

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 28 October 2019 at 10.00 am in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	Apologies for Absence
2	Minutes (Pages 3 - 10) The Committee is asked to approve as a correct record the minutes of the meeting held on 22 July 2019.
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.
4	Audit and Standards Committee Work Programme 2019-20 (Pages 11 - 12) The Committee is asked to note the current work programme.
5	Training and Development Requirements (Pages 13 - 16) Report of the Strategic Director, Corporate Services and Governance
6	Quarterly Standards Update (Pages 17 - 18) Report of the Strategic Director, Corporate Services and Governance
7	External Auditor: Annual Audit Letter 2018/19 (Pages 19 - 40) Report of the Strategic Director, Corporate Resources
8	External Auditor: 2018/19 Audit - Additional Fee (Pages 41 - 44) Report of the Strategic Director, Corporate Resources
9	Results of 2018/19 CIPFA Audit Benchmarking (Pages 45 - 48) Report of the Strategic Director, Corporate Resources
10	Corporate Risk Management 2019/20 - Quarterly Report to 30 September 2019 (Pages 49 - 52) Report of the Strategic Director, Corporate Resources

11 Treasury Management - Performance to 30 September 2019 (Pages 53 - 56)

Report of the Strategic Director, Corporate Resources

12 Exclusion of the Press and Public

The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.

13 Mid Year Counter Fraud Update 2019/20 (Pages 57 - 62)

Report of the Strategic Director, Corporate Resources

14 Internal Audit Plan 2019/20 - Quarterly Monitoring Report to 30 September 2019 (Pages 63 - 72)

Report of the Strategic Director, Corporate Resources

15 Date and time of next meeting

The next meeting will be held on Monday 27 January 2020 at 10.00 am in the Blaydon Room, Civic Centre

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk
Date: Friday, 18 October 2019

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 22 July 2019

PRESENT: Councillor M Charlton (Chair)
Councillor(s): J McClurey, J McElroy, N Weatherley, D Burnett, S Green, Mr Stuart Bell (Independent Member), Mr G Clark (Independent Member)

APOLOGIES: Councillor(s): L Green and Mr B Jones

ASC223 MINUTES

The minutes of the meeting held on 24 June 2019 were agreed as a correct record.

Senior officers will also set up training for members of the Committee on the roles and responsibilities of members of the Audit and Standards Committee.

The Chair is also due to attend a training event for Chairs and Vice-Chairs hosted by CIPFA in September and an update will be given at the next meeting of the Committee, in October 2019.

ASC224 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC225 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME 2019-20

The Committee received a report outlining the work programme for the remainder of the municipal year 2019/20.

RESOLVED - That the information be noted.

ASC226 QUARTERLY STANDARDS UPDATE

The Committee received a report which formed part of the quarterly standards update highlighting national and local standards issues.

The report provided the Committee members with an update on national reviews and consultations which may be relevant to their role.

RESOLVED - i) That the information be noted
ii) That a Standards Update will be provided on a quarterly basis to the Audit and Standards Committee and then pertinent information be rolled out to all Councillors as necessary.

ASC227 ANNUAL REPORT TO CABINET AND COUNCIL 2018/19

The Committee received a report outlining the Annual Report to Cabinet and Council 2018/19, which allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:

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

The Committee were advised that the Audit and Standards Committee has received reports in the following areas during 2018/19:

Internal Audit planning, performance and activity;
Annual Internal Audit benchmarking results;
Internal Audit recommendations;
External Audit planning, performance and activity;
Corporate Risk Management and Resilience activity;
Counter Fraud Updates;
Standards Updates;
The Annual Governance Statement and supporting evidence;
Review of Internal Audit Charter and compliance with Public Sector Internal Audit Standards;
Annual Audit Letter;
Achievement of Going Concern Status;
Audit Completion Report and Council Statement of Accounts;
Treasury Management Policy and Strategy and mid-year update;
Local Code of Governance;
Review of Internal Audit Charter;
Review of Financial Regulations;
Training and Induction; and
External Quality Assessment of Internal Audit.

The Committee were assured that based on the evidence presented during the year and at the meeting of the Committee on 24 June 2019 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2017/18, which accompanies the Statement of Accounts.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agreed the draft report to Cabinet and Council

**ASC228 AUDIT COMPLETION REPORT YEAR ENDED 31 MARCH 2019 AND
GATESHEAD COUNCIL STATEMENT OF ACCOUNTS 2018/19**

The Committee received a report which provided an update on the outcome and findings of the audit of Gateshead's Statement of Accounts 2018/19 by the Council's external auditors Mazars.

The annual audit of the Council's Statement of Accounts and use of resources has now been substantially completed for 2018/19 and the Council's external auditor has issued its report, subject to the completion of outstanding work.

The Audit Completion Report covers:

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

The external auditors report and the Council's Statement of Accounts were tabled as appendices to the main report.

The Committee were advised that although Mazars anticipate completing their work in July, it should be noted that they also place reliance on the work of other auditors, including Ernst and Young (EY) to give assurance on the Tyne and Wear Pension Fund (TWPF) disclosures in the Council's Statement of Accounts, and disclosures in relation to the Council's interest in the airport. They also need to review the work of KPMG in respect of external Audit of The Gateshead Housing Company (TGHC) Statement of Accounts in order to be able to place reliance on the TGHC figures incorporated into the Group Accounts.

In relation to TGHC, KPMG are to provide Mazars with access to their files to allow the necessary Group Accounts work to be completed. It is anticipated that Mazars will receive sufficient assurance from KPMG's files by the statutory deadline of 31 July to allow the Council's accounts to be fully signed off.

The Committee also received an update position verbally from Mazars at the meeting.

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

- RESOLVED -
- i) That the information be noted
 - ii) The Committee requested that the font for security warnings on all Council PC's be enlarged to ensure that the warning is easily identifiable to users
 - iii) The Committee noted the contents of the external auditor's Audit

- Completion Report and Statement of Accounts 2018/19 prior to their submission to the Accounts Committee on 26 July 2019
- iv) The Committee wished to place formally on record their thanks to all officers involved in the preparation of the reports and work undertaken behind the scenes.

ASC229 CORPORATE RISK MANAGEMENT 2019/20 - QUARTERLY REPORT TO 30 JUNE 2019

The Committee received a report which provided an update on developments in Corporate Risk Management during the period 1 April 2019 to 30 June 2019 in compliance with the requirements of good corporate governance.

The report covers progress against the Corporate Risk Management Developmental Objectives for 2019/20 as cited in the Corporate Risk Management Annual Report 2018/19 and any other risk management issues emerging within the quarter under consideration

The Strategic Risk Register has now been adopted and will be monitored and any actions reported quarterly to Audit and Standards Committee with any significant amendments reported to Cabinet.

Committee were advised that a new risk in relation to Climate Change is being discussed with responsible officers to establish the Council's objectives to ensure effective delivery, the risks to achieving those objectives, the mitigations and the planned controls. Work will continue to determine how the risks could be built into operational risk registers and on raising the awareness and general profile of Climate Change Objectives.

This Risk Assessment will be presented to CMT before being brought to this Committee for review prior to presentation to Cabinet for inclusion in the Strategic Risk Register.

The Committee were also advised on work on Operational Risk, Business Continuity and Critical IT Systems as well as an update on the work of the Risk and Resilience Group.

At the meeting of the Risk and Resilience Group the following topics were discussed:

- EU Exit Planning
- Revised Strategic Resilience Management Framework
- Revised Emergency Response Process
- Counter Terrorism Planning Update
- Local Resilience Forum Update

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agreed that the Council's risk management

arrangements were effective.

ASC230 ACHIEVEMENT OF GOING CONCERN STATUS 2018/19

The Committee received a report to consider the Council's status as a going concern.

The Committee were advised that the Council has a strong record of delivering within budget and achieving savings. During the period 2010/11 to 2018/19 savings of £157m have been identified and substantially delivered.

The Annual Audit Letter from Mazars include a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter issued in relation to 2017/18 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Committee also received details of the Current Position 2018/19, the Future Position – 2019/20 Budget, and the future position in the Medium Term Financial Strategy (MTFS).

The Committee were advised that in conclusion, based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee agreed that the Council is considered to be a going concern on the assessment in the report and that the accounts are prepared and approved on that basis.
 - iii) The Committee wished to place upon record their thanks to all the officers for their work in assisting this Committee and asked that all staff involved be thanked personally by senior management.

ASC231 ANNUAL GOVERNANCE STATEMENT 2018/19 - INTERNAL AUDIT REVIEW OF MANAGER'S ASSURANCES

The Committee received a report informing the Committee of the outcome of the work by the Internal Audit Service in reviewing the assurances provided by the Service Directors to inform the 2018/19 Annual Governance Statement.

The 2018/19 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- Management and Staffing
- Business Continuity

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

The overall conclusion of this work, as included in the quarter one update from Internal Audit report elsewhere on this Committee agenda, is that the systems and processes for the completion of the Managers' Assurance Statements are operating well and that they provided a good level of assurance for the 2018/19 Annual Governance Statement.

RESOLVED - That the information be noted.

ASC232 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting during the consideration of the remaining business in accordance with Paragraph 3 of Schedule 12A to the Local Government Act 1972.

ASC233 INTERNAL AUDIT PLAN 2019/20 QUARTERLY MONITORING REPORT TO 30 JUNE 2019

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2019/20 and summarises the main findings arising from audit activity throughout the period 1 April 2019 to 30 June 2019.

From the reviews carried out to 30 June 2019 audit work was found to be complying with PSIAS and the Audit Manual.

The year to date performance is as follows:

- 100% of audits were completed within budgeted time against a target of 90%.
- Productive or chargeable time was recorded at 67% of overall time against an annual target of 73% of overall time.
- The average score of the customer satisfaction questionnaires returned is 3.81 against a target of 3.4.
- The target for implementation of audit recommendations due is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendations due is 100%, with 100% of all high priority and 100% of all medium priority recommendations having been implemented. Further information was tabled as an appendix to the main report.

RESOLVED - That the information be noted

ASC234 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 28 October 2019 at 10.00 am in the Blaydon Room.

Chair.....

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME

Committee Meeting Date and Time	Items to be considered
28 October 2019 10.00am	<ul style="list-style-type: none"> • Work Programme • Standards Update • Training and Development Requirements • Results of the 2018/19 CIPFA Audit Benchmarking • External Auditor Annual Audit Letter 2018/19 • External Auditor 2018/19 Audit – Additional Fee • Corporate Risk Management 2019/20 - Quarterly Report to 30 September 2019 • Treasury Management – Performance to 30 September 2019 • Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 September 2019 (Exempt Item) • Mid Year Fraud Update 2019/20 (Exempt Item)
27 January 2020 10.00am	<ul style="list-style-type: none"> • Work Programme • Standards Update • Local Code of Governance • Mazars Audit Progress Report • Mazars – Results of Certification Work 2018/19 • Corporate Risk Management 2019/20 – Quarterly Report to 31 December 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2019 (Exempt Item)
9 March 2020 10.00am	<ul style="list-style-type: none"> • Work Programme • Training and Induction • Treasury Policy Statement and Treasury Strategy • Annual Governance Statement (Assurance Framework) • External Quality Assessment of Internal Audit (Exempt Item)
27 April 2020 10.00am	<ul style="list-style-type: none"> • Work Programme • Standards Update • Mazars Audit Progress Report • Internal Audit Charter, Strategy Statement and Annual Plan 2020/21 • Corporate Risk Management 2019/20 Quarterly Report to 31 March 2020 • Internal Audit Plan 2019/20 Quarterly Monitoring Report to 31 March 2020 (exempt item)
June 2020	<ul style="list-style-type: none"> • Constitution • Role and Remit • Work Programme • Treasury Annual Report 2019/20

	<ul style="list-style-type: none"> • Mazars Audit Progress Report • Oversight of Management Processes • Members' Assurance Statements 2019/20 • Managers' Assurance Statements 2019/20 • Review of the Effectiveness of Internal Audit 2019/20 • Corporate Risk Management – Annual Report 2019/20 • Internal Audit Annual Report 2019/20 (exempt item) • Annual Governance Statement 2019/20
July 2020	<ul style="list-style-type: none"> • Work Programme • Standards Update • Audit Completion Report Year Ended 31 March 2020 and Gateshead Council Statement of Accounts 2019/20 • Annual Report to Cabinet and Council 2019/20 • Corporate Risk Management 2020/21 – Quarterly Report to 30 June 2020 • Internal Governance Statement 2019/20 – Internal Audit Review of Managers' Assurances • Internal Audit Plan 20120/21 – Quarterly Monitoring Report to 30 June 2020 (Exempt Item)

Title of Report: Training and Development Requirements

Report of: Mike Barker, Strategic Director, Corporate Services
and Governance

Purpose of the Report

1. This report sets out progress on training and development requirements for the Audit and Standards Committee.

Background

2. A report was presented at the Audit and Standards Committee on 4 March outlining proposals for induction and training plans for the Audit and Standards Committee.
3. The Committee agreed to complete self-assessment forms which would inform a development plan for the committee. In addition, it was agreed induction training would be provided for new members of the committee.

Progress

Induction

4. Following a change in membership of the committee in May, induction training has been provided to the new Chair and Vice Chair of the Committee, as well as the new committee members.
5. In addition, the Chair attended a CIPFA course 'Introduction to the Knowledge and Skills of the Audit Committee' in September which she found useful.

Self-Assessment Forms

6. All committee members (including the new members) have been asked to complete the self-assessment forms for completion. To date, forms have been received back from six committee members.
7. Analysis of the forms has shown that none of the committee members feel that there need to be any additional areas of development other than those suggested on the development plan. No additional training needs have been identified by the committee members who completed the forms.

Development Plan

8. A suggested Development Plan is attached at appendix 1.
9. Treasury Management training has been arranged and will take place on 28 October.
10. Ethics and Probity Training has taken place on three dates in September and October with a total of 20 councillors attending. Further training will be arranged following the local elections in May 2020.
11. Training will be arranged on Risk and Counter Fraud during 2019/20 as agreed in the report that was presented to the Committee on 4 March.
12. Any training offered will be open to all council members to attend, which will assist with any future membership changes of the committee.

Recommendations:

13. The Committee is asked to:
 - (i) Note the report;
 - (ii) Agree the proposed development plan; and
 - (iii) Consider whether there any additional training or development needs which have not been included.

Contact: Mike Aynsley, Democratic Services Manager, x2128

**Audit and Standards Committee
Development Plan**

Topic	Date
Basic Introduction to the Role and Remit of the Committee and Governance Structures	24 June 2019
Ethics and Probity	16 September 2019 24 September 2019 10 October 2019
Treasury Management	28 October 2019
Risk Management	27 January 2020
Understanding Internal/External Audit	27 April 2020
Reviewing Financial Statements	June 2020
Counter Fraud	July 2020

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TITLE OF REPORT: Quarterly Standards Update

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

Purpose of the Report

1. To provide a quarterly update to the Audit and Standards Committee highlighting national and local standards issues.
 2. To ensure Members are aware of national reviews and consultations which may be relevant to their role.
 3. To identify whether further training is required for Members.
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Committee on Standards in Public Life

Annual Report 2018-19

1. The Committee's purpose is to examine areas of concern about the standards of conduct of public office holders, advise the Prime Minister accordingly, and to promote the highest standards of conduct across public life.
2. The annual report describes how the Committee has carried out these activities in priority areas in the period July 2018 – June 2019.
3. In 2018-19 the Committee published the reports of its reviews into local government ethical standards and MPs outside interests.
4. In March 2019, a new review into AI and public standards was launched to explore whether the existing frameworks and regulations in relation to AI are sufficient to ensure that high standards of conduct are upheld as the use of these technologies becomes more widespread.
5. The Committee has also been working actively to follow up the December 2017 report, Intimidation in public life - a review the Committee undertook in July 2017.
6. During this reporting year, the Committee has continued to take a close and serious interest in the issue of bullying, harassment and sexual harassment in Westminster, first reported in autumn 2017, monitoring the response of the Parliamentary authorities.
7. The 17 page report can be viewed at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/821702/CSPL_Annual_Report_18_19.pdf

Open Letter to all public office holders

8. Jonathan Evans. Chair of the Committee has sent an open letter to all public office holders on the importance of maintaining public standards and implementing the Nolan Principles:
 - Selflessness
 - Integrity
 - Objectivity
 - Accountability
 - Openness
 - Honesty
 - Leadership
9. The short letter can be found at: <https://www.gov.uk/government/news/open-letter-from-the-committee-on-standards-in-public-life-to-all-public-office-holders>

Minutes of Committee meetings:

10. Committee on Standards in Public Life_meeting Thursday 18 July 2019: agenda and minutes:
<https://www.gov.uk/government/publications/committee-on-standards-in-public-life-269th-meeting-on-thursday-18-july-2019-agenda-and-minutes--2>

Electoral integrity pilots / Voter ID

11. As mentioned in earlier update reports, an electoral integrity pilot took place during the May local elections. The Cabinet Office has produced an evaluation report of the pilot which can be found at: http://data.parliament.uk/DepositedPapers/Files/DEP2019-783/Deposit_2019_Voter_ID_Pilots_Evaluation.pdf
12. On 14 October 2019, as part of the Queen's Speech, the government announced plans to introduce the requirement for voters to produce photographic ID before being permitted to vote.
13. The proposed legislation will also ban campaigners from handling postal votes, introduce a power to limit the number of postal votes a person is allowed to hand in, and establish a requirement on those registered for a postal vote to re-apply every three years (currently five years). There will also be a limit to the number of people (2) a voter can act as a proxy for. And finally, presiding officers will be required to provide equipment to support voters with sight loss and other disabilities who find it difficult to vote.

Future Updates

A Standards Update will be provided on a quarterly basis to the Standards and Audit Committee.

It is noted that the content of the Update will vary depending on the local and national picture that that time.

Contact: Angela Simmons-Mather

Ext: 2662

Title of Report: External Auditor: Annual Audit Letter 2018-19

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's Annual Audit Letter 2018-19.

Background

- 2 The letter provides a summary of the external auditor's work and findings for 2018-19 in respect of: -
 - Audit of the financial statements
 - Value for Money conclusion
 - Other reporting responsibilities
 - Fees
 - Forward look
- 3 The external auditor's report is attached at Appendix A.

Recommendation

- 4 The Committee is requested to note the contents of the external auditor's Annual Audit Letter.

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Annual Audit Letter

Gateshead Council

Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Gateshead Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 6 September 2019 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to both the Accounts Committee and the Audit & Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019.

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure.	Council - £14.143 million Group - £14.274 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Council - 425k Group - £428k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Members allowances - Senior Officer Remuneration - Exit Packages	£117k £1k £431k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Standards Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (relevant to Council and Group accounts)</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>
<p>Risk of fraud in revenue recognition in relation to fees, charges and other income (relevant to Council accounts only)</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We:</p> <ul style="list-style-type: none"> substantively tested fees, charges and other income to ensure it had been correctly classified and recognised; tested journals; and obtained direct confirmation of year-end bank balances and tested the reconciliations to the ledger. 	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment revaluation (relevant to Council accounts only)</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We considered the Council's arrangements for ensuring that PPE values were reasonable and used an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>Where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation were appropriate.</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>
<p>Defined benefit liability valuation (relevant to Council and Group accounts)</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts the significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to areas of management judgement

Identified management judgement	Our response	Our findings and conclusions
<p>Valuation of the Council's investment in Newcastle airport (relevant to Council accounts only)</p> <p>The valuation of the Airport shares held by Gateshead Council (along with other North East Councils) had remained unchanged for some years.</p> <p>In 2018/19, the Council has obtained an external valuation, from Grant Thornton via the lead Authority, South Tyneside MBC.</p>	<p>We carried out a critical review of the basis of valuation of the Council's investment in Newcastle Airport, including the use of our own internal expert.</p>	<p>Our work provided the assurance we sought and did not highlighted any material issues to bring to your attention.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency

There is no up to date service level agreement (SLA) in place between the Council and The Gateshead Housing Company (TGHC).

Potential effects

This may lead to arrangements between the two parties being out of date.

Recommendation

Given the services provided by TGHC to the Council, the current SLA needs to be up to date.

Management response

It is proposed that the current Management Agreement is varied by way of an exchange of letters between the Council and TGHC setting out new performance metrics, reporting a monitoring processes in order to bring the monitoring of performance quickly in line with current requirements and best practice. The Council will continue to engage with the Regulator for Social Housing to determine whether their approval of the variations is required.

It is also proposed that a review of the current model for delivery of the management of the Council's housing stock be carried out. On completion, a further report will be presented to Cabinet on options for the future governance and delivery arrangements for the management of council housing prior to wider consultation.

In the meantime, Cabinet agreed on 16 July 2019 to the renewal of the Management Agreement for a period of up to two years to allow time for the review to be concluded and any revised arrangements implemented.

Description of deficiency

Our work identified that the rules relating to privilege accounts were not outlined in the IT Security policy nor in the other standard, procedures and policies.

Potential effects

Although high privilege access to IT systems is only granted to authorised staff, without clear guidance on who they should be issued to and how they should be used, there could be inappropriate or fraudulent accesses to IT resources and/or fraudulent or unintentional data alteration or entry.

Recommendation

Create policies for privilege accounts.

Management response

The Domain Policy was updated in April 2019 and now covers privilege accounts.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

Description of deficiency

We undertook 100% testing of leavers during 2018/19 to determine if access from the following IT systems - Active Directory, Agresso, Capita, iTrent or CareFirst - had been removed within one week of leaving dates as recorded by Human Resources (HR). We identified that

- 2 leavers did not have access to Active Directory removed within one week of leaving;
- For Agresso system 7 leavers identified who had not been removed from the system as at the date of testing. Mitigating controls were in place, in that all of these leavers had been removed from the Active Directory;
- Within Capita system 2 leavers were identified who had not been deactivated on Capita however in both cases access to Active Directory had been removed;
- Within CareFirst system one leaver still had access to this system however Active Directory access had been promptly removed.

Potential effects

If leavers continue to have access to IT systems when they are no longer employees there is a risk of

- Inappropriate or fraudulent accesses to IT resources
- Fraudulent or unintentional data alteration or entry.

Recommendation

Ensure that existing policies and procedures are always implemented to ensure that Assyst tickets are raised for leavers and/or that HR reports are complete.

Management response

Active Directory -

Existing IT policies and procedures were followed and Assyst tickets were raised for all leavers which appeared on the leavers report. The two cases mentioned were very specific in that the leaver information was input into the HR/Payroll system very late – the leaving date was already past the one week deadline of them leaving. This caused them not to appear on the report as their leaving date was outside the report parameters for the run period.

Agresso System –

- Agresso users cannot be terminated within in one week window as the key source document is from Payroll received one month in arrears e.g. iTrent June leavers list emailed by Agresso Helpdesk 16.07.2019
- The Agresso System Administration team / Helpdesk run annual and ad-hoc reports to identify and park users that have not logged in within the last 6 months
- The Agresso Helpdesk receives emails from [Assyst.net](#) informing where possible Agresso users have left the Council
- Risk is minimised in instances where Agresso users have left and their user accounts are still active, the associated mitigation being supported by menu access roles e.g. enquiry user roles represent very low risk as no transactional access, where transaction entry roles exist and linked to users that have left are subject to online approval e.g. requisition entry is subject to on system workflow approval by e.g. budget holders

Capita System -

Monthly report automatically revokes access if user hasn't logged on for six months.

Carefirst System -

This user had not been ended at the time but was done immediately after being discovered. We have recently been working with IT services in implementing a process to receive notifications when they are notified of leavers who access CareFirst (and vice versa), further mitigating the risk of missing anyone who has left the service / council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

Description of deficiency

The iTrent and Capita system users are not regularly reviewed to identify any out of date user accesses.

Potential effects

Staff who no longer require access to systems should be promptly removed to prevent inappropriate or fraudulent accesses to IT resources or fraudulent or unintentional data alteration or entry.

Recommendation

Officers should ensure that the access rights of out of date users are removed.

Management response

Reports will be issued to relevant managers to as part of year end procedures to ascertain if any roles assigned need removed. If a core user left employment, they wouldn't be able to log into iTrent from anything other than a networked PC.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

As part of our review of Active Directory users (the initial log in to the Council's systems) in March 2018 we identified 25 non system type generic i.e. unnamed accounts, of which 6 had been disabled so could not be used, 10 ,whilst being usable, had not been used in financial year 2017/18, leaving 9 accounts which had been used. None of those generic accounts had administrative access so limited scope as to what they could do on the system.

Potential effects

- Inappropriate or fraudulent accesses to IT resource;
- Fraudulent or unintentional data alteration or entry; and
- Loss of the audit trail / logs of user actions.

Recommendation

In order to avoid unauthorised access to the network, programs and data, we recommend closely monitoring the active accounts in order to ensure:

- Generic accounts are disabled when not used;
- User access is assigned on a need-to-have basis and disabled once it is not needed.

2018/19 update

Our work has identified that there is minimal risk of Active Directory generic accounts leading to problems as a separate log-in is required for these accounts. We therefore haven't repeated recommendation this year .

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>A formal Council Constitution is in place that sets out the scheme of delegation for decisions. This was updated in May 2019 and is available on the Council's website.</p> <p>The Council have clear decision-making processes in place along with clear governance structures which are reviewed regularly and updated when necessary to ensure they remain fit for purpose.</p> <p>The Annual Governance Statement provides a summary of the governance framework and management organisational arrangements in place to ensure informed decision-making and explains how assurance on the effectiveness of these arrangements in the year has been provided to the Audit and Standards Committee.</p> <p>The Council's system of internal control is subject to review by Internal Audit, who have given an opinion that there continues to be an adequate system of internal control in place.</p>	Yes
Sustainable resource deployment	<p>Council formally approved the 2018/19 budget of £203.466 million at the meeting on 22 February 2018. During the year, the Council received a further £3.477 million of funding, resulting in total available revenue funding of £206.943 million. The additional funding was mainly in relation to Government grants.</p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings).</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Cabinet received the 2018/19 outturn report on 25 June 2019. The report identified that the net expenditure position was £205.804 million, following a movement in earmarked reserves of £3.940 million which was in line with the revenue budget approved by members on 22 February 2018. This position extends the Council's track record of delivering increasingly challenging revenue outturns within budget.</p> <p>The Council ended 2018/19 with general reserves of £14.807 million, an increase of £1.139 million from 2017/18. A further £31.848 million was also held in earmarked general fund reserves in line with the level anticipated when the budget was approved.</p> <p>The level of general fund balances is approved annually by Council as part of the MTFS review. The Capital Strategy reflects the Council's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in this strategy. The implications of the capital programme are appropriately reflected in the MTFS.</p> <p>In our Audit Strategy Memorandum we identified a significant risk in relation to this criteria. In order to assess the robustness of the Council's plans, we have:</p> <ul style="list-style-type: none"> • completed testing of the achievement of the Council's monitoring and action plans for a sample of savings included in the budget; • reviewed the Medium-Term Financial Strategy; • reviewed budget monitoring reports and other finance updates; and • reviewed progress in identifying further savings. <p>Our findings from this work are outlined below.</p> <p>Achievement of 2018/19 savings programme</p> <p>Included within the approved budget was the requirement to achieve savings of £13.650 million during the year (see below for the results of our work on these savings). This target was made up of individual projects, each with a savings target. These amounts were deducted from base budget allocations. If any service identified that it could not meet any of the savings identified then it was required to make alternative savings from other budgets within the service.</p>	

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The final outturn for achieved savings was £7.846 million, meaning that the Council achieved approx. 57% of the target, a substantial reduction on the 2017/18 saving of 71% . This reduction was due to the non delivery of a number of schemes and has resulted in the unachieved savings being carried forward into 2019/20. This highlights the ongoing challenge to achieve savings in a financially challenging environment. However the Council managed to make compensating savings elsewhere to achieve a reported underspend of £1.139m.</p> <p>We tested a sample of the 2018/19 savings plans and assessed delivery against the target level of savings. The main issues identified were in relation to the non delivery of savings relating to Care, Wellbeing and Learning schemes and were due to a delay in embedding arrangements. Work is ongoing to strengthen arrangements in this area.</p> <p>Arrangements for achievement of 2019/20 savings programme</p> <p>Included in the Council’s 2019/20 budget, approved by Council on 21 February 2019, is a savings target of £13.113 million. Officers have carried out detailed work in this area and have identified savings plans for a number of individual projects to achieve this target.</p> <p>The Council has introduced new arrangements to strengthen the budget framework and the revenue monitoring process for 2019/20 and beyond. This framework will introduce clear responsibilities so that budget holders will be held accountable for the delivery of their budget areas.</p> <p>The same detailed monitoring arrangements for the savings plans remain in place. Based on our review of the arrangements in place and management’s responses to our challenge on the deliverability of a sample of savings plans we have no issues to report however officers do acknowledge that achieving the required savings remains challenging.</p>	

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Review of 2020/21 savings target</p> <p>The Councils medium term financial strategy has identified a 2020/21 funding gap of £13.564 million. The process of working with Directorates to identify savings has already begun. When a list of savings schemes has been identified, due by Autumn 2019, it will then be challenged by both officers and members before being subject to a public consultation exercise which is due to begin in November 2019 and will last approx. 6 weeks. The outcome of this consultation will be fed back into the process before a detailed savings plan will be produced and challenged as part of the 2020-21 budget process.</p> <p>Review of the Medium Term Financial Strategy (MTFS)</p> <p>Previously, the Council have presented an update MTFS to Cabinet in July every year however due to the ongoing delays in the Government issuing future funding guidance to Councils, (for example, delays due to Brexit, Spending review and Green Paper on social care) this will now not be reported until October 2019. However the MTFS approved in July 2018 covers the period 2019/20 to 2023/24 and therefore this covers the period of our work. Despite the above, early work on the MTFS refresh is progressing well. The Council's financial challenge, based on current financial guidance outlines a funding gap of £65 million over the next 5 years with 40 million over the next three years.</p> <p>Due to the scale of the ongoing financial challenge, the Council have reviewed and updated their budget framework and revenue monitoring process to take account of the challenges. The cumulative impact of the financial pressure over a number of years means that the ability to deliver the budget from underspends in other areas is rapidly diminishing.</p>	
Working with partners and other third parties	<p>The Council has written procedures for procuring products and services, which are within its Constitution. Contract Procedure Rules outline the financial regulations currently in place.</p> <p>The Council's risk register includes a strand on partnership working due to the importance of this area. It is involved in a number of significant partnerships, including:</p> <ul style="list-style-type: none"> • South Tyne and Wear Waste Management Partnership. • Gateshead Regeneration Partnership. 	Yes

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received questions from one member of the public.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We submitted this information to the NAO on 6 September 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the audit panel in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice*	£100,329	TBC

* We are awaiting approval from PSAA for the variation to the scale fee

Our final fee is expected to be higher than the scale fee set by PSAA due to the need to audit the Group Accounts which were included in the Council's financial statements. Discussions have been held with PSAA and we are awaiting approval of our variation request.

Fees for other work

During the year, the Council commissioned us to carry out the work outlined in the table below –

Area of work	2018/19 fee	2017/18 fee
Housing Benefit Subsidy Claim	£10,000	£10,615
Pooling of Housing Capital Receipts Return	£1,800	£1,800
Gateshead 3-7 School Centred Initial Teacher Training (Gateshead 3-7 SCITT)	£2,250	£2,250
Teachers' Pensions Return	£3,750	£3,750
Review of Internal Audit against Public Sector Internal Audit Standards (work to be carried out in late 2019)	£4,500	N/A

As part of the 2019/20 audit we have been commissioned to carry out a review of Internal Audit against Public Sector Internal Audit Standards. This work will be carried out in late 2019 at a cost of £4,500.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020

Financial outlook

The Council continues to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.

The Council's refreshed MTFS, due in October 2019, will need to take into accounts a number of upcoming issues including Brexit and the Spending Review. This represents a significant challenge to the Council's effective financial planning and medium term financial sustainability.

Whilst the Council has a good record of delivering savings, it has set itself a challenging target of £13.113 for 2019/20. It will become even more difficult to deliver the savings required whilst also aiming to minimise impact on service delivery.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council (and the Group) will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

Operational challenges

The Council's key challenges for the future include:

- the ongoing delivery of the estimated funding gap identified in the MTFS along with the potential financial instability which Brexit may bring;
- prioritising local economic growth to generate income to help sustain Council service delivery in key areas, including the regeneration work being carried out at the Gateshead Quays and Baltic Business Quarter;
- continuing the delivery of the five pledges included in the Council's new strategic approach Making Gateshead a Place Where Everyone Thrives; and
- managing the cost increases in the care sector as a result of the increases in the number and rising need levels of both adults and children.

6. FORWARD LOOK

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Audit and Standard Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

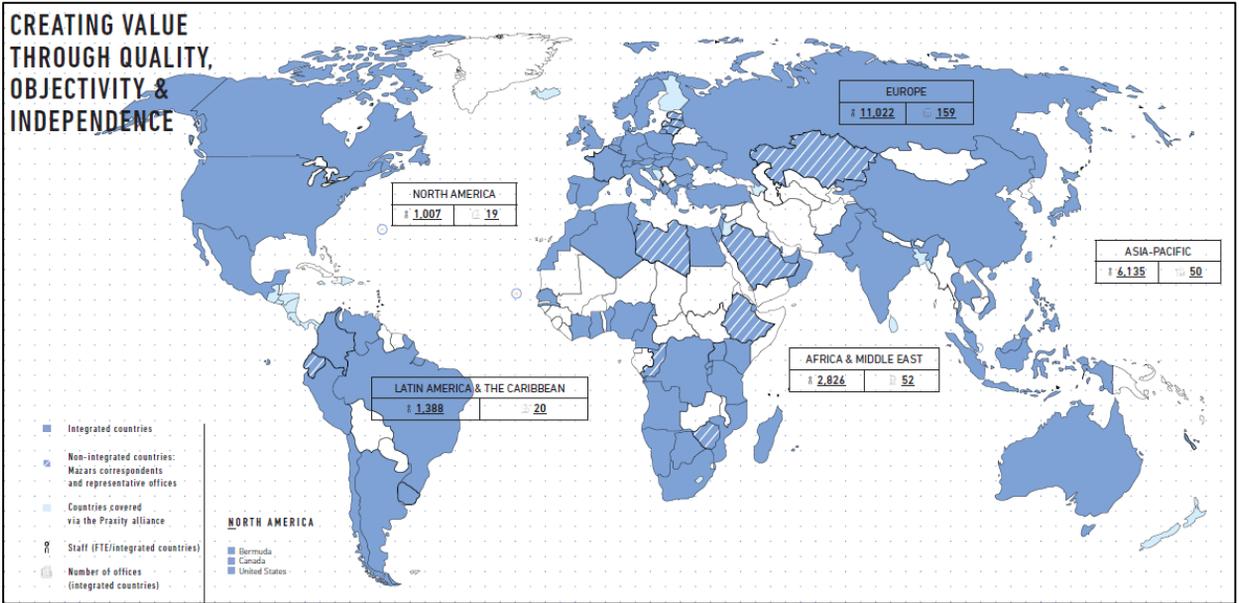
The Council has taken a positive and constructive approach to our audit and we wish to thank members and officers for their support and co-operation during our audit.

MAZARS AT A GLANCE

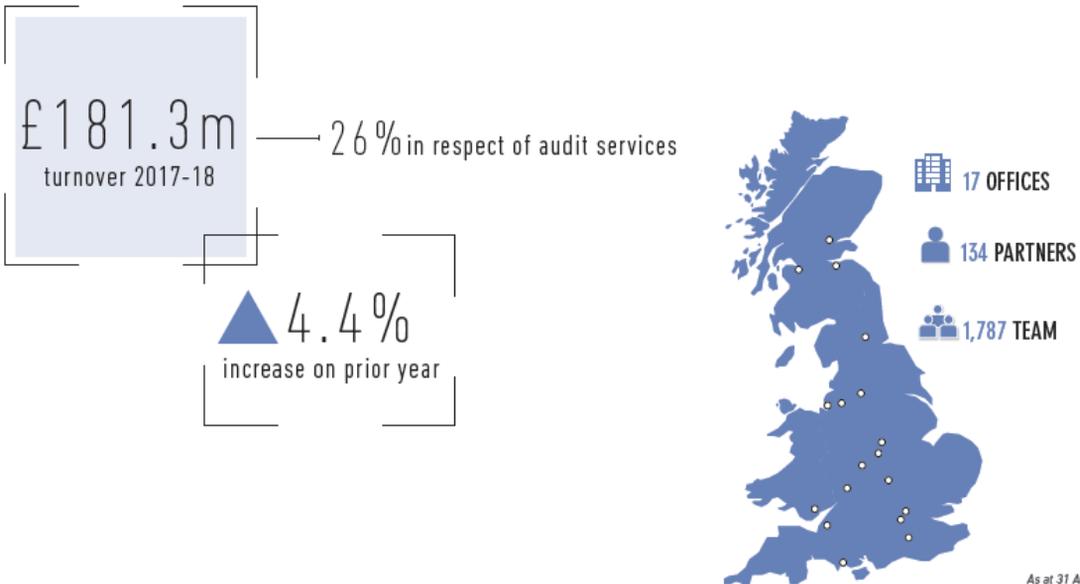
Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300

Mobile: 0781 375 2053

Email: cameron.waddell@mazars.co.uk

Senior Manager: Jim Dafter

Phone: 0191 383 6300

Mobile: 07815 876 042

Email: jim.dafter@mazars.co.uk

Title of Report: External Auditor: 2018/19 Audit – Additional Fee

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the fee resulting from additional audit work in relation to the audit of the financial statements.

Background

- 2 The consolidation of The Gateshead Housing Company into the Council's group accounts for 2018/19 necessitated additional external audit work in order for the opinion on the Accounts to be given by the deadline of 31 July 2019.
- 3 The Auditor's letter in relation to this along with notification of the additional fee to be charged for the work is set out in the Auditor's letter attached at Appendix A.

Recommendation

- 4 The Committee is requested to note the contents of the external auditor's letter.

Contact name: Craig Oakes Ext - 3711

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Audit & Standards Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

Direct line +44 (0)191 383 6314

Email cameron.waddell@mazars.co.uk

27 August 2019

Gateshead Council 2018/2019 Audit – Additional Fee

In our audit Annual Audit Letter, we highlighted that the Council were required to consolidate The Gateshead Housing Company into group accounts for 2018/19. This resulted in a considerable amount of additional audit work being required in order for the opinion on the Accounts to be given by the deadline of 31 July 2019.

The additional work carried out by us has resulted in an additional fee of £9,724 being charged.

If you wish to discuss this further then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in blue ink that reads 'C Waddell'.

Cameron Waddell, Partner
For and on behalf of Mazars LLP

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Title of Report: Results of 2018/19 CIPFA Audit Benchmarking

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 The report informs the Committee of the annual Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Benchmarking results for 2018/19.

Background

- 2 The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of the Council's resources.
- 3 Benchmarking data allows the comparison of the Council's Internal Audit Service with 10 other local authorities (18 in 2017/18).

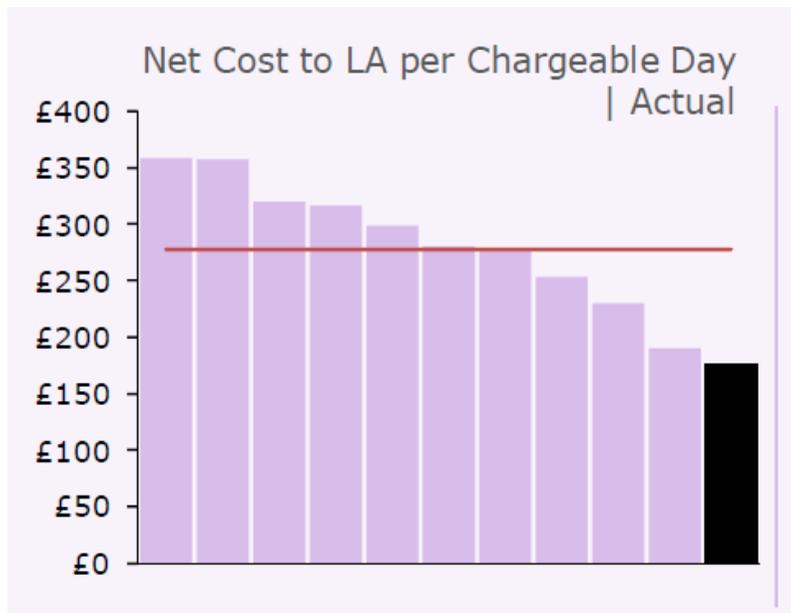
Summary of Results for 2018/19

- 4 Attached at Appendix A is a summary report of the 2018/19 benchmarking results. Overall this continues the trend from previous years and highlights Gateshead Council's Internal Audit Service as being low cost with high productivity; in comparison with other local authorities in the benchmarking data.
- 5 The information is based upon 2018/19 actual results taken from the financial ledger and the Internal Audit management system.

Recommendation

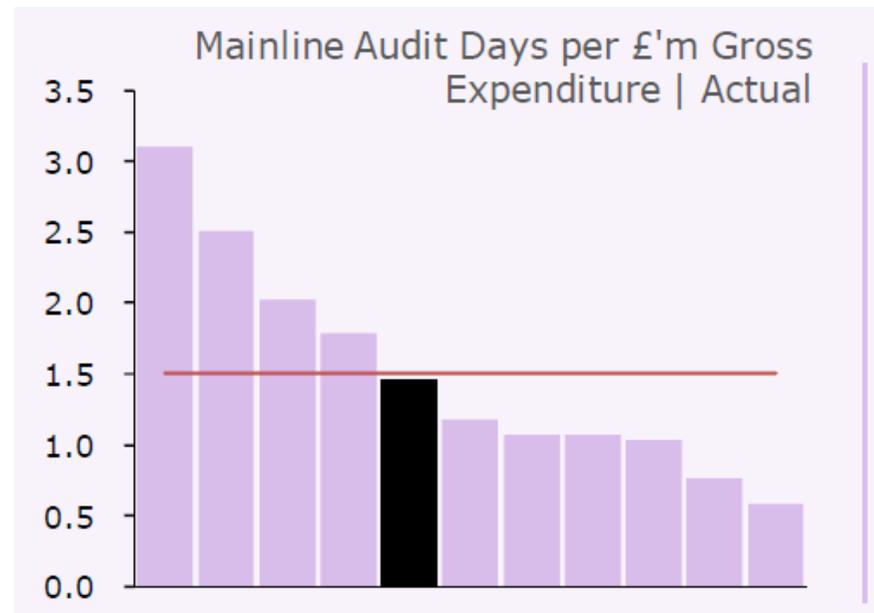
- 6 The Committee is asked to note this report.

Contact: Craig Oakes – Ext. 3711



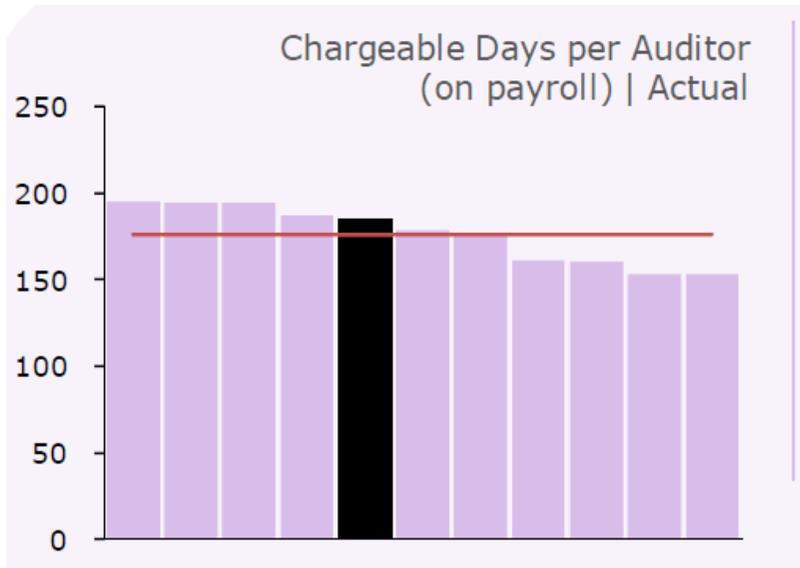
Gateshead Net Cost per Chargeable Day £176

Average £278



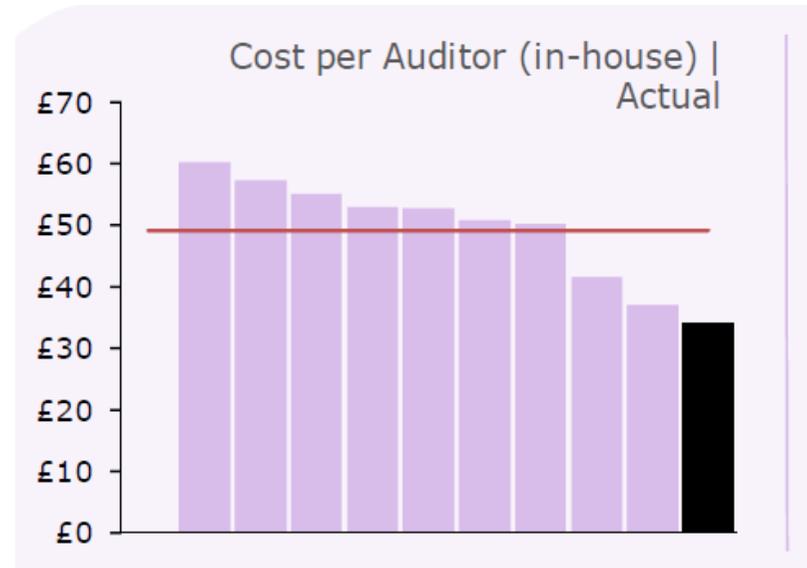
Gateshead Audit Days per £m expenditure 1.45

Average 1.51



Gateshead Chargeable Days per Auditor 185

Average 176



Gateshead Cost per Auditor £34,010

Average £49,150

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**Title of Report: Corporate Risk Management 2019/20
Quarterly Report to 30 September 2019**

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report updates the Committee on developments in Corporate Risk Management during the period 1 July 2019 to 30 September 2019 in compliance with the requirements of good corporate governance.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy, last approved by Council on 21 May 2013, which is kept under review, and whilst it has been amended to reflect changes in Senior Officer titles since that time, it remains relevant and fit for purpose.
3. The report covers developments within the Corporate Risk Management function and any other risk management issues emerging within the quarter under consideration.

Strategic Risk Management

4. In November 2018 Cabinet and Council approved the revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018.
5. The Register has now been adopted and will be monitored and any actions reported quarterly to Audit and Standards Committee with any significant amendments reported to Cabinet.
6. A new risk in relation to Climate Change is being discussed with responsible officers to establish the Council's objectives to ensure effective delivery, the risks to achieving those objectives, the mitigations and the planned controls.
7. The Council is carrying out a Strategy refresh to establish targets and actions to ensure achievement of the Council's Climate objectives by 2030 and an initial report is anticipated January 2020.
8. This report will then enable the Strategic Risks in relation to achievement of the objectives to be drafted, along with the necessary mitigations to manage the risk, which will be presented to the Committee for consideration.

Operational Risk

9. Work is ongoing to ensure operational risk management activity within services continues to be aligned with service objectives.
10. Service risk coordinators, whose role it is to support and champion risk management activity within their services are working with the Corporate Risk Officer to support risk owners with evaluating existing operational risk assessments. The focus of this work is on ensuring the assessments contain the required information to inform management response.

Business Continuity

11. All Services have now returned Business Impact Assessments and Critical Plans using the new guidance and templates issued last year. These will now be examined to validate the Corporate implications of the Plans and confirm that they can all be implemented if required.
12. Services have now been asked to consider the accommodation implications for their critical functions in further detail. Once obtained the Corporate Risk Management Team will work with the Corporate Asset Strategy Team and IT to coordinate the Council's requirements and arrangements.
13. Group Management Teams will have oversight of the plans in relation to their Strategic Group by way of quarterly reports

Critical IT systems

14. Corporate Management Team agreed to a review of all critical IT systems to enable the Council to identify corporately those priority systems for recovery in the event of a system failure/disruption.
15. Colleagues within IT have worked across the Council to ensure all systems are captured. IT are now working in liaison with key contacts in services to document system interdependencies and likely timeframes for restoration. This will enable system owners to revisit their business continuity plans and revise accordingly where a longer system interruption is possible.
16. The critical systems list will be cross referenced against Business Continuity Plans to ensure consistency and to assist the prioritising of all critical systems onto a corporate priority list.

Risk and Resilience Group

17. The Risk and Resilience Group meeting on 2 October discussed:
 - Revised Strategic Resilience Management Framework
 - Revised Emergency Response Process
 - Review of the Pandemic Influenza Plan
 - Community Emergency Guidance

Recommendation

18. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

CONTACT: Stephanie Humble extension: 3731

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TITLE OF REPORT: Treasury Management – Performance to 30 September 2019

REPORT OF: Darren Collins – Strategic Director, Corporate Resources

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2019, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 19 March 2019.
3. The Council operates a balanced approach, and this means broadly that cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
5. Accordingly, treasury management is defined as:

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

Investment Performance

7. The latest projection of gross investment income for 2019/20 based on interest earned to date and expected interest to March 2020 is £0.699m, compared to the original estimate of £0.691m.
8. This gross investment interest is adjusted to account for £0.373m interest payable to third parties and interest receivable of £1.995m from various third parties, the most significant of which is Newcastle International Airport. This gives a projected

net interest to the General Fund 2019/20 of £2.321m compared to the budget of £2.145m. The current variance to budget is mainly as a result of higher levels of interest received on loans to third parties than anticipated when the 2019/20 budget was set.

Rate of Return

9. The average rate of return is monitored for each investment type that the Council enters into and these are used to calculate an average rate of return for the Council for the year to date. The current rate of return is 0.97%, which is greater than the original estimate of 0.93%
10. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across Local Authorities. In the most recent report received, June 2019, the Council achieved a weighted average rate of return of 1.00% on its investments for Quarter 1 2019/20 which is in excess of the risk adjusted expectations (0.89% to 0.99%) defined in the Benchmarking Report for our Group.
11. The rate of return would be expected to decrease during the year as investment balances reduce and current deposits are replaced with shorter, lower yielding deposits.
12. It is a difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Brexit and the Economy

13. The Bank of England's Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 19 September, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

Borrowing

14. The total borrowing for the Council and HRA as at 30 September 2019 was £665.224m, which was within the operational borrowing limit of £865m. This borrowing is made up of £610.524m Public Works Loans Board (PWLB) loans and £54.7m market loans.

15. The Treasury Strategy estimates for the 2019/20 financial year were based on a borrowing requirement of £86.564m. To date this year the Council has taken £10m long term borrowing from the PWLB. The timing of further borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates at the time.
16. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	HRA
Interest Payable	£11.234m	£13.540m
Average rate of interest	3.29%	4.06%

This represents a gross saving of £1.906m on the original estimate, of which £1.502m is a saving for the General Fund and £0.404m is for the HRA.

PWLB Government Intervention

17. The Government recognises that the freedoms for local authorities to borrow under the Prudential Framework are fundamental to supporting local capital strategies and authorities' organisational objectives, including regeneration, supporting local growth and service delivery. The PWLB supports this activity by on-lending Government borrowing from the capital markets to local authorities to deliver capital investment.
18. The maximum net amount of PWLB loans that can be outstanding at any time is subject to a statutory limit. In order to ensure that lending continues to be available for local authorities that need it, the Government has legislated to increase the lending limit from £85bn to £95bn.
19. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) in 2010, to better reflect the availability of capital finance, and lowered it to 80bps over gilts in 2013 for qualifying authorities.
20. HM Treasury advised on 9th October 2019 that they would restore interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms, with immediate effect.
21. The Government will monitor the impact of this change and keep rates policy under review.

Summary of Mid-Year Performance

22. The projected net impact of investment and borrowing activity on the revenue budget in 2019/20 is an underspend of £2.107m, comprising £1.678m General Fund and £0.429m HRA.

General Fund	Estimate £m	Projected Outturn £m	Variance £m
Investments	(2.145)	(2.321)	(0.176)
Borrowing	12.736	11.234	(1.502)
Premia	0.462	0.462	0.000
Net Position	11.053	9.375	(1.678)

23. Investment returns are likely to remain relatively low during 2019/20 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).
24. The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which is significantly outweighed by the savings achieved from avoiding external borrowing. The additional element of interest rate risk will continue to be monitored.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2019, prior to submission to Cabinet.

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

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