and
 - To provide a public face on specific issues.
- 27 The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 29 January 2018. Assurance was sought from Councillors who serviced in the Cabinet during 2017/18, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance arrangements. A report was presented to the Audit and Standards Committee on 18 June 2018 in which all Members of the Cabinet considered that governance arrangements are effective.
- 28 Service Directors have carried out self-assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 18 June 2018 which concluded that, based on the self- assessments, Service Directors agree that effective controls were in place.
- 29 The Chief Internal Auditor reports to the Council's Strategic Director, Corporate Resources, but to ensure independence has direct and unfettered access to the Chief Executive, the Strategic Director, Corporate Services and Governance (Monitoring Officer), and the Chair of the Audit and Standards Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit and Standards Committee, has been undertaken and was reported to the Audit and Standards Committee on 18 June 2018. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and compliance with Public Sector Internal Audit Standards. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.
- 30 The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 18 June 2018. This opinion is based on 63 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in seven cases where significant weaknesses were identified. These weaknesses were in specific areas and as such there are no areas for improvement disclosed in this statement for 2017/18 as a result of the work of the Internal Audit Service.
- 31 The Chief Internal Auditor is also the Chief Internal Auditor for the Gateshead Housing Company, and on this basis, provides an independent opinion on the adequacy of the Company's internal control systems based on the Internal Audit reviews carried out during the year. Based on evidence arising from Internal Audit activity during 2017/18, the opinion of the Chief Internal Auditor reported to the Housing Company's Audit

Committee 4 July 2018 is that the Company's internal control system is considered to be effective.

- 32 The Annual Risk Management Report was presented to the Audit and Standards Committee on 18 June 2018 which concluded that risk management arrangements are effective.
- 33 Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year in accordance with the Council's performance management framework. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.
- 34 Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Corporate Services and Governance, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. No areas of significant non-compliance have occurred during 2017/18.
- 35 Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Corporate Resources (Chief Financial Officer) who is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972. Effective systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- 36 Service Directors review partnerships within their business plans on an annual basis. As partners are key to the delivery of the Council's objectives, assurance of their control and governance systems is required. The corporate guidance on managing partnerships effectively was updated in 2014 and is reviewed on an annual basis. The consensus amongst Service Directors was that all Partnership Arrangements have been established in compliance with the Council's Guide to Partnership Working. In addition the most recent review of this area by the Internal Audit Service found it to be satisfactory.

Actions Taken to Improve Governance Following Previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council approach to managing the risk of Fraud and Corruption	<p>Review the Council's Fraud and Corruption Policy</p> <p>Develop an appropriate counter fraud and corruption strategy to mitigate the identified risks of fraud and corruption</p> <p>Provide resources to implement the strategy</p> <p>Take action in response to fraud and corruption</p>	<p>Overall Counter Fraud and Corruption Arrangements, including a revised Counter Fraud and Corruption Policy and Fraud Response Plan, and a first Counter Fraud and Corruption Strategy, were agreed by Council in March 2018</p> <p>Communication strategy drafted to embed the Counter Fraud culture with stakeholders</p> <p>Two dedicated Corporate Fraud Officers appointed and trained</p>	Delivery of Communication Strategy and strengthen with awareness training where beneficial
CIPFA issued new guidance in April 2016, Delivering Good Governance in Local Government: Framework	A fundamental review and redraft of the Councils' Local Code of Governance to get the best value from the CIPFA Guidance	A new Code was developed by reference the CIPFA Guidance, following workshop sessions with the Council's Leadership Team and Councillors to ensure buy in to the updated Code. This was then approved by the Audit and Standards Committee	None

Action Plan for 2018/19

Governance Issue	Planned Action	Responsible Officer
Strengthen Council approach to managing the risk of Fraud and Corruption	Delivery of Counter Fraud Communication Strategy and strengthen with awareness training where beneficial Develop Fraud Management System	Strategic Director, Corporate Resources
Reviewing Governance arrangements to maximise support for Making Gateshead a Place Where Everyone Thrives	Review of Performance Management Framework in line with the new Thrive agenda	Service Director, Policy, Performance and Communication
Ensure the Risk Management Strategy continues to contribute to delivery of the Council's Strategic objectives	Review and develop risk management arrangements to consider risk appetite and support for Making Gateshead a Place Where Everyone Thrives	Strategic Director, Corporate Resources

Opinion on Governance Arrangements

37. Based on the review of the Council's governance arrangements during 2017/18, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

Joint Statement by the Leader of the Council and the Chief Executive

38. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Standards Committee on 18 June 2018 and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed:

Signed:

Councillor Martin Gannon

Sheena Ramsey

Leader of the Council

Chief Executive

Dated:

Dated:

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