

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 21 June 2021 at 10.00 am in the Bridges 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 26 April 2021.										
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.										
4	Constitution The Constitution of the Committee was approved by the Council on Friday 21 May 2021 as follows: <table><tbody><tr><td>Chair</td><td>Councillor Marilyn Charlton</td></tr><tr><td>Vice Chair</td><td>Councillor Dot Burnett</td></tr><tr><td>Councillors</td><td>Ron Beadle, Linda Green, Stuart Green, Hugh Kelly and John McElroy</td></tr><tr><td>Independent Members</td><td>Mr Stuart Bell, Mr George Clark and Mr Brinley Jones</td></tr><tr><td>Parish Council Representative</td><td>Councillor Steve Greaves</td></tr></tbody></table>	Chair	Councillor Marilyn Charlton	Vice Chair	Councillor Dot Burnett	Councillors	Ron Beadle, Linda Green, Stuart Green, Hugh Kelly and John McElroy	Independent Members	Mr Stuart Bell, Mr George Clark and Mr Brinley Jones	Parish Council Representative	Councillor Steve Greaves
Chair	Councillor Marilyn Charlton										
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Independent Members	Mr Stuart Bell, Mr George Clark and Mr Brinley Jones										
Parish Council Representative	Councillor Steve Greaves										
5	Remit of the Audit and Standards Committee (Pages 11 - 14) Report of the Strategic Director, Corporate Services and Governance										
6	Training and Development Requirements (Pages 15 - 22) Report of the Strategic Director, Corporate Services and Governance										
7	Treasury Management Report 2020/21 (Pages 23 - 36) Report of the Strategic Director, Resources and Digital										
8	Oversight of Management Processes 2020/21 (Pages 37 - 50) Report of the Strategic Director, Resources and Digital										

- 9** **Members' Assurance Statements 2020/21** (Pages 51 - 52)
Report of the Strategic Director, Resources and Digital
- 10** **Managers' Assurance Statements 2020/21** (Pages 53 - 58)
Report of the Strategic Director, Resources and Digital
- 11** **Review of the Effectiveness of Internal Audit 2020/21** (Pages 59 - 70)
Report of the Strategic Director, Resources and Digital
- 12** **Corporate Risk Management Annual Report 2020/21** (Pages 71 - 84)
Report of the Strategic Director, Resources and Digital
- 13** **Exclusion of the Press and Public**

The Committee may wish to exclude the press and public from the meeting during consideration of items 14 and 15 in accordance with paragraph 7 of Schedule 12A to the Local Government Act 1972.
- 14** **Annual Counter Fraud Update 2020/21** (Pages 85 - 94)
Report of the Strategic Director, Resources and Digital
- 15** **Internal Audit Annual Report 2020/21** (Pages 95 - 100)
Report of the Strategic Director, Resources and Digital
- 16** **Re-Admittance of the Press and Public**

The Committee is asked to re-admit the press and public to the meeting.
- 17** **Annual Governance Statement 2020/21** (Pages 101 - 116)
Report of the Strategic Director, Resources and Digital
- 18** **Programme of Meetings 2021-2022**

The programme of meetings for municipal year 2021-2022 is as follows:
- 26 July 2021 at 10.00 am
 - 27 September 2021 at 10.00 am
 - 18 October 2021 at 10.00 am
 - 31 January 2022 at 10.00 am
 - 7 March 2022 at 10.00 am
 - 25 April 2022 at 10.00 am

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 26 April 2021

PRESENT: Councillor M Charlton (Chair)
Councillors: D Burnett, R Beadle, L Green, S Green, H Kelly and J McElroy
Mr Stuart Bell (Independent Member) and Mr G Clark (Independent Member)

APOLOGIES: Mr B Jones (Independent Member)

ASC311 MINUTES

The minutes of the meeting held on 8 March 2021 were agreed as a correct record.

ASC312 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC313 GATESHEAD CODE OF GOVERNANCE FOR COUNCILLORS

The Committee received a report which set out the updated Code of Conduct for the Council and updated members following a member led working group on amendments to the draft previously considered by the committee to better reflect the aspiration that members adhere to the highest standards of conduct. The report makes proposals in respect of the full Council adopting the updated code.

The Committee were advised that the working group resulted in important new drafting to support and underpin the rules. A preamble and introduction to the code is now included as part of the draft. This is very much there to set the scene and articulate that councillors in Gateshead aspire to meet the highest standards of ethical behaviour and conduct. The preamble now includes a statement that members not only comply with the letter of the code but also the spirit of the code.

The update code was appended to the main report at Appendix 1.

- RESOLVED -
- i) That the information be noted.
 - ii) That a recommendation be made to the full Council to adopt the model code with the Gateshead specific amendments including the preamble and introductory paragraphs.

- iii) That the existing arrangements for assessment of complaints received under the code be noted and a member led working group be established to review these arrangements and make recommendations to the Committee.
- iv) That it be noted officers will prepare a training package to support the awareness of the code for both new and existing members.

ASC314 INTERNAL AUDIT CHARTER, STRATEGY STATEMENT AND ANNUAL PLAN

The Committee received a report which set out the proposed Internal Audit Charter, Strategy Statement and Annual Plan of work to be undertaken by the Internal Audit & Risk Service in 2021/22.

The Internal Audit Charter was attached at Appendix A for information, it was last circulated to Committee in April 2020. The Chief Internal Auditor has carried out an annual review of the Internal Audit Charter and confirmed that it continues to reflect best practice and no amendments are required.

The plan for 2021/22 also includes three dedicated Corporate Fraud posts. These officers will continue to develop and embed the Council's Counter Fraud & Corruption Strategy as well as conducting any fraud and irregularity investigations. Updates in relation to Counter Fraud activity will be presented biannually to the Committee.

The Committee were advised that to take account of the ongoing response to COVID, the plan includes specific coverage of all high risk, key financial, IT and governance functions. An allowance has also been included for the ongoing work required in relation to audit of COVID grant funding from central government.

The Audit Strategy Statement was attached at Appendix B and the Annual Plan for 2021/22 was attached at Appendix C. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to retaining flexibility to reprioritise assurance activities as required.

- RESOLVED -
- i) That the information be noted.
 - ii) That the report be noted and the opinion that the Internal Audit Charter continues to comply with Public Sector Internal Audit Standards.
 - iii) That the Audit Strategy and Statement and the Annual Plan of work to be provided by the Internal Audit and Risk Service for 2021/22 be approved.
 - iv) That quarterly monitoring reports be received showing

progress made against the plan.

ASC315 EXTERNAL AUDITOR: ANNUAL STRATEGY MEMORANDUM YEAR ENDING 31 MARCH 2021

The Committee received the external auditor's Audit Strategy Memorandum for the year ended 31 March 2021.

The report set out:

- Engagement and responsibilities summary
- The audit engagement team
- Audit scope, approach and timeline
- Significant risks and other key judgement areas
- Value for Money
- Fees for audit and other services
- Commitment to independence
- Materiality and misstatements

The external auditor's report was attached to the main report at Appendix A

RESOLVED – That the contents of the external auditor's Audit Strategy Memorandum be noted.

ASC316 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT

The Committee received a report requesting that the Committee note the external auditor's progress against planned work.

The report summarised the following:

- 2020/21 audit progress
- National publications

The external auditor's report was attached to the report at Appendix A.

RESOLVED – That the contents of the external auditor's report be noted.

ASC317 CORPORATE RISK MANAGEMENT 2020/21 - QUARTER 4 UPDATE

The Committee received a report which provided an update on Corporate Risk Management during the period 1 January 2021 to 31 March 2021.

In November 2018, Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register. As part of the iterative nature of the Register, risk owners are asked to provide updates as part of the quarterly reviews, which are then reported to Committee as part of the

quarterly reporting.

Committee were advised that there have been no changes to the Strategic Risk Register in the fourth quarter 2020/21. The Strategic Risk Register was attached to the main report for information at Appendix 1.

The Committee were advised that work is ongoing to ensure operational risk management activity within services continues to align with service objectives, including those risks specific to operational objectives.

The Committee were also informed that all Business Impact Assessments were reviewed by Services in March 2020 and again in November 2020. This was to identify threats to critical activities and potential increased demand on Council Services following a second wave of infections, along with other potential pressures such as exit from the EU and seasonal events like flu and adverse weather.

Business Continuity Plans were also revised accordingly to mitigate, as far as possible, any threats to the delivery of key activities with a focus on activity that could not be interrupted for more than 48 hours without critical impact. This exercise was also used to assess which activities might require additional support to resilience and estimated the officer numbers and skills that might be needed.

Where these could not be provided by redeployment from within the Service or Group, redeployment of officers would be sought from Services that had either been stood down due to COVID or could be reduced in the short term without significant impact.

Quarterly audit and risk reports are provided to Group Management Teams to highlight the activities for which services have developed continuity plans.

The Committee were advised that the Corporate Risk and Resilience Group is currently being refocused to a Corporate Risk and Business Continuity Group to more accurately reflect the needs of the Council. Membership and terms of reference of the group will be reconsidered and the group will be coordinated by the Service Director, Commercialisation & Improvement. This revised group will remain within the remit of this committee.

- RESOLVED -
- i) That the information be noted.
 - II) That the Committee were satisfied with the effectiveness of the Council's risk management arrangements.

ASC318 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.

ASC319 COVID GRANT POST ASSURANCE UPDATE 2020/21 - FIRST TRANCHE

The Committee received a report which provided an update on the assurance work completed to date on the first tranche of the Small Business Grant Scheme, Retail, Hospitality and Leisure Grant Scheme and the Local Discretionary Fund grants, administered by the Council as part of additional COVID funding allocations.

Since the start of the initial restrictions in March 2020, the Council has administered multiple grants in relation to providing support to local residents and businesses.

The Council were allocated a total of £40.3m in the first tranche through the following three programmes, to support local businesses impacted by the pandemic:

- Small Business Grant Scheme
- Retail, Hospitality and Leisure Grant Scheme
- Local Discretionary Fund

Details of pre-payment contracts and post assurance checks were also outlined to the Committee for information, as well as issues identified and lessons learned and improvements identified.

The main lessons learned and improvements identified were outlined to Committee as follows:-

- Inspection of properties -physical checks have been carried out for some properties to establish occupation and to verify the business was retail (a qualifying element of the grant). Other local changes could also be noted whilst physically out in the borough.
- Improvements to the database were made in relation to occupancy changes.
- Use of Spotlight, the government's online automated due-diligence tool, to complement existing pre and post payment checks and highlight areas of risk and potential fraud.
- Use of Experian, the government's partnership with Experian through the National Fraud Initiative (NFI), to carry out additional post payment bank and business details checks.
- Links to other Council departments and use of local knowledge have strengthened throughout the delivery of the scheme to aid the validation of legitimate businesses and activities.
- Cross reference of bank details to bank statements supplied has improved, with bank statements now being requested for a three-month period to identify consistent active trading.
- Use of social media checks to validate business legitimacy.

- RESOLVED -
- i) That the information be noted.
 - ii) That the work completed to date be noted.

- iii) That the future updates be received in line with grant requirements.

ASC320 INTERNAL AUDIT PLAN 2020/21 QUARTERLY MONITORING REPORT TO 31 MARCH 2021

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2020/21 and summaries the main findings arising from audit activity throughout the period 1 January 2021 to 31 March 2021.

The Committee received a table for information showing progress made up to 31 March against the revised audit plan for the financial year 2020/21. The table demonstrates the completion of 98% of the revised audit plan, in terms of actual audit hours against planned hours to date. Adjusting for the work of External Bodies, Northumbria Police and The Gateshead Housing Company, this equates to 107% for the Council. This achieves the local performance target of 97.25% of actual hours completed against the planned hours for the year.

The Committee received the summary of main findings arising from audit activity during the period which was attached as Appendix A. A total of 25 assignments were completed during the period.

From the reviews carried out to 31 March 2021, audit work was found to be complying with PSIAS and the Audit Manual.

The year to date performance information is as follows:

- 96% of audits were completed within budgeted time, against a target of 90%
- Productive of chargeable time was recorded at 67% of overall time, against an annual target of 66%
- The average score of the customer satisfaction questionnaires returned is 3.92 out of 4, against a target of 3.4 (85%)
- The target for implementation of audit recommendations and 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendations is 84%, with 83% of all medium priority and 100% of all high priority recommendations having been implemented. Further details were provided to Committee in Appendix B.

Officers across the Council are continuing to work through the backlog in relation to the implementation of recommendations. Many Council services have remained under continued pressure to sustain front line delivery, which has continued to impact on the capacity and availability of staff to respond to audit challenge. Whilst high priority recommendations have achieved the 100% target, officers are working towards improving the position on medium priority recommendations in the new year.

RESOLVED – That the information be noted.

ASC321 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 21 June 2021 at 10.00 am, venue to be confirmed.

Chair.....

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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:

- (a) consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements;
- (b) seek assurances, and satisfy itself, that action is being taken on risk-related issues identified by auditors and inspectors;
- (c) 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;
- (d) approve the Council's Statement on Internal Control and Annual Governance Statement
- (e) approve, but not direct, the Council's Internal Control and Annual Governance Statement
- (f) review reports on internal audit activity and the main issues arising, and seek assurances that action has been taken where necessary;
- (g) consider the annual audit report on internal audit activity;
- (h) consider the reports of external audit and inspection agencies;
- (i) review the scope and depth of external audit work, inspection agencies and other relevant bodies, and ensure that they provide value for money;
- (j) raise the profile of audit, risk management and the internal control environment
- (k) 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;
- (l) consider the Council's arrangements for Corporate Governance and agreeing necessary actions to ensure compliance with best practice;
- (m) consider treasury management performance reports;
- (n) promote and maintain high standards of conduct by councillors and co-opted members;

- (o) assist the councillors and co-opted members to observe the Members' Code of Conduct;
- (p) advise the Council on the adoption or revision of the Members' Code of Conduct;
- (q) monitor the operation of the Members' Code of Conduct;
- (r) advise, train or arrange to train councillors and co-opted members on matters relating to the Members' Code of Conduct;
- (s) 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;
- (t) assist and advise parish councils in the Borough, if requested and as appropriate, in relation to their discharge of functions above on request of their parish councillors;
- (u) 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;
- (v) set from time to time appropriate allowances and expenses payable to the statutory Independent Persons;
- (w) 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;
- (x) 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;
- (y) promote and maintain high standards of conduct by officers;
- (z) assist officers to observe the Code of Conduct for Employees and 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 members' 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.

Recommendation

The Committee is asked to note this information.

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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 28 October 2019 outlining proposals for induction and training plans for the Audit and Standards Committee.
3. The report included a training and development plan which the Committee agreed to undertake. All training and development opportunities were offered to all councillors to assist with any future committee membership changes.

Progress

4. Following agreement of the training and development plan, the following training has been undertaken:

Topic	Date of Training
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	Postponed due to lockdown
Reviewing Financial Statements	28 September 2020

Topic	Date of Training
Counter Fraud	Delayed pending implementation of the fraud management system and data sharing hub

Proposals

5. It is proposed that the training sessions that were postponed and delayed during the lockdown should be rearranged to take place during this municipal year.
6. In addition, a new Code of Conduct has been agreed by the Council and a Members' Seminar will be arranged. Following the seminar, training on the new Code will be arranged for all councillors and independent members.
7. As the Committee will be aware, all councillors are required to undertake this training once during their term of office. The Code of Conduct training will take place on an annual basis.
8. The Committee is asked to consider whether it has any additional training or development needs. To assist members the role descriptor for committee members is attached at Appendix 1.
9. Members of the Committee can suggest training topics at any time throughout the year and submit these to Democratic Services. Officers will also consider further possible training opportunities for the Committee. All suggestions will be discussed with the Chair and Vice Chair in the first instance and will then be raised with the Committee.
10. In addition, officers will identify opportunities for members of the Committee to attend national and regional events. Any member attending such an event would be expected to give feedback and share any learning materials with the Committee to maximise learning and development opportunities.

Recommendations

11. The Committee is asked to:
 - (i) note the report;
 - (ii) agree the proposals outlined in paragraphs 5 and 6 of the report; and
 - (iii) consider whether there any additional training or development needs which have not been included.

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APPENDIX 1

Role Description: Audit and Standards Committee Member

Role	Actions	Skills/Behaviour
<p>1. Monitoring the effectiveness of the Council's internal control environment including:</p> <ul style="list-style-type: none"> • the Annual Governance Statement • Arrangements for ensuring value for money • Monitoring the Council's exposure to the risk of fraud and corruption 	<p>By:</p> <ul style="list-style-type: none"> • receiving regular reports from internal and external audit at committee • reviewing Risk registers • making sound judgements based on a wide range of factual information and advice from the Monitoring Officer, Chief Finance Officer and Chief Internal Auditor • reviewing Counter Fraud Policy, Whistleblowing Policy and Statement on the Prevention of Bribery 	<p>These include:</p> <ul style="list-style-type: none"> • understanding of the governance structures and decision-making processes • understanding of the organisational objectives and major functions of the Council • awareness of governance framework • knowledge of the Local Code of Governance • understanding of the main areas of fraud risk the Council is exposed to • knowledge of the Council's arrangements for tackling fraud • ability to question and challenge
<p>2. In relation to Internal Audit:</p> <ul style="list-style-type: none"> • overseeing its independence, objectivity, performance and professionalism • supporting the effectiveness of the internal audit process • promoting the effective use of internal audit within the assurance framework 	<p>By:</p> <ul style="list-style-type: none"> • reviewing and approving the Internal Audit Strategy and Risk Based Audit Plan • reviewing Internal Audit annual report • ensuring professional internal audit standards are being followed • reviewing benchmarking data 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of Internal Audit Charter • awareness of Public Sector Internal Audit Standards • knowledge of how the Council meets the requirements of the role of the Chief Financial Officer and Chief Internal Auditor • ability to question and challenge
<p>3. Considering the effectiveness of the Council's risk management arrangements. Reviewing the risk profile of the Council and receiving assurances that action is being taken on risk-related issues, including partnerships with other bodies.</p>	<p>By:</p> <ul style="list-style-type: none"> • monitoring the major risks facing the Council • reviewing and approving the Internal Audit Strategy and Risk Based Audit Plan 	<p>These include:</p> <ul style="list-style-type: none"> • knowledge of Corporate Risk Management Policy • ability to question and challenge

Role	Actions	Skills/Behaviour
4. Reviewing and monitoring treasury management arrangements	By: <ul style="list-style-type: none"> reviewing the Treasury Management Policy and Strategy monitoring treasury management performance 	These include: <ul style="list-style-type: none"> understanding of treasury management principles ability to question and challenge
5. Financial management and accounting	By: <ul style="list-style-type: none"> reviewing the financial statements prior to publication Receiving the external audit report and opinion on the financial audit 	These include: <ul style="list-style-type: none"> understanding of good financial management principles knowledge of how the Council meets the requirements of the role of the Chief Financial Officer ability to question and challenge
6. Assisting councillors and independent/co-opted members to observe the Councillors' Code of Conduct.	By: <ul style="list-style-type: none"> ensuring that training is provided for councillors, co-opted members and church and parent governor representatives on matters relating to the Councillors' Code of Conduct; assessing the effectiveness of such training; promoting and maintaining high standards of conduct for councillors, co-opted members and church and parent governor representatives. 	These include: <ul style="list-style-type: none"> awareness of the Code of Conduct; awareness of current legislation; Standards Board guidance and relevant Council policies; understanding of the context within which councillors work.
7. Monitoring the effectiveness of the Councillors' Code of Conduct.	By: <ul style="list-style-type: none"> receiving regular reports at Committee, including information on the way the Code of Conduct is applied in practice 	These include: <ul style="list-style-type: none"> awareness of the Code of Conduct; awareness of current legislation; ability to question and challenge.
8. Dealing with any other issues relating to standards of conduct.	By: <ul style="list-style-type: none"> participating in discussions of issues that are brought to the Committee's attention identifying issues that could be relevant to the Committee 	These include: <ul style="list-style-type: none"> ability to take a broad view of matters relating to ethical behaviour; ability to question and challenge.

Role	Actions	Skills/Behaviour
<p>9. Granting dispensations to councillors, co-opted members and church and parent governor representatives, from requirements relating to interests set out in the Code of Conduct.</p>	<p>By:</p> <ul style="list-style-type: none"> • making sound judgements based on the information presented and advice from the Monitoring Officer 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of the Code of Conduct; • awareness of the environment within which the Council works; • ability to question and challenge.
<p>10. Participating in hearings on allegations of misconduct.</p>	<p>By:</p> <ul style="list-style-type: none"> • making sound judgements based on a wide range of factual information and advice from the Monitoring Officer • not allowing personal or political prejudices or biases to influence decisions • exploring and challenging the evidence presented in order to arrive at a proper understanding of the issues • explaining reasons for views and findings 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of the Code of Conduct • understanding of the context within which councillors work • probity and fairness • openness • ability to question and challenge

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Title of Report: Treasury Annual Report 2020/21

Report of: Darren Collins – Strategic Director, Resources & Digital

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 and CIPFA's Code of Practice on Treasury Management (2017). 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, 3 and 4 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 content of the Treasury Annual Report 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:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
 - 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;
 - Receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year;
 - 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
 - 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 2020/21 (including investment and borrowing strategies);
 - Treasury Management approach to risk;
 - Outturn 2020/21 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 2020/21.

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:

- a) **Financial Implications** - The Strategic Director, Resources & Digital 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 2020/21 financial year end and compares this to budget.
- b) **Human Resources Implications** - There are no human resources implications arising from this report.
- c) **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
- MHCLG Guidance on Local Government Investments (2018)
- CIPFA's Prudential Code for Capital (2017)
- CIPFA's Code of Practice on Treasury Management (2017)
- Council's approved Treasury Policy & Strategy Statements 2020/21 to 2024/25
- Council's approved Treasury Management Practice Statements

Treasury Management Annual Report 2020/21

The Strategy for 2020/21

1. The 2020/21 to 2024/25 Treasury Management Strategy was approved by Council on 24 March 2020.
2. The formulation of the 2020/21 to 2024/25 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 2020/21 to 2024/25 anticipated interest rates to remain at 0.75% before starting to gradually increase from March 2022 onwards. In the early stages of the COVID pandemic the Bank of England's Monetary Policy Committee (MPC) reduced the base rate to 0.10% where it has remained during 2020/21. At its meeting ending on 13 May 2021 the MPC voted unanimously to maintain the Bank Rate at 0.10% and rates are expected to remain exceptionally low throughout the current financial year before slowly recovering in the second half of 2022/23.

Borrowing Strategy

7. The borrowing strategy for 2020/21 was as follows:
- When Public Works Loan Board (PWLB) rates fall back to the following target rates borrowing should be considered, 2.90% Q1, 3.00% Q2, 3.10% Q3 and 3.20% Q4. Preference is given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -
 - 10 years – 2.58%
 - 25 years – 3.12%
 - 50 years – 3.02%
 - 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.
 - External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.
 - Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.
8. 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

9. 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 24th April 2021 concluded that Treasury Management control systems and procedures are satisfactory. All funds were safeguarded in 2020/21.

Outturn 2020/21 – Performance Measurement

10. 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 2020/21 performance. 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 22 June 2021 as part of the Capital Monitoring process. None of the approved Prudential Indicators set for 2020/21 were breached in the year. For completeness the Prudential Indicators are shown at Appendix 4.

Market Interest Rates

11. Performance must be considered in conjunction with actual rate movements over the financial year which were as follows:
 - **Shorter-term interest rates** – The expectation for interest rates within the 2020/21 Treasury Management Strategy was that Bank Rate would stay at 0.75% during the financial year but the MPC suggested a rate cut was possible if a rise in domestic price inflation did not materialise. If the economic recovery continued a potential modest interest rate increase may occur. Due to COVID the actual position changed significantly, as the MPC reduced the Bank Rate twice in March 2020, from 0.75% to 0.25% and then to 0.10%.
 - **Longer-term interest rates** – Investment returns remained low during 2020/21. At its meeting ending on 13 May 2021, the MPC voted unanimously to maintain the Bank Rate at 0.10% and rates are expected to remain exceptionally throughout the current financial year before recovering in the second half of 2022/23

Investment Performance

12. There has been a continued use of a range of investment instruments in order to ensure flexibility, spread risk, maximise liquidity and obtain attractive rates. There has been an increased use of overnight deposits and money market funds with high rated banks to maintain the security of the funds and enhance the rate of return on investments. Rates remained low for the entire financial year as a result of the COVID pandemic.
13. The most significant challenges for treasury management in 2020/21 has been generating a reasonable rate of return whilst ensuring the security of investments and the COVID pandemic. Due to the difference between the cost of borrowing and potential to generate 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. COVID also presented challenges for managing the Council's cashflow due to timing uncertainties of the receipts and payment of COVID grants.
14. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 24 March 2020. 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.
15. A summary of the year's activity is shown at Appendix 3. The investment interest earned in the year was £0.330m (2019/20 £0.689m) with an average interest rate of 0.30% (2019/20 0.95%). Interest earned on loans to third parties, agreed as part of the capital programme, increased total interest to £2.180m which was £0.005m more than the original budget of £2.175m. This includes £0.865m accrued interest on loan notes, in respect of Newcastle International Airport.
16. The overall return for the year of 0.30% exceeds the accepted benchmark for 2020/21, which was the 3-month London Interbank Bid Rate (LIBID) of 0.02%.

17. 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 0.30% on its investments for Quarter 4 2020/21 which is close to the risk adjusted expectations (0.33% to 0.44%) defined in the Benchmarking Report for our group.

Borrowing Performance

18. The total external borrowing at 31 March 2021 was £658.684m, which was within the operational borrowing limit of £865.000m. This is a net decrease of £36.054m from the opening figure of £694.738m.

External Borrowing at 31 March 2020	£694.738m
Add New Borrowing	£4.500m
Less Maturity of existing borrowing	(£40.554m)
External Borrowing at 31 March 2021	£658.684m

19. Investment returns/interest rates were low during 2020/21 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 2020/21 the Council had internal borrowing of £48.303m. This comprised of £6.443m General Fund under borrowing and £41.860m HRA under borrowing. Any short-term savings gained from adopting this approach was weighed against the potential for incurring additional long-term costs by delaying new external borrowing until later years when PWLB long term rates are forecast to be higher.
20. The Council's underlying need to borrow for capital expenditure and long-term liabilities 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 2020 Actual £m	31 March 2021 Actual £m
Capital Financing Requirement for General Fund excluding PFI	359.575	361.482
Capital Financing Requirement for HRA excluding PFI	345.505	345.505
Total Capital Financing Requirement excluding PFI	705.080	706.987

21. The details of the borrowing taken during 2020/21 are as follows:

Date	Term (years)	Amount £m	Interest Rate (%)	Source
31/03/2021	365 (days)	4.500	0.00	NE LEP

22. At 31 March 2021 £606.184m of the total borrowing was from the PWLB and £52.500m was in the form of market loans. The average interest rate on borrowing has decreased from 3.69% in 2019/20 to 3.60% during 2020/21 which will reduce borrowing costs.
23. There was short-term borrowing of £4.5m taken during 2020/21. No long-term borrowing was taken during 2020/21.
24. The overall revenue cost of borrowing in 2020/21 was £24.081m, as a result of the application of the Treasury Management Strategy this was £2.272m less than the budget.

Debt Restructuring & Repayment

25. 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.
26. The rates payable on the early redemption of debt was monitored throughout the year. The cost of early repayment of PWLB loans outweighed any savings and therefore there was no early redemption of PWLB debt.

Summary of Treasury Management Performance for the Year 2020/21

27. Total interest income was £0.005m above budget, the main variances from budget were due to the reduction in interest rates and delays in dwelling sales within the Gateshead Trading Company's house building schemes.

NET INVESTMENT INTEREST MONITORING 2020/21	Base Budget	Actual March 2021	Movement	Note
	£000s	£000s	£000s	
Gross Investment Interest	-663	-329	334	Reduction in interest rates
Interest paid/(received on balances):	-2	-7	-5	
Interest due on loan balances:				
GTC	-34	-326	-292	Increase due to delay in sale of dwellings.
Others	-590	-623	-33	
Heritable Dividend	0	-30	-30	Final Dividend payment
Newcastle Airport (Loan Notes & Dividend)	-886	-865	21	
NET INVESTMENT INTEREST TOTAL	2,175	2,180	-5	

28. Borrowing costs were £2.272m less than budget due to a delay in taking borrowing and the decision to temporarily fund the capital programme through internal borrowing by utilising cash balances.

29. Overall Treasury Management performance against budget for 2020/21 generated net savings of £2.277m, this is summarised in the following table:

		2020/21		
		Budget	Actual	Saving
		£m	£m	£m
General Fund	Cost of Borrowing	12.979	11.501	-1.478
	Interest Income	1.855	2.186	-0.331
	Net Position	11.124	9.315	-1.809
HRA	Cost of Borrowing	13.373	12.580	-0.793
	Interest Income	0.320	-0.006	0.326
	Net Position	13.053	12.586	-0.467
Combined	Cost of Borrowing	26.353	24.081	-2.272
	Interest Income	2.175	2.180	-0.005
	Net Position	24.178	21.901	-2.277

Treasury Management remained challenging throughout 2020/21 with one of the lowest bank interest rates in history and continuing pressure on available counterparties. The report highlights the way in which the Council has successfully managed these challenges with its day-to-day treasury management strategy and thus delivered the savings highlighted in the table whilst keeping treasury risks to a minimum throughout.

Investment Activity

	2019/20	2020/21
Number of investments made in 2018/19 maturing in 2019/20	18	n/a
Number of investments made in 2019/20 maturing in 2019/20	14	n/a
Number of investments made in 2019/20 maturing in 2020/21	n/a	12
Number of investments made in 2020/21 maturing in 2020/21	n/a	14
Total number of investments maturing in year	32	26
Number of investments made in 2020/21 maturing in 2021/22	n/a	14
Average duration of investments (including overnight)	12 days	6 days
Average duration of investments (excluding overnight)	117 days	87 days
Non-specified investments:		
Rated non-high		
Approved limit	75%	25%
Maximum level invested	9.14%	4.83%
Not Rated		
Approved limit	0%	0%
Maximum level invested*	0.05%	0.03%
Investments greater than 364 days		
Approved limit	£15m	£15m
Maximum level Invested	£5m	£5m

*Relates to the impaired investment with Heritable Bank.

PRUDENTIAL INDICATORS 2020/21

The 2019/20 Prudential Indicators were agreed by Council on 27 February 2020 (column 1). This is now compared with the 2020/21 actual outturn position as at the 31 March 2021 (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 2020/21 have been breached.

Capital Expenditure		
	2020/21 £000 Reported Indicator	2020/21 £000 Actual
Non-HRA	87,254	50,086
HRA	23,221	20,732
Total	110,475	70,818
To reflect the reported capital monitoring agreed by Council during the year		

Ratio of Financing Costs to Net Revenue Stream		
	2020/21 Reported Indicator	2020/21 Actual
Non-HRA	17.40%	14.69%
HRA	44.25%	39.92%

Capital Financing Requirement		
	2020/21 £000 Reported Indicator	2020/21 £000 Actual
Non-HRA	435,607	361,482
HRA	345,505	345,505

There were no breaches to the Prudential Indicators set for 2020/21.

Authorised Limit for External Debt	
	2020/21 £000 Reported Indicator
Borrowing	880,000
Other Long Term Liabilities	0
Total	880,000
Maximum YTD 31/03/21 £694.738m	

Operational Boundary for External Debt	
	2020/21 £000 Reported Indicator
Borrowing	865,000
Other Long Term Liabilities	0
Total	865,000
Maximum YTD 31/03/21 £694.738m	

The Council's actual external debt at 31 March 2021 was £658.684m. 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 / Lower Limits for Maturity Structure of Fixed Rate Borrowing				
	2020/21 £000 Reported Indicator		2020/21 £000 Actual Position	
	Upper Limit	Lower Limit	Actual Percentage	Maximum YTD
Under 12 months	30%	0%	3.43%	5.84%
12 months to 24 months	25%	0%	0.17%	3.60%
24 months to 5 years	25%	0%	7.56%	7.61%
5 years to 10 years	30%	0%	11.06%	11.14%
10 years to 20 years	30%	0%	7.37%	9.75%
20 years to 30 years	25%	0%	1.18%	1.19%
30 years to 40 years	50%	0%	32.18%	32.41%
40 years to 50 years	50%	0%	34.61%	36.36%
50 years and above	25%	0%	0.00%	0.00%
All within agreed limits.				

Upper / Lower Limits for Maturity Structure of Variable Rate Borrowing				
	2020/21 £000 Reported Indicator		2020/21 £000 Actual Position	
	Upper Limit	Lower Limit	Actual Percentage	Maximum YTD
Under 12 months	25%	0%	2.43%	2.95%
12 months to 24 months	20%	0%	0.00%	0.00%
24 months to 5 years	20%	0%	0.00%	0.00%
5 years to 10 years	20%	0%	0.00%	0.00%
10 years to 20 years	20%	0%	0.00%	0.00%
20 years to 30 years	20%	0%	0.00%	0.00%
30 years to 40 years	20%	0%	0.00%	0.00%
40 years to 50 years	20%	0%	0.00%	0.00%
50 years and above	20%	0%	0.00%	0.00%
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 forecasted cuts in interest rates. An upper limit was set and agreed as a new Prudential Indicator.

Upper Limit on amounts invested beyond 364 days			
	2020/21 £000 Reported Indicator	2020/21 £000 Actual Position	2020/21 £000 Maximum YTD
Investments	15,000	5,000	5,000

Title of Report: Oversight of Management Processes 2020/21

Report of: Darren Collins, Strategic Director, Resources and Digital

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 2020/21 – Response to External Auditor

Question	Response
<p>A: How do you gain assurance from Management</p>	
<p>1. How do you exercise oversight of management’s processes in relation to:</p>	
<p>• Undertaking 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 2020/21 plans for Gateshead and TGHC, key systems were allocated 915 productive hours for Gateshead and 450 for TGHC, which represents 15% of the planned hours for Gateshead’s Groups and Services and 32% for TGHC. Audits completed in 2020/21: <ul style="list-style-type: none"> ○ AGS Assurances 2019/20 - Operating Well ○ Budgetary Control - Operating Well ○ Business Rates - Satisfactory ○ Council Tax – Operating Well ○ Capital Accounting System and Programme - Satisfactory ○ Corporate Debtors – Satisfactory ○ Corporate Payroll and Human Resources System – Satisfactory ○ Governance Arrangements - Operating Well ○ Partnership Arrangements – Satisfactory ○ Risk Management and Business Continuity Arrangements - Operating Well ○ Treasury Management – Satisfactory ○ TGHC Rent Arrears and Rent Collection – Operating Well

	<ul style="list-style-type: none"> ○ TGHC Main Accounting – Operating Well ○ Budget Setting and Monitoring ○ Creditors ○ Housing Revenue Account (HRA) - satisfactory ● 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 style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 40</p> <ul style="list-style-type: none"> ● Identifying and responding to risks of fraud in the Council and group entities, including any specific risks to fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist? 	<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 ● 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
<ul style="list-style-type: none"> ● Communicating to employees the Council’s views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council’s codes of conduct) 	<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’

	<p>contracts of employment)</p> <ul style="list-style-type: none"> • Protocol on Councillor / Officer Relations • Employee handbook • KnowledgeNet (source of training and development materials) • Corporate bulletins to raise awareness • Intranet content
<ul style="list-style-type: none"> • Communicate to those charged with governance the processes for identifying and responding to fraud or error? 	<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>Page 41</p> <p>How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal controls? Are you aware of any breaches of internal control during 2020/21? (if 'yes', please provide details)</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 • Counter fraud is a standing agenda item at the quarterly internal control group chaired by the Strategic Director, Resources and Digital. • 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

	<p>Datatank</p> <ul style="list-style-type: none"> • Whistleblowing Policy • Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group <p>Not aware of any breaches of internal control during 2020/21.</p>
<p>3. How does management gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2020/21? (if 'yes', please provide details)</p>	<ul style="list-style-type: none"> • Contribution to and compliance with internal assurance processes i.e. <ul style="list-style-type: none"> ○ Service assurance assessment ○ Local Code of Governance ○ Monitoring Officer's Assurance on the Effectiveness of Internal Control Statement 2020/21. No significant internal control issues during the financial year 2020/21 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 Resources and Digital 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 and Contract Procedure Rules, which are part of the Council's Constitution, provide the framework for managing the Council's financial affairs and procurement activity, respectively.

13.03 Functions of the Monitoring Officer

By law, the Strategic Director, Corporate Services and Governance as Monitoring Officer, will have the following responsibilities:

(a) Ensuring lawfulness and fairness of decision making

After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council or the Cabinet in relation to an executive function if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to unlawfulness. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

13.04 Functions of the Chief Finance Officer

By law, the Strategic Director, Resources and Digital 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 and Practical Law, 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 Society) which provides training and special interest groups (two led by Gateshead lawyers) along with a topical discussion forum
 - 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

4. Are you aware of any actual or potential litigation or claims that

Legal staff provide annual (and where required ongoing) updates on

<p>would affect the financial statements (if 'yes', please provide details)?</p>	<p>litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.</p>
<p>5. Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern, or that of any of its group entity?</p>	<ul style="list-style-type: none"> • A detailed assessment of future financial risks, including the likely ongoing impact of COVID-19 on the financial position, is carried out when setting the budget and MTFS • Included in the budget for 2021/22 is £6.13m COVID funding, and a Pandemic Services Impact reserve of £17.991m has been created, giving £24.121m to manage the ongoing effect of COVID-19. • The Council's General Fund balance as at 31 March 2021 is £13.967m (subject to year end adjustments and audit). The Council's prudent minimum balance on the General Fund is £11.811m representing 5% of net revenue budget. It is therefore noted that there is some headroom within the General Fund to help absorb the estimated financial impact of COVID-19 in the short to medium term and to manage the impact of future changes in funding. • The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For this reason and the reasons set out above, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future. In addition, management are not currently aware of any significant information that is available for the period beyond 2025/26 that would indicate a contrary conclusion.
<p>B: Questions in relation to fraud:</p>	<p>Response</p>
<p>1. Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within group entities during the period 1 April 2020 – 31 March 2021?</p>	<p>Yes, there were 112 fraud allegations reported to the Corporate Fraud Team during 2020/21 along with one internal investigation. 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: 0 allegations • Theft of equipment, cash or data: 0 allegations • Other: 112 allegations <p>Of the 112 allegations, 33 were closed and for the most part they were of a trivial nature or unproven (two resulted in recovery of Business Rate COVID-19 Grant), the remainder either are ongoing and under investigation or waiting to be allocated. The one internal investigation concluded no fraud.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee.</p>
<p>Page 46</p> <p>Do you suspect fraud may be occurring, either within the Council or within the group entities?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks within the Council / the group entities? 	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council or within the group entity all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p> <p>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; social housing Right to Buy (RTB), 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.</p>

<ul style="list-style-type: none"> • Do you have any concerns that there are areas within the Council or group entities that are at risk of fraud? • Are there particular locations within the Council / the group entities where fraud is more likely to occur? 	<p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan. At this point there are no concerns about specific areas.</p> <p>At this point there are no particular locations where fraud is more likely to occur.</p>
<p>3. Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>Yes, controls in place include e.g.</p> <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 <p>Counter Fraud Arrangements, including the Counter Fraud and Corruption Strategy and Policy, and Fraud Response Plan, Council's Whistleblowing Policy, Financial Regulations and Financial Procedures, prosecution and sanction of offenders.</p>
<p>4. How do you encourage staff to report their concerns about fraud?</p>	<p>Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasise 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</p>

<ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>Policy, reference to the fraud reporting email address fraudreporting@gateshead.gov.uk, the online fraud referral form and telephone hotline.</p> <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
<p>5. From a fraud and corruption perspective, what are considered to be high risk posts within the Council and group entities?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan. The relative risk of each post is reflected in the audit risk assessments for the relevant activity area.</p>
<p>6. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers</p> <p>All Members and Senior Officers complete related parties disclosures annually. Register of Interests Internal Audit declarations of Independence</p>
<p>7. Are you aware of any entries made in the accounting records of the Council or group entities that you believe or suspect are false or intentionally misleading?</p>	<p>Given the size and complexity of transactions reflected in the Council and Group's accounting records there is always the potential for error or false accounting that could escape detection. However, internal</p>

<ul style="list-style-type: none"> • Are there particular balances in the accounts where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the Council or group entities? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors which are high risk of fraud? 	<p>controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.</p> <p>Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker</p> <p>No. Items are only excluded on the grounds of materiality. Reliance on third party data e.g. Actuarial calculations for pensions</p> <p>All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring</p> <p>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.</p>
<p>Are you aware of any organisational or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • 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? 	<p>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.</p> <p>No</p>
<p>9. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>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.</p>

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Title of Report **Members' Assurance Statements 2020/21**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

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 8 March 2021 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 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 25 January 2021. This Code defines how the Council complies with the principals of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:
 - Behaving with integrity;
 - Ensuring openness and comprehensive engagement;
 - Defining sustainable outcomes;
 - Determining interventions;
 - Developing capacity;
 - Managing risks and performance; 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 2020/21, 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 2020/21

Report of: Darren Collins, Strategic Director, Resources and Digital

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 8 March 2021 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 19 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 2020/21, 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 revisiting business planning, reflecting changes in management structures including the recent onboarding of the former Gateshead Housing Company.
- 10 An audit of managers' assurances for 2019/20 has been progressed during the year and an update was reported to the Audit and Standards Committee on 19 October 2020 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 2019/20 Annual Governance Statement.
- 11 Internal Audit has time in the 2021/22 audit plan to review the evidence and actions identified by managers on their assurance statements for 2020/21, 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

Service Directors' Assurance 2020/21

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
1. Mechanisms are in place to ensure employees are aware of and comply with relevant legal requirements, the Council's Constitution and corporate policies.	22 managers agreed that effective controls are in place, one agreed partial compliance and identified actions for improvement.
2. Financial Regulations are understood and complied with by all employees.	22 managers agreed that effective controls are in place, one agreed partial compliance and identified actions for improvement
3. A clear up to date business plan is in place which is completed in accordance with Corporate guidance and aligned to the Council's strategic priorities.	<p>14 managers agreed that effective controls are in place.</p> <p>Seven managers agreed partial compliance and identified actions for improvement including updating the Service's plan following COVID delays, in response to changing government guidance and ongoing restructures.</p> <p>Two managers disagreed and identified actions for improvement including updating the Service's plan to accommodate new areas of responsibility.</p>
4. There are effective data quality and performance management processes with relevant, accurate and adequate performance information generated with clear links to the Council's five Strategic Priorities and Health and Wellbeing Strategy. These are reported on a timely basis, with appropriate action taken to address performance issues.	<p>19 managers agreed that effective controls are in place.</p> <p>Four managers agreed partial compliance and identified actions for improvement including reviewing operational processes, restarting project paused due to COVID and establishing key performance indicators.</p>
5. 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, including key decisions, are taken with reference to relevant consultation, information and data	All 23 managers agreed that effective controls are in place.
6. 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	<p>20 managers agreed that effective controls are in place.</p> <p>Three managers agreed partial</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>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>compliance and identified actions for improvement including reviewing training requirements and updating skills matrices.</p>
<p>7. 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.</p>	<p>19 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for improvement including raising awareness of the Councils corporate partnership procedures.</p> <p>Three managers stated this question was not applicable to their Service.</p>
<p>8. 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 23 managers agreed that effective controls are in place.</p>
<p>9. 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's Strategic Priorities Plan.</p>	<p>20 managers agreed that effective controls are in place.</p> <p>Three managers agreed partial compliance and identified actions for improvement including reviewing Service budget structures and financial performance reporting.</p>
<p>10. The Service can evidence that it has clear and effective plans in place to deliver the Service's savings targets, and risks around achievement are identified.</p>	<p>18 managers agreed that effective controls are in place.</p> <p>Four managers agreed partial compliance and identified actions for improvement including service development, reviewing budget structures, business plans, savings</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
	<p>targets and risk.</p> <p>One manager stated this question was not applicable to their Service.</p>
<p>11. 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>22 managers agreed that effective controls are in place.</p> <p>One manager stated this question was not applicable to their Service.</p>
<p>12. Trading opportunities have been considered in accordance with the Governance Framework for Decision Making on Traded Activities.</p>	<p>19 managers agreed that effective controls are in place.</p> <p>Four managers stated this question was not applicable to their Service.</p>
<p>13. IT systems used by the Service are secure and operate satisfactorily for their purpose.</p> <p>Mechanisms are in place to ensure employees are fully aware of the ICT Security Policy and their responsibilities including how to minimise exposure to risk of a cyber-attack by taking necessary anti-virus precautions and adhere to the Policy.</p>	<p>22 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance to reflect planned reviews in the Service's IT environment.</p>
<p>14. 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>20 managers agreed that effective controls are in place.</p> <p>Three managers agreed partial compliance to reflect planned reviews following restructures and planned IT changes.</p>
<p>15. Recommendations from relevant external Inspectorates and Internal Audit reports are monitored by management and are implemented by the agreed date.</p>	<p>21 managers agreed that effective controls are in place.</p> <p>Two managers agreed partial compliance to outstanding internal audit recommendations for areas expected to be decommissioned.</p>

Area of Assurance	Number That Agree / Disagree That Effective Controls Are In Place
<p>16. Effective mechanisms are in place to ensure compliance with relevant statutory requirements such as Health and Safety and Safeguarding.</p>	<p>21 managers agreed that effective controls are in place.</p> <p>Two manager agreed partial compliance and identified actions for improvement including a review of compliance requirements across Council owned buildings and related training matrices.</p>
<p>17. There is effective management of Operational 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>Strategic Risks are also regularly reviewed to ensure they remain valid and support the achievement of the Council's Priorities Plan.</p>	<p>22 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for improvement.</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 security and GDPR. 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>22 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for improvement.</p>
<p>19. Relevant assessments have been completed and necessary arrangements put in place to ensure that the Council's activities during the COVID-19 pandemic continue to be conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for by way of for example: review of Business Impact Assessments, Business Continuity Plans and Risk Registers.</p>	<p>22 managers agreed that effective controls are in place.</p> <p>One manager agreed partial compliance and identified actions for improvement.</p>

Title of Report: Review of the Effectiveness of Internal Audit 2020/21

Report of: Darren Collins, Strategic Director, Resources and Digital

Purpose of the Report

1. To ask the Committee to review the effectiveness of internal audit within the Council for 2020/21.

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 2020/21.
- 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, Resources and Digital 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 2020/21 has been undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & 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 Mazars during 2019/20.

7 The standards have four areas as detailed below:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards; and
- Performance Standards.

8 As reported to Audit and Standards Committee in April 2020, the outcome of the assessment was positive and found that the Internal Audit Service is substantially compliant with requirements of the PSIAS and the CIPFA Application Note, with a number of minor areas for continued improvement identified.

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 has been amended since last year to reflect CIPFA's updated statement on the Role of the Head of Internal Audit issued in April 2019. Arrangements were found 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 2020/21 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 (2018)" 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 8 June 2021. 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. 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 2020/21 the following key performance indicators are relevant:
- 96% 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 66% of overall time.
 - 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 and best practice recommendations. The current rate of implementation of all recommendations is 84%, with 83% of all medium priority and 100% of all high priority recommendations having been implemented.
- 15 Due to the ongoing pandemic, benchmarking exercises were suspended by CIPFA during 2020/21. As previously reported to the Audit and Standards Committee on 28 October 2019, benchmarking for 2019/20 highlighted the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The Service has continued to be low cost and high productivity 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 3 – 2020-21
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	<p>The head of internal audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.</p>	<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 produces an Annual Audit Opinion Report which gives assurance to the Council on the effectiveness of the system of internal control</p> <p>Role of the Internal Audit Service are defined in the scope of the Audit Charter which is reviewed annually</p> <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 / Service 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 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>The Internal Audit Strategy is reviewed by the CIA annually and revised as necessary to reflect any prevailing risks to client organisations.</p> <p>All audit findings are evaluated and assessed against the risk to the organisation</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> <p>CIA ensures that recommendations presented are realistic, pragmatic and risk based with a focus on added value.</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>

**Appendix 3 – 2020-21
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
2	<p>The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.</p>	<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>Role of HIA in relation to Governance set out in the Governance Assurance Framework.</p>	<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.</p> <p>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>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 undertakes consultation exercises with Senior Management Teams to feed into annual audit plan to ensure it aligns with the strategies, objectives and risks of the Council.</p> <p>CIA regularly identifies and disseminates 'best practice' through audit provision across several clients both in and outside of the public sector.</p>
3	<p>The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.</p>	<p>Internal Audit Charter outlines terms of reference and management structure.</p> <p>CIA line managed by Service Director Commercial and Improvement, Corporate Resources but with direct line of reporting to Strategic Director, Resources and Digital 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 Audit and Standards Committee, through senior management teams.</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>

**Appendix 3 – 2020-21
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
		<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>		<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	<p>The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.</p>	<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 quarterly 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>The service has undergone external assessment against PSIAS every five years</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&Ds 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 3 – 2020-21
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
		and was most recently assessed as substantially compliant Outcome of PSIAS external assessment and associated improvement plan is reported to Audit and Standards Committee.	to date with recent audit developments and current best practice in the public sector.	Quality Assurance and Improvement programme in place, including performance targets and monitoring, IA Development Plan, audit file reviews.
5	The HIA must be professionally qualified and suitably experienced.	CIA has 29 years local authority experience and has been CIPFA qualified for 26 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 24 years' experience in the Council, 13 of which in Internal Audit. CIA is an affiliate member of the Chartered Institute of Internal Auditors

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Signed



Dated 27th May 2021

Craig Oakes
Chief Internal Auditor

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			Annual Report to Cabinet 17 November 2020 and Council 19 November 2020
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 the Constitution
4. Is the role and purpose of the audit committee understood and accepted across the authority?	YES			
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 17 November 2020 and Council 19 November 2020 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, including partnership and collaboration arrangements	YES			
☑☑ - internal audit	YES			
☑☑ - external audit	YES			
☑☑ - financial reporting	YES			Statement of Accounts reviewed by Audit & Standards Committee prior to Accounts Committee
- risk management	YES			
☑ - value for money or best value	YES			
☑ - counter-fraud and corruption.	YES			

- supporting the ethical framework	YES			The Committee receives update reports on local government ethical standards and Committee Terms of Reference include promoting and maintaining high standards of conduct by co-opted members and councillors.
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, six-month progress and year end performance 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			
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			Member development programme agreed by the Committee in October 2019 followed which a planned series of training seminars
☐ ☐ a size of committee that is not unwieldy	YES			
☐ ☐ consideration has been given to the inclusion of at least one independent member (where it is not a mandatory requirement)	YES			The Committee has three independent members
13. Have independent members appointed to the committee				The last independent vacancy was advertised in the local press and on

been recruited in an open and transparent way and approved	YES			the Council's website as well as circulated to the Council's partners. The interview panel consisted of Chair and Vice Chair, and Service Directors of Legal and Corporate Finance. A report to full Council 21/9/17 set out the appointment of the new independent member for a period of four years and reappointment of the existing independent members for a further four years.
by the full council?				
14. Does the chair of the committee have appropriate knowledge and skills?	YES			
15. Are arrangements in place to support the committee with briefings and training?	YES			A framework for Audit Committee Knowledge and Skills Assessment and a Development Plan was reported for endorsement to the April 2019 Committee following consultation with Committee members. This was used to inform the member development programme.
16. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	YES			Member skills self assessment circulated to inform the Skills Assessment and Development Plan was circulated to member of the Committee for completion April 2019. This will be revisited in 2021/22.
17. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	YES			Chief Internal Auditor and Strategic Director, Resource and Digital attend Committee pre meetings and Committees, External Audit attend all Committees.
18. Is adequate secretariat and administrative support to the committee provided?	YES			
Effectiveness of the committee	YES	PARTLY	NO	
19. 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
20. Are meetings effective with a good level of discussion and engagement from all the members?	YES			
21. Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and	YES			The Committee Terms of Reference provide for this facility

action plans with the responsible officers?				
22. Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	YES			The Committee Terms of Reference set out that the Committee consider reports on audit activity and the Council's arrangements for Corporate Governance and raise the profile of audit, risk management and the internal control environment.
23. Has the committee evaluated whether and how it is adding value to the organisation?	YES			Not proactively sought but mechanism exists through annual report to Cabinet
24. Does the committee have an action plan to improve any areas of weakness?	YES			A framework for Audit Committee Knowledge and Skills Assessment and a Development Plan was reported for endorsement to the April 2019 Committee following consultation with Committee members. This was used to inform the member development programme reported to the 28 October 2019 Committee. To be revisited in 2021/22.
25. Does the committee publish an annual report to account for its performance and explain its work?	YES			Annual Report to Cabinet 17 November 2020 and Council 19 November 2020

Title of Report: Corporate Risk Management – Annual Report 2020/21

Report of: Darren Collins, Strategic Director, Resources and Digital

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 the plans for further development of risk management arrangements.
2. The Committee is asked to consider the Corporate Risk Management Annual Report for 2020/21 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 2020/21.

Proposal

5. The report recommends that the Committee consider the Corporate Risk Management Report for 2020/21 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 the plans for further development of risk management arrangements.

Recommendations

6. It is recommended that the Committee note the Corporate Risk Management Annual Report 2020/21 as shown in Appendix 1 and agree that the Council has effective risk management arrangements in place.
-

Contact: Richard Hall ext 2827

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Corporate Risk Management

Annual Report 2020/21

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, the Strategic Director, Resources and Digital has responsibility for Risk Management, and the key rules in relation to Risk Management are set out in Financial Regulation 17.
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 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.
10. The Corporate Risk Management Team, which is an integral part of the Council's Resources and Digital 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.
11. 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.
12. 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, IT and Health & Safety functions.
13. 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.
14. 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, Resources and Digital and the Audit and Standards Committee. In addition, risks are identified in the execution of the annual audit plan, which are fed into the relevant risk action plans.
15. The Corporate Risk Management structure is set out in diagrammatical form at Appendix 2.

Developments in 2020/21

16. As part of the ongoing work to refresh operational risk management, Service Directors and Service Risk Coordinators have been supported where requested by the Corporate Risk Management Team. Aligning operational risk management to Service objectives will assist with focussing risk management activity on Council priorities and achievement of key outcomes.

17. 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 last updated in 2018/19 to reflect organisational changes.
18. To support the Council's response to COVID-19 and provide a joined up approach to the identification, assessment, mitigation and management of the numerous risks that emerged as a consequence of the pandemic which could threaten the achievement of the Council's policy objectives the following processes were undertaken:
 - Services reviewed BIAs and BCPs prior to lockdown with COVID-19 planning assumptions applied to ensure they were fit to minimise business interruptions in this scenario, and the required skills and equipment would be available. IT used this to prioritise allocation of IT equipment and support. An employee skills questionnaire was also drafted and circulated to enable staff redeployment to support critical activities.
 - This process was revisited in April 2020 to identify those activities where delivery might be interrupted with a critical impact to ensure appropriate BCPs were compiled and the necessary resources were allocated. This was repeated in November 2020 to reflect escalating COVID infections, seasonal service pressures and pending exit from the European Union, to ensure necessary resilience was in place to avoid any interruptions to critical Council activities, including those related to COVID response.
 - COVID-19 specific business risks were identified and circulated for review via Risk Champions to all Service Directors, to obtain and provide assurance that risks to delivery of Council objectives as result of COVID were identified and effectively mitigated.
19. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register. In November 2018 Cabinet and Council approved a revised Strategic Risk Register which is monitored and reported updates presented quarterly. The latest Strategic Risk Register can be seen in Appendix 3.
20. The Audit and Standards Committee have received quarterly risk management reports and risk management training is available for councillors.

How well has the Council managed Risk?

21. The overall risk management structure which is reviewed annually, as outlined in paragraphs 4 to 15 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.
22. Progress has been made against the risk management developmental objectives for 2020/21 identified in the Corporate Risk Management Annual Report 2019/20 as shown at Appendix 4.

23. The Council has in place a formalised 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.
24. The Council responded effectively to the demands of the COVID-19 pandemic and through comprehensive mitigation and planning suffered no major interruptions to key services in 2020/21, which further demonstrates how corporate risk management arrangements support service delivery.

Development Objectives 2021/22

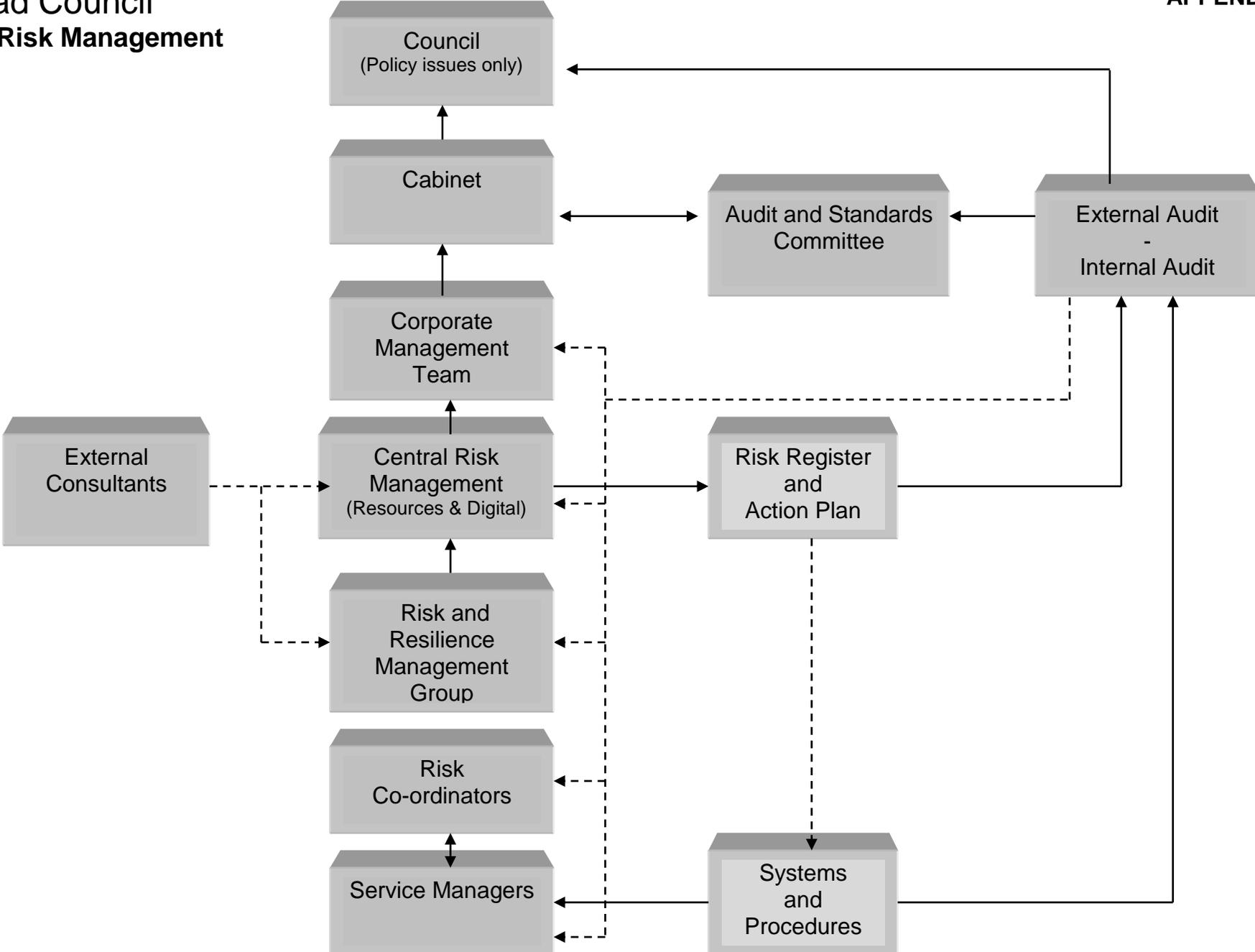
25. Development objectives for 2021/22 are set out in Appendix 5.

Conclusion

26. 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.
27. 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.

Gateshead Council
Corporate Risk Management
Structure

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Strategic Risk Register as at 31 March 2021

Ref	Risk	Risk owner	Gross	Current risk		
				Likelihood	Impact	Score
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	16	Moderate	High	12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	16	Moderate	Medium	9
3	Failure to safeguard vulnerable children and adults	CMT	16	Unlikely	High	8
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	12	Moderate	Medium	9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	12	Moderate	Medium	9
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	16	Moderate	Low	6
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT	8	Moderate	Low	6
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	Brexit Lead Officer	16	Likely	Medium	12
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	16	Moderate	High	12
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director, Housing Compliance	20	Likely	Medium	12

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Corporate Risk Management: Developmental Objectives 2020/21

Ref:	Objective	Progress to date
1	Continue to develop understanding and awareness of Risk Management by way of best practice through the Risk and Resilience Group and directed training on request.	Risk Management training was provided by the Corporate Risk Officer to members of the Council and the Audit and Standards Committee on 27 January 2020. In addition, support and guidance was available to risk champions as risks were reviewed during the year to ensure they continued to reflect the quickly changing risk environment the Council was facing.
2	Business Continuity Plans will continue to be updated, enhanced and, where appropriate formal testing against incident scenarios and best practice requirements will be carried out.	This is an annual corporate exercise where Service Directors were reminded to review Business Impact Assessments and authorise any subsequent Business Impact Plans. In addition to the annual exercise this was also undertaken in April 2020 and again in November 2020 to ensure plans and mitigation were in place and regularly reviewed in response to COVID-19 requirements and seasonal pressures to provide assurance about the Council's resilience and capacity to avoid any interruptions in the delivery of critical activities.
3	The Operational and Strategic Risk Registers will be subject to periodic review for updates and revisions to ensure the continue to reflect and contribute to the achievement of Council priorities, linking risk management activity to outcomes and delivery.	Risk owners have been reminded to keep risk information up to date. Risk Management updates have been provided to Group Management Teams and the Corporate Risk and Resilience Group. A new process is to be established for risk assessments which have not been reviewed by risk owners within an appropriate timeframe.

Ref:	Objective	Progress to date
4	Continue to develop risk management performance including comparison with other public sector organisations through the participation in the ALARM/CIPFA benchmarking, subject to membership take up	The Council participated in the 2019 exercise and was compared with 8 other club members. The information obtained through the exercise was used to improve practices within Groups and Services. The 2019 exercise was the last time it was held as ALARM did not undertake this activity in 2020/21. Representation to ALARM have confirmed no plans to hold this in 2021/22 or in the foreseeable future, so options for alternative local benchmarking will be explored.
5	Continue to prioritise Critical IT systems and the links to Critical service functions identified through the revised Business Continuity process.	The Cyber Security Group has held meetings throughout the Pandemic to ensure the resilience of critical IT systems.

Corporate Risk Management: Developmental Objectives 2021/22

Ref:	Objective
1	Continue to develop understanding and awareness of Risk Management by way of best practice through the Risk and Resilience Group and directed training on request.
2	Business Continuity Plans will continue to be updated, enhanced and, where appropriate, formal testing against incident scenarios and best practice requirements will be carried out.
3	The Operational and Strategic Risk Registers will be subject to periodic review for updates and revisions to ensure they continue to reflect and contribute to the achievement of Council priorities, linking risk management activity to outcomes and delivery.
4	Continue to develop risk management and business continuity performance including comparison with other public sector organisations and local resilience forums.

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21 June 2021



Title of Report: Annual Governance Statement 2020/21

Report Of: Darren Collins, Strategic Director, Resources and Digital

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 2020/21, 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 8 March 2021 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
 - Senior Managers
 - The system of internal audit
 - Risk management arrangements
 - Counter Fraud 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
 - Other sources of assurance
4. This AGS has been prepared during the outbreak of COVID-19. During this period the Council has operated within the framework of its Business Continuity Plans which have been developed to enable the Council to

operate effectively in times of crisis. Critical activities were prioritised and support services were delivered at a reduced level to comply with Government guidance and also enable redeployment of resources to support critical activities. Paragraph 24 of the AGS summarises the key actions taken to ensure Governance arrangements continued to be effective, and paragraph 43 how assurance was provided on the effectiveness of arrangements.

Governance Arrangements

5. 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 25 January 2021. This Code defines how the Council complies with the principals of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework.
6. The effectiveness of the Council's governance arrangements will be considered through the assessment of assurances below.

Councillors

7. 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.

Senior Managers

8. All 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 Audit

9. 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.

10. The system of Internal Audit, 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 8 June 2021.
11. Based on evidence arising from planned internal audit activity during 2020/21, the overall opinion of the Chief Internal Auditor for the year which is reported elsewhere on this agenda in the Internal Audit Annual Report 2020/21, is that internal control systems and governance arrangements are considered to be effective.

Risk Management Arrangements

12. The Strategic Director, Resources and Digital reports elsewhere on this agenda that risk management arrangements during the year were effective.

Counter Fraud Arrangements

13. The Strategic Director, Resources and Digital reports elsewhere on this agenda that Counter Fraud Arrangements during the year were effective.

Performance Management and Data Quality

14. The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. 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.
15. In addition, performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
16. The Corporate Data Management Group is overseeing the development of an approach to improving how the performance information is presented so that this is accessible to all stakeholders. Performance reports to Overview and Scrutiny are published on the Council's website.
17. The evidence arising from the performance management framework process for 2020/21 was presented to the Council's Internal Control Group on 8 June 2021. Based on this evidence the Group found that effective controls are in place.

Views of the External Auditor and other External Inspectors

18. Mazars, the Council's external auditor, issued an Annual Audit Letter in October 2020 covering the financial year 2019/20. 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 2 November 2020.
 - 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.
19. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

The Legal and Regulatory Framework

20. 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 8 June 2021.

Financial Controls

21. Assurance has been obtained from the Strategic Director, Resources and Digital, 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 8 June 2021.

Partnership Arrangements & Governance

22. 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. 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 operating satisfactorily.

23. Based on evidence arising from partnerships for 2020/21 effective controls are in place. This evidence was presented to the Council's Internal Control Group on 8 June 2021.

The Annual Governance Statement

24. As reported to the Audit and Standards Committee on 8 March 2021, 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.
25. This Group, the Internal Control Group, which is chaired by the Strategic Director, Resources and Digital and includes the Strategic Director, Corporate Services and Governance along with representatives of Internal Audit and Corporate Risk Management has reviewed the evidence from the sources of assurance above and prepared the Annual Governance Statement for 2020/21 which is attached at Appendix A.
26. Based on the review of the Council's governance arrangements during 2020/21, 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.
27. Based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-19 emergency, the opinion is that the Council's governance arrangements continued to be fit for purpose during that period.
28. 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 Annual Governance Statement, and an action plan for the next year.

Recommendation

29. The Committee is asked to approve the Annual Governance Statement to accompany the Statement of Accounts 2020/21 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 and Group

Annual Governance Statement 2020/21

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:

<https://www.gateshead.gov.uk/article/3696/Local-Code-of-Governance>
- 4 This statement explains how the Council and Group 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 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 2021 and approval of the Statement of Accounts 2020/21.

The Governance Framework

- 8 The Council continually reviews and improves its Governance Framework and during 2020/21, it has been updated to take account of changes to the Council's performance management framework which was being reviewed during the year and will be implemented in 2021/22.
- 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, including the current and ongoing impacts resulting from the COVID-19 pandemic, which will require effective long term planning to ensure a review of lessons learned, an effective recovery and mitigation of the financial impacts. It is anticipated that the scale and depth of these changes will continue until at least 2022, 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 objectives are set out in the strategic approach, Making Gateshead a Place Where Everyone Thrives, which provides a framework to deliver the priorities of the Council's Thrive policy and Health and Wellbeing Strategy using the three pillars of the Strategic Vision:
 - Economic Strategy
 - Housing Strategy
 - Investment Strategy

alongside interventions and actions required to fulfil the Council's Climate Emergency response and Community Wealth Building.

- 11 These priorities are translated by Services into specific aims and objectives. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.
- 12 The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. SMG Services and Performance plays a key role in monitoring the Performance Framework before reports are presented to Overview and Scrutiny Committees and Cabinet on a six monthly basis. The Corporate Data Management Group is overseeing the development of an approach to improving how the performance information is presented so that this is accessible to all stakeholders. Performance reports to Overview and Scrutiny are published on the Council's website.
- 13 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 a number of specific policies as set out in the Employee Handbook.

- 14 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 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.
- 15 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.
- 16 The Strategic Director, Resources and Digital 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.
- 17 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.
- 18 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.

- 19 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 2019/20, the Internal Audit Service was externally assessed for compliance with Public Sector Internal Audit Standards. The outcome of the assessment was that the service is substantially compliant with the requirement of PSIAS and the CIPFA Application Note. There were some minor areas for continued improvement identified. All the areas were included in an action plan, progress against which is reported to the Audit and Standards Committee. The results of the assessment were reported to the Audit and Standards Committee in June 2020.
- 20 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.
- 21 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 Health and Care System, Gateshead Safeguarding Children Partnership, Health and Wellbeing 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.
- 22 The Gateshead Housing Company, the Council's arms length management organisation, is responsible for managing Council housing stock on behalf of the Council. They play a significant role in delivering the Council's priority outcomes. The Council and Housing Company share most core systems of control including the finance system, and their internal audit services are provided by the Council. The Company has its own Board, Audit Committee and Strategic Risk Register. The main features of their governance and internal control arrangements are assessed each year and reported to the Company's Resources, Audit and Performance Committee by way of a Report of the Managing Director on the Statement of Internal Control, and their

accounts have been consolidated into the Council's group accounts on a line by line basis.

- 23 Following a decision to transfer the housing function to the Council, the Housing Company ceased to exist as a separate entity after 31 March 2021 and all governance and internal control issues will in future form part of the Council's and be assessed within that assurance framework.
- 24 To ensure governance arrangements continued to be effective and fit for purpose during the COVID-19 emergency the following key actions were taken:
- Cabinet delegation of Executive decision making by way of Cabinet report presented on 24 March 2020 for a temporary additional delegation be granted to the Chief Executive, all Strategic Directors, and in their absence the relevant Service Director, to deal with executive decisions that would normally be considered by the Cabinet, to minimise the business to be transacted at meetings associated with the Corona virus pandemic. All key decisions taken under these powers were recorded. This arrangement was used until Mid May 2020 and then was superseded once Cabinet meetings were able to be held remotely.
 - Community Shielding Hubs continued to coordinate identification of demand and delivery of support.
 - Business Impact Assessments were reviewed at two key points in the year, and Business Continuity Plans developed for all critical activities to minimise the risk of interruptions in the delivery of those activities.
 - Key decision making meetings with Councillors conducted remotely using virtual conferencing technology.
 - COVID-19 Response Team established to coordinate delivery and resourcing of Council COVID related activities including Enforcement, Business Contact, Resident Contact, Contact Tracing, Health Data, Testing and Vaccinations, Procurement, Finance, Governance and Information Routes, Comms, LRF, Excess Deaths, Local Traffic & Pedestrian Management, Events, Free School Meal Provision in Holidays, along with resilience arrangements to mitigate threats to business continuity.

Review of Effectiveness

- 25 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.
- 26 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.

- 27 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, Resources and Digital on the operation of the Council's financial controls;
 - Partnership governance arrangements; and
 - Counter fraud and corruption arrangements.
- 28 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.
- 29 The Council's Local Code of Governance is reviewed regularly and was last approved by the Audit and Standards Committee on 25 January 2021. Assurance was sought from Councillors who served on the Cabinet during 2020/21, 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 21 June 2021 in which all Members of the Cabinet considered that governance arrangements are effective.
- 30 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 including consideration of relevant assessments to ensure that no aspects of governance were adversely affected by the impact of COVID-19 and where necessary arrangements were put in place to ensure the Council's activities continued to be conducted appropriately, . These included considerations of the effectiveness of internal controls. A report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that, based on the self- assessments, Service Directors agree that effective controls were in place.
- 31 The Chief Internal Auditor reports to the Council's Strategic Director, Resources and Digital, 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 21 June 2021. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2019) 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.

- 32 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 21 June 2021. This opinion is based on 50 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eight 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 2020/21 as a result of the work of the Internal Audit Service.
- 33 The Council's 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 2020/21, the opinion of the Chief Internal Auditor reported to the Housing Company's Board meeting on 22 June 2021 is that the Company's internal control systems are considered to be effective. This opinion forms part of the Company's report on the Statement of Internal Control to the Board meeting on 22 June 2021.
- 34 The Annual Risk Management Report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that risk management arrangements are effective.
- 35 The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 21 June 2021 which concluded that counter fraud arrangements are effective.
- 36 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. In addition, during the year the Council has developed a new Performance Management and Improvement Framework which will be used from 2021/22. This identifies the interventions and strategic and operational measures that will track progress towards achieving the Council's corporate priorities for Thrive and delivery through the Health and Wellbeing Strategy.
- 37 No work undertaken by external bodies or inspectorates during the year identified weaknesses in internal controls or governance arrangements.

- 38 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 2020/21.
- 39 Assurance on the effectiveness of the Council’s financial controls has been provided by the Strategic Director, Resources and Digital (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.
- 40 Service Directors review partnerships within their Service areas 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 operating satisfactorily.
- 41 A report to Cabinet 24 March 2020 informed on the outcome of the comprehensive review of the delivery model for the Council’s housing stock and sought approval to develop a detailed business plan to implement the preferred option – the management and maintenance of the Council’s housing stock is re-integrated within the Council. This was to include a review of all services currently provided by TGHC and include relevant Council services to ensure the most efficient and effective delivery model. Following a review during 2020/21 of the most efficient and effective delivery model for managing the Council’s housing stock the decision was taken to co-locate the process and the Housing Company was wound up with effect 31 March 2021.

Actions Taken to Improve Governance Following Previous Annual Governance Statement

Governance Issue	Planned Action	Action Taken	Outstanding Matters
Strengthen Council arrangements for oversight and performance monitoring of management of	Continue to work with the Regulator to give assurance that all areas of non-compliance are progressing in line with the detailed action plan.	In order to facilitate the Council’s exit from the Voluntary Undertaking, an independent compliance audit commenced 16 th April 2021 as part of the process to provide assurance to the Regulator of Social Housing that Gateshead is sufficiently progressed with a	None

<p>housing stock and housing services to realise Council policies and objectives in relation to the Housing Strategy.</p>	<p>Ensure that an appropriate Governance framework is in place to support both the decision on the future model of delivery and implementation of the chosen model itself.</p>	<p>resourced and deliverable action plan that has effective and robust controls in place to return to and maintain compliance. The first data sharing exercise took place on 27th April 2021 and reconciliation of that data is in progress and expected to continue into June 2021. It is anticipated, following receipt of the audit findings, that the Council will be in a position to exit in July 2021.</p> <p>The governance framework following the transfer of the housing function to the Council has been agreed by the Council for the new municipal year 2021/22. This includes monitoring performance of housing-related functions within the Council's refreshed Performance Management Framework reporting to the new Housing, Environment & Healthy Communities OSC (with a new focus on the housing function following transfer of management from TGHC).</p>	
<p>Resilience</p>	<p>A review of lessons learned from the response to COVID-19, including the Council's Constitution to be conducted.</p>	<p>Review of the Constitution commenced in March 2021.</p> <p>Operating procedures were continuously reviewed during the year to ensure they continued to make the best use of finite resources within the COVID operating restrictions. Two reviews of Business Impact Assessments and Business Continuity Plans were conducted during the year to ensure developments in working practices and the operating environment, including COVID impacts were captured and provide assurance on resilience of critical activities.</p>	<p>None</p>

Action Plan for 2021/22

Governance Issue	Planned Action	Responsible Officer
Scrutiny	Online Guide to Gateshead Council to be updated to ensure it continues to reflect the management structure of the Council and the Services provided to assist stakeholder scrutiny and to assist new ways of working.	Strategic Director, Corporate Services and Governance.
Resilience	A review of lessons learned from the response to COVID-19 to be conducted.	Corporate Management Team

Opinion on Governance Arrangements

- 42 Based on the review of the Council's governance arrangements during 2020/21, 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.
- 43 Based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-19 emergency, the opinion is that the Council's governance arrangements continued to be fit for purpose during that period.

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

- 44 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 21 June 2021 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: