

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 24 April 2017 at 10.00 am in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	Apologies for Absence
2	Minutes (Pages 3 - 6) The Committee is asked to approve, as a correct record, the minutes of the meeting held on Monday 6 March 2017.
3	Audit and Standards Committee Work Programme 2017-18 (Pages 7 - 8) The Committee is invited to review and comment upon the provisional work programme for 2017-18.
4	Declarations of Interest Members to declare interests in any agenda items.
5	External Auditor: Audit Progress Report (Pages 9 - 18) Report of the Strategic Director, Corporate Resources
6	Internal Audit Strategy Statement and Annual Plan 2017/18 (Pages 19 - 34) Report of the Strategic Director Corporate Resources.
7	Corporate Risk Management 2016/17 Quarterly Report (Pages 35 - 38) Report of the Strategic Director Corporate Resources.
8	Date and Time of Next Meeting (To note) Monday 19 June 2017 at 10am (Blaydon Room)
9	Exclusion of the Press and Public The Committee may wish to exclude the press and public from the meeting during consideration of the exempt items in accordance with Schedule 12A to the Local Government Act 1972.

EXEMPT

10

Internal Audit Plan 2016/17 Quarterly Monitoring Report to 31 March 2017
(Pages 39 - 46)

Report of the Strategic Director Corporate Resources

Contact: Neil Porteous - Tel: 0191433 2149 - Email: Neilporteous@gateshead.gov.uk,
Date: Wednesday, 12 April 2017

GATESHEAD METROPOLITAN BOROUGH COUNCIL AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 6 March 2017

PRESENT: Councillor H Haran (Chair)
Councillor(s): L Green, J McElroy and J Adams

INDEPENDENT MEMBERS: G Clark, J Common, B Jones

APOLOGIES: Councillor(s): J Green

ASC MINUTES 40

RESOLVED: The minutes were approved as a correct record.

ASC DECLARATIONS OF INTEREST 41

RESOLVED: There were no declarations of interest.

ASC LOCAL CODE OF GOVERNANCE 42

The Committee received an updated version of the Local Code of Governance and was asked to consider the proposed approach to developing and delivering the new CIPFA Delivering Good Governance in Local Government Framework.

It was reported that since 2007 the Council has developed annually a local code of governance based on CIPFA and SOLACE guidance. This has been updated for the current year to include a number of actions achieved and areas set out for improvement.

The Committee contributed to CIPFA's consultation on the review of their framework and in April 2016 this was updated. The new approach is aimed to better assist local authorities and associated organisations in reviewing the effectiveness of their own governance arrangements. The principles of good governance in the framework were identified. It was noted that the new approach complements the work in the Ways of Working change programme workstream, to embed organisation capabilities.

It was confirmed that, instead of being officer led the development of the new Framework will take a more iterative approach over the next 6-9 month. It was therefore proposed that a core officer working group be established and workshop sessions be held with regular reporting to this Committee, Strategy Group and Leadership Team.

Consideration was given to ways in which to get wider public consultation. It was suggested that two or three pertinent issues be identified from the document to consult on to ensure meaningful consultation. It was agreed that the scope for such consultation could be looked at during a short workshop. It was also suggested that the partnerships across the Council be consulted as well as Electoral Services around increasing democracy.

- RESOLVED: (i) That the Audit and Standards Committee approved the current updated Local Code of Governance
- (ii) That the Audit and Standards Committee approved the proposed approach to development of the new CIPFA Framework.

ASC 43 EXTERNAL AUDITOR: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16

The Committee received the external auditor's annual report on Certification of Claims and Returns.

There were two minor amends to the Housing Benefit Subsidy grant of £86.7m. The certificate was issued on 23 November 2016, within the deadline, the fee was £10,615.

RESOLVED: That the Committee noted the contents of the external auditor's report.

ASC 44 EXTERNAL AUDITOR: AUDIT STRATEGY MEMORANDUM YEAR ENDING 31 MARCH 2017

The Committee received the external auditor's Audit Strategy Memorandum for the year ending 31 March 2017.

Key areas of risk were identified as;

- Management override of controls
- Revenue recognition
- Valuation of property, plant and equipment
- Valuation of the defined benefit pension scheme
- Introduction of the new iTrent Payroll system

The final review will be finished by July 2017 and will be reported back to the Committee.

It was confirmed that South Tyneside Pension Fund has agreed to look at the minimum amount of Pension Fund Assurance which is needed from them. Although there has been assurance that information should be released earlier, this may not be until the end of July.

It was questioned whether work with other partners is a national directive. It was

confirmed that NAO reflects this in its guidance, which is published online. It was agreed the link to the guidance would be circulated to the Committee after the meeting.

The fee remains the same as last year and it was confirmed that this is a 65% drop since 2012.

RESOLVED: That the Committee noted the contents of the external auditor's Audit Strategy Memorandum.

ASC 45 INTERNAL AUDIT UPDATE

The Committee received a report on the work of the Internal Audit and Risk Service.

It was agreed at the last meeting that the appointment of external auditors would be through a sector led body, removing the need to set up an Independent Auditor Panel. This has been agreed by Council and will be presented to Council for approval on 8 March 2017.

An invest to save budget option was agreed by Council, this will see the creation of two dedicated Counter Fraud Officer posts from April 2017. Proactive anti-fraud and corruption work will target areas which have been identified nationally as being at a high risk of fraud. There will be other work undertaken, in particular increased awareness training throughout the Council and the drafting of a Council Counter Fraud and Corruption Strategy.

The National Fraud Initiative (NFI) matches electronic data between public and private bodies to prevent and detect fraud. 15 data sets have been submitted in October 2016, this has resulted in over 1,000 being prioritised for investigation.

It was agreed that the awareness training should be made available to all Committee members. It was also agreed that a report would be brought back to Committee on the progress of the Counter Fraud Officer posts.

RESOLVED: (i) That fraud awareness training be rolled out to all Committee members and that progress reports on the Counter Fraud Officer posts be brought back to Committee.

(ii) That the Committee noted the contents of the report.

ASC 46 ANNUAL GOVERNANCE STATEMENT 2016/17 - ASSURANCE FRAMEWORK

A report was presented to Committee on the work to be undertaken to produce the Annual Governance Statement (AGS) for 2016/17, this demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

The assurance framework supports the AGS and will demonstrate four aspects;

- Identify what we want assurance on
- Assess what are the sources of assurance

- Review how is the assurance validated
- Act – what are the opportunities to improve

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

It was suggested that the responsibility of the independent members should be included within the AGS. It was agreed that this would be address through the Code of Governance.

RESOLVED: That the Committee agreed the assurance framework and agreed the inclusion of independent member’s responsibilities within the Code of Governance.

ASC 47 TREASURY POLICY STATEMENT AND TREASURY STRATEGY 2017/18 TO 2019/20

The Committee received the proposed Treasury Policy Statement and Treasury Strategy for 2017/18 to 2019/20, prior to consideration by Cabinet on 14 March 2017.

In terms of the Treasury Strategy, it is unlikely that interest rates will increase before June 2019, this will allow an opportunity to take out short term loans with lower interest. The Strategy therefore indicates utilising these loans before rates increase, thus minimising borrowing costs going forward.

In relation to investment it was noted that there is a planned move away from AA-rated banks, therefore more scope in terms of depositing money. The maximum amount will increase from £5 to £10million, the risks have been found to be acceptable.

It was reported that debt rescheduling will continue to be looked at, however it is not currently worthwhile.

It was questioned what the rationale was as to why an external investment fund manager has not been appointed. It was confirmed that the expertise already lies within the team, with some staff treasury trained, therefore it is not necessary to appoint a manager. It was acknowledged that if there was a specific gap officers would be in contact with Capita.

RESOLVED: That the Committee reviewed the recommendations on the Treasury Policy and the Treasury Strategy and agreed its submission to Cabinet.

Chair.....

Audit and Standards Committee – Work Programme – 2017/18

Committee Meeting Date/Time	Items to be considered
(Bridges Room)	
19 June 2017 10am	<ul style="list-style-type: none"> • Constitution • Role and Remit • Cyber Security: Business Continuity & Disaster Recovery Planning • Oversight of Management Processes • Members’ Assurance Statements 2016/17 • Managers’ Assurance Statements 2016/17 • Review of the Effectiveness of Internal Audit 2016/17 • Corporate Risk Management – Annual Report 2016/17 • Annual Governance Statement 2016/17 • Internal Audit Annual Report 2016/17 (exempt agenda)
24 July 2017 10am	<ul style="list-style-type: none"> • Annual Report to Cabinet and Council 2016/17 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 30 June 2017 (Exempt Agenda) • Corporate Risk Management 2017/18 – Quarterly Report to 30 June 2017
2 October 2017 5.30pm	<ul style="list-style-type: none"> • Committee on Standards in Public Life (Annual report 2016-2017) • Results of the 2016/17 CIPFA Audit Benchmarking • Corporate Risk Management 2017/18 - Quarterly Report to 30 September 2017 • Review of Internal Audit Charter • Annual Governance Statement 2016/17 – Internal Audit Review of Managers’ Assurances • Treasury Management – Performance to 30 September 2017 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 30 September 2017 (Exempt Agenda)
29 January 2018 10am	<ul style="list-style-type: none"> • Corporate Risk Management 2017/18 – Quarterly Report to 31 December 2017 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 31 December 2017 (Exempt Agenda)
5 March 2018 10am	<ul style="list-style-type: none"> • Treasury Policy Statement and Treasury Strategy • Local Code of Governance (Confirm with Martin / Mike) • Annual Governance Statement (Assurance Framework) • Internal Audit Update
30 April 2018 10am	<ul style="list-style-type: none"> • Internal Audit Strategy Statement and Annual Plan 2018/19 • Corporate Risk Management 2017/18 – Quarterly Report to 31 March 2018 • Internal Audit Plan 2017/18 – Quarterly Monitoring Report to 31 March 2018 (Exempt Agenda)

Issues to programme in:

- Counter Fraud Progress Update

Training to programme in:

- Ethics and Probitry Training - May/June 2017
- Counter Fraud Awareness Training – tbc (agreed by Committee at its meeting on 6 March 2017)

Contact: Neil Porteous

Ext: 2149

TITLE OF REPORT: External Auditor: Audit Progress Report

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

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

Background

- 2 The report summarises the following:
 - 2016/17 audit planning.
 - Bringing forward the accounts and audit timetable.
 - Final accounts workshop for officers.
 - National publications and other updates.
- 3 The external auditor's report is attached at Appendix A.

Recommendation

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

This page is intentionally left blank

Audit Progress Report

Gateshead Council



April 2017



Contents

Audit progress 3

National publications and other updates 4

Contact details 7

Audit progress

2016/17 audit planning

We have now completed our 2016/17 planning and the results were reflected in the Audit Strategy Memorandum which was presented to the Audit and Standards Committee on 6 March 2017.

Our planning included:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering financial performance;
- assessing internal controls, including reviewing the control environment;
- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- completing walkthrough tests on the key controls within the material financial systems.

As part of our work, we took into account the most recently published updated VFM guidance for local government bodies (in essence, no significant change). <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

We held planning meetings with senior managers to inform our planning risk assessments and to better understand the priorities and challenges the Authority faces. We also discussed the previous year's audit and considered any areas for continuous improvement.

As part of our commitment to quality, team members have already attended our annual audit training conference which included technical issues in respect of the LG sector and feedback from quality reviews to take into account in the coming year. For example, the workshop covered the new format for the Comprehensive Income and Expenditure Statement to be used in 2016/17.

Bringing forward the accounts and audit timetable

The accounts and audit timetable will be formally brought forward from the 2017/18 audit, with the draft accounts requiring certification by the end of May and the audit being completed by the end of July 2018.

We continue to work closely with officers and aim to give our opinion on the 2016/17 Accounts by 31 July 2017. We attended the Council's closedown workshops to discuss the detailed final accounts audit and we have also issued a final accounts protocol to support how work is done.

Final accounts workshop

As in previous years, we held a final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. This workshop was held in February 2017 and Council officers responsible for preparing the Authority's accounts attended.

As part of our work, we are also carrying out interim testing to help reduce the impact of our work in the busy summer period.

Issues arising

At this stage of our audit work, we have no significant deficiencies in internal control to report to you.

National publications and other updates

National publications and other updates	
1.	Report on the results of auditors' work 2015/16: local government bodies, Public Sector Audit Appointments Ltd, December 2016
2.	Health and Social Care Integration, National Audit Office, February 2017
3.	Housing in England: overview, National Audit Office, January 2017
4.	Auditor Guidance note, National Audit Office, December 16
5.	Highways Network Asset briefing, CIPFA, January 2017
6.	Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

1. Report on the results of auditors' work 2015/16: Local government bodies, Public Sector Audit Appointments Ltd, December 2016

Auditors of 96% of authorities were able to issue the opinion on the accounts by the statutory deadline of 30 September 2016.

PSAA's conclusions in relation to local authorities included that "*The timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations.*"

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

2. Health and Social Care Integration, National Audit Office, February 2017

The NAO has recently published a report which will be of interest to auditors on health and social care integration. The report highlights that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government's plan for integrated health and social care services across England by 2020 is at significant risk.

In the face of increased demand for care and constrained finances, while the Better Care Fund, the principal integration initiative, has improved joint working, it has not yet achieved its potential. The Fund has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015-16.

The Department of Health and the Department for Communities and Local Government have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020.

The report also found that NHS England's ambition to save £900 million through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. While the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor.

In addition, no compelling evidence was found to show that integration in England is yet leading to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings.

<https://www.nao.org.uk/report/health-and-social-care-integration/>

3. Housing in England: overview, National Audit Office, January 2017

The NAO has recently published an overview of the housing market in England, the Department for Communities and Local Government's (DCLG) housing strategy and the overall housing policy landscape, which may be of interest to auditors in considering bodies' arrangements to secure value for money. The need for housing in England has in recent years grown faster than its supply.

Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element of this is housing benefit. In 2015-16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of DCLG's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.

The report finds that housebuilding has not kept pace with need, and this is particularly acute in London. It notes that DCLG is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market. The report also finds that housing has become more affordable for existing homeowners, whereas by contrast housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-02. Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11.

Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.

<https://www.nao.org.uk/report/housing-in-england-overview/>

4. Auditor Guidance note, National Audit Office, December 16

The National Audit Office (NAO) issues guidance to auditors of public sector bodies. The main revision to the guidance note is to update explanatory and supplementary guidance on meeting the requirements in the Code of Audit Practice to safeguard integrity, objectivity and independence in the conduct of local audit. The Annex to the guidance also illustrates how the requirements of the Financial Reporting Council's (FRC) ethical standard on financial, business, employment and personal relationships apply to audits of local public bodies.

The guidance note and its Annex is addressed to local auditors however it is recommended that audit teams ensure that their audited bodies are aware of the need for auditors to comply with relevant ethical requirements and also that those charged with governance are briefed as appropriate on the requirements of the FRC's ethical standard.

We confirm that we have taken into account the updated guidance and fully comply with the FRC's ethical standard.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

5. Highways Network Asset briefing, CIPFA, March 2017

At its meeting on March 8th, the CIPFA/LASAAC Code Boardi decided not to proceed with the introduction of the Highways Network Asset Codeii into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

<http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing>

6. Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

The latest 2016/17 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

Contact details

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

www.mazars.co.uk

Cameron Waddell
Partner
0781 375 2053
cameron.waddell@mazars.co.uk

Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Jim Dafter
Senior Manager
07815 876 042
jim.dafter@mazars.co.uk



This page is intentionally left blank



Audit and Standards Committee
24 April 2017

TITLE OF REPORT: The Internal Audit Strategy Statement and Annual Plan 2017/18

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. The report sets out the proposed Audit Strategy Statement and annual plan of work to be undertaken by the Internal Audit & Risk Service in 2017/18.

Background

2. The terms of reference for Internal Audit are laid down in Financial Regulations, which forms part of the Council's Constitution and the Audit Charter.
3. The Internal Audit & Risk Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources.
4. The Strategic Director, Corporate Resources has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require Councils to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*".
5. The Chief Internal Auditor manages the Internal Audit & Risk Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a systematic review and evaluation of all aspects of the internal control environment.
6. The principal objective of the Internal Audit & Risk Service is to assist service managers in delivering the priorities of the Council and its partners, through the assessment of exposure to risk and the continuous improvement of the control environment.

Basis for the Plan

- 7 Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). PSIAS state that the Chief Internal Auditor *“must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”*.
- 8 In accordance with the PSIAS, the input of senior management must be considered in this process, all Service Directors were given the opportunity to contribute towards the plan.
- 9 The Chief Internal Auditor forms an annual assurance opinion based on the programme of audit work as well as assurance obtained from other means. Combined assurance aims to optimise the assurance coverage obtained from management, and both internal and external assurance providers. This is a key area where development work will continue in 2017/18 to formalise assurance mapping across the Council.
- 10 In addition to audit, the Chief Internal Auditor considers any issues identified through counter fraud and irregularities or developing systems and processes insofar as they impact of the effective operation of governance, risk management or internal controls.
- 11 The plan for 2017/18 also includes two dedicated Corporate Fraud posts. These officers will work to develop and embed the Council’s Fraud & Corruption Strategy as well as conducting any fraud and irregularity investigations. Updates in relation to Counter Fraud activity will be presented quarterly to the Committee.
- 12 The plan includes allocation for advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and our partners. Time is allocated to support developing systems, ensuring early engagement and audit support across the Council.
- 13 Rather than a traditional cyclical-based approach, the plan focusses on the main risks to the Council. It provides a balanced approach to traditional compliance work with advisory work as a catalyst for service improvement and to sharpen focus on emerging risks. The plan is flexible and is reviewed and adjusted throughout the year as necessary in response to changes in policies, systems, processes, risks and controls across the Council.
- 14 The Audit Strategy Statement and the annual plan for 2017/18 are attached at Appendix A. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to the Council, retaining flexibility to reprioritise assurance activities as required.

Recommendations

15 The Committee is asked to:

- agree the Audit Strategy Statement and the annual plan of work to be provided by the Internal Audit & Risk Service for 2017/18.
- agree to receive quarterly monitoring reports showing progress made against the plan.

Contact name: Craig Oakes – Ext. 3711

This page is intentionally left blank

The Internal Audit Strategy Statement & Annual Plan 2017/18

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

Introduction

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2017/18 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the Council Plan and Vision 2030.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service which is based within the Corporate Finance Service within Corporate Resources.

Purpose

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2017/18.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015;
 - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers;
 - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls;
 - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money; and
 - Support the Strategic Directors of Corporate Resources and Corporate Services & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.

Key Outputs Statement

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

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

Key Characteristics of the Annual Plan

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2017/18:
 - The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council's structure with ongoing activity to identify and deliver savings across all areas of Council services including a significant Change Programme. The implementation of changes and public service reform with a reduced workforce and reduced funding, whilst delivering business as usual and achieving priorities remains a key challenge and risk for the Council during 2017/18 and beyond.
 - Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified. This is particularly relevant for 2017/18 as changes are agreed through the Change Programme with detailed work ongoing to confirm how these will be delivered.
 - As such, there are areas where Internal Audit work cannot be fully defined at this stage but where allocation of resources are required to help support good governance, risk management and control. Rather than define specific audits, the plan includes allocations of work which will be applied to specific aspects of audit activity throughout the year based on on-going consultation with Service Directors to reassess key risks. Examples include call-off hours allocated to each Strategic Group and the Change Programme.
 - Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The significant reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the draft plan includes time for advice and consultation and developing systems support to officers

to support and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit's work will be challenging and advisory, rather than design of controls which are a management responsibility.

- The plan includes more time this year to reflect the work the Corporate Counter Fraud Team will be doing in relation to developing and embedding the Council's counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
- The plan also includes time for audits brought-forward from 2016/17 for completion in early 2017/18 to allow for the finalisation of workload that spanned year-end.
- The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
 - a. Provide assurance on the effectiveness of internal controls operating within the Council.
 - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
 - d. Investigate suspected or detected frauds or irregularities.
 - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

2017/18 Annual Planning Process

7. The approach to audit planning in the Council for 2017/18 has been based on the following:

- The Council's priorities;
- The risks documented in the Council's strategic and operational risk registers;
- Consultation with Service Directors and the external auditors;
- Changes in legislation;
- The scope of planned external audit work;
- The implications of external inspection reports;
- Findings and outcomes from audit and investigation work in 2016/17 and earlier years;
- Consultation with colleagues across the region;
- Time elapsed since the previous audit; and
- The availability of resources.

8. The audit plan has been mapped to the Strategic Risk Register. As reported elsewhere on the agenda, this is being reviewed to ensure it is relevant and covers all the key risks facing the Council. Once this is finalised, the audit plan will be revisited to ensure appropriate coverage of strategic risks.
9. Once this information has been analysed the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments audits are categorised as high, medium or low priority which dictates where they will be audited within a 3-year cycle. High priority areas are audited on an annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.
10. The audit plan for 2017/18 is based on resources of 13.5 full time equivalent employees (FTE) (11.7 FTE's for 2016/17). Auditor's time has been allocated on the basis of an estimate of 73% productive hours after allowing for non-productive time including annual leave, sickness absence and training.
11. On this basis, the plan for 2017/18 has been broken down into 18,789 productive hours (16,435 productive hours for 2016/17) as shown below in paragraph 15.

Plan Structure

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

14. A balanced approach of using different types of audit and other work is considered the most effective way to deliver the Strategy for Internal Audit.

Plan Content

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

Groups and Services	Audit Hours
Care, Wellbeing and Learning	1,595
Communities and Environment	1,840
Corporate Resources	1,835
Corporate Services and Governance	1,115
Office of the Chief Executive	596
Schools	900
Key Systems	2,068
Corporate	
Counter Fraud	2,750
Grant Certification	350
Audit Planning and Management	1,410
External Bodies	
Gateshead Housing Company	1,690
Northumbria Police	2,640
Total Productive	18,789
Non-productive	7,091
Total Hours	25,880

Audit Type	Audit Hours
Advice and Consultancy	450
Assurance Review	7,431
Key Systems	2,068
Grant Certification	350
Audit Planning and Management	1,410
Counter Fraud	2,750
Non-productive	7,091
Total Council Plan	21,550
External Bodies	
Gateshead Housing Company	1,690
Northumbria Police	2,640
Total Hours	25,880

16. Audit Planning and Management covers other audit activities including involvement in corporate initiatives, preparation of audit committee reports, audit planning, preparation

of the Annual Governance Statement, liaison with the external auditors and development and support for new financial and internal audit management systems.

How the service will be provided

17. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle Council for ICT auditing. This arrangement will be kept under review on an annual basis.
18. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activity have the required mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants, qualified Association of Accounting Technicians or studying for professional qualifications. In addition, during 2017/18 officers involved in Counter Fraud work will be training to achieve accreditation as CIPFA Counter Fraud Specialists.
19. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
 - The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
20. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

Performance Management

21. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of the most recent external assessment against PSIAS was reported to the Audit and Standards Committee on 26 January 2015. A number of actions were identified and will be continuously reviewed and reported to the Audit and Standards Committee. Further examples include:
 - Internal self assessments by the Chief Internal Auditor.
 - Customer satisfaction questionnaires.
 - Annual CIPFA benchmarking information.
 - External assessment every 5 years by a recognised, qualified and independent assessor.
22. To achieve the planned coverage for 2017/18, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	73%
Number of planned audits completed Whilst this will be measured, the approach to the plan is flexible and continuous review of the risks may mean changes are required to redirect resources to emerging risks	90% (annual)
Actual hours against planned hours achieved in year	97.25%
Number of audit recommendations implemented: High Medium	100% 90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Issued Returned Average score (maximum 4)	100% 100% 3.4 (85%)
Average cost per chargeable day	Lower than average

Appendix B

Care, Wellbeing and Learning			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Youth Offending Team	Low	40
	Youth and Community Learning	Medium	100
	Early Years	Medium	70
	Children with Disabilities	Medium	70
	Primary Care Contracts	New	100
	Safeguarding	High	100
	Shopping and Meals Service	Medium	50
	Day Centres for Adults with Disabilities	Medium	70
	Care Call	High	120
	Connexions	Low	70
	Pooled Budgets and the Better Care Fund	New	150
	Services to Schools	New	60
	Independent Supported Living Schemes	Low	50
	Public Health - Commissioning of Internal Services	High	100
	Commissioning Adult Services	High	100
	Commissioning of Children's Services	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		145
	Total Assurance Review		1,545
Total Audit Hours			1,595

Schools			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	Advice and Consultancy		100
	Total Advice and Consultancy		100
Assurance Review	School Audits	Low	520
	Audit Follow Up and Additional Contingency		200
	Audits brought forward from 2016/17		80
	Total Assurance Review		800
Total Audit Hours			900

Communities and Environment			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Commercial Contracts	High	80
	Licencing	High	100
	Trading Standards Annual Accounts	High	25
	Transport Strategy	Medium	75
	Waste Collection and Disposal	Medium	100
	Facilities Management	Medium	50
	Business Centres	Low	100
	Travelling Community Caravan Site	Low	60
	Car Parking	Medium	80
	Transport	Medium	80
	Grounds Maintenance	Low	100
	Resilience Planning	Low	40
	Quality Inspection	Low	30
	Vehicle Trackers	Low	60
	Pre-contractual Procedures	High	140
	Post-contractual Procedures	Low	100
	Waste Management Partnership	High	70
	Libraries	Low	70
	Trading Standards and Food Safety	Low	40
	Leisure Centres	High	120
	Catering	Low	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		120
	Total Assurance Review		1,790
Total Audit Hours			1,840

Office of the Chief Executive			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
			50
Assurance Review	Equalities	Low	90
	Performance Indicators and Data Quality	High	60
	Change Programme	High	200
	Partnership Arrangement	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		46
	Total Assurance Review		546
Total Audit Hours			596

Corporate Resources			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		150
	Total Advice and Consultancy		150
Assurance Review	ICT Active Directory	New	90
	ICT Risk Management	New	90
	ICT Cloud Computing Management	New	90
	ICT Patch/Release Management	New	90
	Exchequer Services	Medium	90
	PCI Compliance	Medium	70
	Members Allowances	Medium	50
	Assessments	Medium	100
	Customer Services	Medium	60
	HR Support	Low	80
	Protection of Property	Low	100
	Leasing	Medium	50
	Major Projects	Medium	80
	Housing Revenue Accounts	High	80
	Insurance	Medium	100
	Trading Companies	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		315
	Total Assurance Review		1,685
Total Audit Hours			1,835

Corporate Services and Governance			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Assurance Review	Elections	Medium	60
	Litigation	Medium	60
	Redeployment and Redundancy	Low	80
	Recruitment and Appointment Process	Low	80
	Bereavement Services	High	70
	Corporate Procurement	Medium	100
	Property Management	Medium	80
	Print Point	Medium	60
	Governance Arrangements	Medium	80
	Corporate Asset Management	Medium	80
	Charitable Trust Funds	Medium	50
	Mayor's Charity Fund	High	15
	Registration Services	Medium	70
	Data Protection	High	100
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		30
	Total Assurance Review		1,065
Total Audit Hours			1,115

Key Systems			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy		50
	Total Advice and Consultancy		50
Key Systems	Corporate Payroll and Human Resources	High	110
	Corporate Debtors and Income	High	120
	Corporate Creditors	High	120
	NNDR and Council Tax	High	150
	Council Tax and Housing Benefits	High	150
	Main Accounting System	High	70
	Capital Accounting System and Programme	High	80
	Risk Management and Business Continuity	High	150
	Service Payroll and Human Resources	High	100
	Counter Fraud Arrangements	High	80
	Treasury Management	High	50
	Annual Governance Statement Assurances	High	100
	VAT Arrangements	High	40
	Service Debtors	High	80
	Service Creditors	High	80
	Audit Follow Up Contingency		50
	Audits brought forward from 2016/17		488
	Total Key Systems		2,018
Total Audit Hours			2,068

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

Counter Fraud			
Counter Fraud			
	Fraud Investigation	High	2,000
	Fraud Awareness	High	200
	Counter Fraud Development	High	200
	National Fraud Initiative	High	250
	General Advice	High	100
Total Hours			2,750

Non-productive			
Non-productive			
	Leave (annual, public holidays, sickness etc)	n/a	4,646
	Training and Development	n/a	1,200
	Staffing and Supervision	n/a	1,245
Total Hours			7,091

TITLE OF REPORT: Corporate Risk Management 2016/17
Quarterly Report to 31 March 2017

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report updates the Committee of developments in Corporate Risk Management during the period 1 January to 31 March 2017 in compliance with the requirements of good corporate governance.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy approved by Council on 6 June 2013.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2016/17 as cited in the Corporate Risk Management Annual Report 2015/16 and any other risk management issues emerging within the quarter under consideration.

Development Objectives

4. Work is underway on the revision of the Strategic Risk register that will be linked to the refresh of the Council Plan and the Council's strategic objectives. To progress this work a corporate working group has been established.
5. Progress on this work will be brought to Committee and will include a summary of the steps that have been taken to date and future milestones. Once complete the revised Strategic Risk register will be presented to Committee for approval.
6. The annual refresh of operational risk registers and business continuity plans is also underway and progressing well.
7. The review of the corporate risk strategy and risk policies will commence shortly and build on the work that is taking place in respect of the Strategic Risk register and include closer links to service Business Continuity Plans and the Community Risk register. To support this review a benchmarking exercise will be carried out and any good practices identified will be adopted.
8. Risk management training will be included in the Committee training matrix and will take place during 2017/18.
9. The Action Plan for the delivery of the Developmental Objectives for 2016/17 incorporating progress to date is shown at Appendix 1.

Risk and Resilience Group

10. The Risk and Resilience Group continue to meet quarterly with the next meeting due to take place 26 April. The meeting will involve a scenario based exercise to test the Panedmic Influenza Business Plan which the group members have been developing.
11. Other agenda items will include updates on
 - The work ICT have been carrying out on the Critical IT systems; and
 - Progress on Corporate Risk Management, as detailed above.

Recommendation

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

Corporate Risk Management: Developmental Objectives 2016/17

Ref:	Objective	Target Implementation Date	Progress to date
1	Business Continuity Plans will be updated, enhanced and subject to testing.	<p>July 2016 – partially implemented</p> <p>March 2017 – for outstanding elements of this objective</p>	<p>The Business Continuity Plans have been updated to reflect the revised Council structure. Further work will be carried out during the year to enhance and test the Business Continuity Plans.</p> <p>The annual refresh is underway</p>
2	The Strategic Risk Register will be refreshed which will include a review of the template and supporting documentation.	April 2017	<p>Review of the template has been carried out.</p> <p>Work is continuing to update the revised template and will be completed after the 2017/18 budget has been agreed.</p> <p>A corporate group has been established to take forward the refresh of the Strategic Risk Register</p>
3	The Operational Risk Register will be refreshed, this will include a review of the template and supporting documentation.	April 2017	<p>A review of operational risks has taken place. Supporting documents and templates are currently being reviewed.</p> <p>The annual review of the</p>

Ref:	Objective	Target Implementation Date	Progress to date
			Operational Risk Register is underway.
4	The Council's Risk Management and Business Continuity Policies will be reviewed to ensure they comply with best practice and are responsive to the challenges facing the Council	June 2017	The policies will be updated to reflect any areas identified as part of the review of the Strategic Risk Register and link to the review of the Council's corporate objectives and risk framework.
5	The provision of further Risk Management training to Councillors and officers appropriate to their responsibilities.	Date to be agreed based on requirement	The training will be delivered as required.
6	Assess the risk management performance indicators obtained through the participation in the ALARM/CIPFA benchmarking club to identify any areas of best practice that can be incorporated into the Council's Risk Management arrangements.	July 2016	Complete

By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank