

**TITLE OF REPORT:**        **Annual Report of the Audit and Standards Committee 2019/20**

**REPORT OF:**               **Darren Collins, Strategic Director, Resources and Digital**

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**Purpose of the Report**

1. To ask Cabinet to consider the Audit and Standards Committee Annual Report for 2019/20 and agree that this report is submitted to Council.

**Background**

- 2 In line with best practice the Audit and Standards Committee is required to report to Cabinet and Council on the Committee's activity each year. The report for 2019/20 was agreed by the Audit and Standards Committee on 19 October 2020.

**Proposal**

- 3 Cabinet is asked to consider the Audit and Standards Committee's Annual Report at Appendix 2 and agree to submit it to Council. The Report provides an overview on the work of the Audit and Standards Committee during 2019/20 and describes how it has had a positive impact on governance, financial reporting and audit issues across the Council, as well as providing challenge and independent assurance on the risk management framework and associated internal control environment.

**Recommendation**

- 4 It is recommended that Cabinet endorse the Annual Report of the Audit and Standards Committee for 2019/20 and agree that it is submitted to Council.

For the following reason:

To strengthen the Council's arrangements for oversight by councillors of governance, audit, risk management, the internal control framework, value for money and efficiency.

## **Appendix 1**

### **Policy Context**

1. The proposal supports the Council's policy, service planning and performance management framework, which aims to ensure that all resources are directed towards delivery of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.

### **Background**

2. In line with best practice, the Audit and Standards Committee is required to submit an annual report to Cabinet and Council, and also any further reports and recommendations as it sees fit. The areas of activity of the Audit and Standards Committee during 2019/20 are set out in the Annual Report.

### **Contents of the Report**

3. Appendix 2 outlines the activity which the Audit and Standards Committee has covered over the last year.
4. The Audit and Standards Committee has received reports in the following areas:
  - Internal Audit Planning Performance and Activity;
  - Internal Audit Charter;
  - Internal Audit Annual Report;
  - Local Government Ethical Standards;
  - Annual Internal Audit benchmarking results;
  - Internal Audit recommendations;
  - External Audit planning, performance and activity;
  - Corporate Risk Management and Resilience activity;
  - Counter Fraud Updates;
  - The Annual Governance Statement Assurance Framework;
  - The Annual Governance Statement and supporting evidence;
  - Annual Audit Letter;
  - Achievement of Going Concern Status;
  - Audit Completion Report and Council Statement of Accounts;
  - Treasury Management Policy & Strategy and mid-year update;
  - Annual Treasury Management Annual Report;
  - Local Code of Governance;
  - Training & Development; and
  - Internal Audit Service – Compliance with Public Sector Internal Audit Standards.
5. There were no reports in year which were specific to Standards issues. No complaints have been received under the Member's Code of Conduct, that required investigation, nor was there any guidance or best practice issued during the year that warranted a report. The Monitoring Officer is

responsible for maintaining and promoting high standards within the Council and he and his staff have contributed to the Audit work on good governance particularly those matters relating to the Corporate Risk Management activity and the Annual Governance Statement.

6. Based on the evidence presented during the year and at the meeting of the Audit and Standards Committee on 20 July 2020 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2019/20, which accompanies the Statement of Accounts.

### **Consultation**

7. The Audit and Standards Committee considered and agreed the contents of this report at their meeting of 19 October 2020.

### **Alternative Options**

8. There are no alternative options.

### **Implications of Recommended Option**

#### **9. Resources:**

- a) **Financial Implications** - The Strategic Director, Resources and Digital confirms that there are no financial implications arising from this report.
  - 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.
10. **Risk Management Implications** - The Audit and Standards Committee receives quarterly reports on risk management.
  11. **Equality and Diversity Implications** – there are no equality and diversity implications arising from this report.
  12. **Crime and Disorder Implications** – There are no crime and disorder implications arising from this report.
  13. **Health Implications** – There are no health implications arising from this report.
  14. **Climate Emergency and Sustainability Implications** – There are no climate emergency and sustainability implications arising from this report.

15. **Human Rights Implications** – There are no human rights implications arising from this report.
16. **Ward Implications** – There are no ward implications arising from this report.
17. **Background Information** – Report of the Audit and Standards Committee meeting on 19 October 2020.

### **Contents of the Report to Cabinet and Council – 2019/20**

1. The areas of activity considered by the Audit and Standards Committee during 2019/20 are set out below.

#### **Internal Audit planning, performance and activity**

2. As at 31 March 2020 98% of the Internal Audit Plan was completed, which resulted in 86 audit reports. Of these reports 72 (84%) found systems to be operating well or satisfactory, with 14 (16%) reporting systems having significant weaknesses, of which four were in relation to schools.
3. All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.
4. Based on this evidence arising from Internal Audit activity during 2019/20, the Council's internal control systems and governance and risk management arrangements are considered to be effective.
5. The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2019/20, with quarterly updates to Audit and Standards Committee.
6. Other reports received during 2019/20 relating to Internal Audit included the CIPFA Benchmarking Results for 2018/19. The Audit and Standards Committee also approved the Audit Strategy and Plan.
7. The Audit and Standards Committee will continue to monitor Internal Audit's progress on a quarterly basis against the 2020/21 Audit Plan.

#### **Review of Internal Audit Charter**

8. The Internal Audit Charter is reviewed annually, and the outcome is reported to the Audit and Standards Committee as part of the Internal Audit Strategy Statement and Annual Plan to seek comments and approval in line with Best Practice. The Chief Internal Auditor carried out the annual review and confirmed that it continues to reflect best practice and no amendments were required.

### **External Audit planning, performance and activity**

9. The following external audit reports have been reviewed over the year:
  - 2018/19 Audit – Additional Fee
  - Audit Strategy Memorandum Year Ending 31 March 2020.
10. The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance with a potential to impact upon the financial statements during 2019/20. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing Standards. The Committee agreed that an effective level of oversight was in place.

### **Corporate Risk Management and Resilience activity**

11. The Committee received quarterly reports on the assurance derived from risk management. These reports make Councillors aware of 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.

### **Counter Fraud Update**

12. The Committee received a report every six months updating on activity undertaken in relation to the work of the Corporate Fraud Team summarising performance against the Counter Fraud and Corruption Strategy and the effectiveness of the Strategy. Conclusions also form part of the Annual Governance Statement.

### **Standards Update**

13. The Committee received quarterly reports which highlighted national and local standards issues, raised Member awareness of national reviews and consultations which may be relevant to their role and identified whether further Member training was required.

### **The Annual Governance Statement and supporting evidence**

14. The Annual Governance Statement for 2019/20 concluded that based on the review of the Council's governance arrangements during 2019/20, including the internal control and risk management environments, the opinion was that the Council's governance arrangements continue to be regarded as fit for purpose.
15. In addition, based on the review of the arrangements introduced to strengthen governance to support the Council's response to the COVID-19 emergency, the opinion was that the Council's governance arrangements continued to be fit for purpose during that period.

16. The Audit and Standards Committee approved the Annual Governance Statement for 2019/20 at its meeting on 20 July 2020, following a review of the evidence detailed below in paragraphs 16-32 and evidence seen by the Committee during the year.

### **Cabinet Members**

17. Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

### **Senior Managers**

18. Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas were examined as part of the 2020/21 Audit Plan and the outcomes reported to the Audit and Standards Committee in October 2020.

### **Internal Audit**

19. 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 it that 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. These other audit systems have been assessed, as part of the Audit Plan.
20. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2019/20 was that internal control systems and risk management and governance arrangements are effective.
21. During 2019/20 an independent assessment of Internal Audit Service compliance with PSIAS was carried out by Mazars. The outcome of the assessment was positive with the Internal Audit Service being assessed as substantially compliant.
22. A review of the effectiveness of Internal Audit has also been undertaken for 2019/20 in line with the Accounts and Audit Regulations 2015. Best practice highlights that "internal audit", in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee in 2019/20. This review focused upon compliance with the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed by the external auditor on Internal Audit's work, an assessment of the effectiveness of the Audit and Standards Committee and relevant local performance information. Based on the review the Council's system of Internal Audit was considered to be operating effectively.

## **Risk Management**

23. 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.
24. The Strategic Director, Resources and Digital reported that arrangements during the year for managing risk within the Council were effective.

## **Counter Fraud**

25. The Council has a zero tolerance approach to fraud and corruption. A counter fraud communications and awareness plan is in place to enable and evidence communication requirements to promote and raise awareness of the Council's counter fraud arrangements, including the publicising of any proven fraud cases and media handling. The plan details the key stakeholders and the methods and frequency of any communications during the year. The plan also details how the outcomes of any successful prosecutions would be handled.
26. The Strategic Director, Resources and Digital reported that the Council's counter fraud arrangements in place during the year were effective.

## **Performance Management and Data Quality**

27. The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
28. In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
29. Based on evidence arising from the performance management framework process for 2019/20 effective controls are in place.

## **Views of the External Auditor and other External Inspectors**

30. Mazars, the Council's external auditor, issued an Annual Audit Letter in August 2019 covering the financial year 2018/19. This comprised of two elements:



- the audit of the Council's financial statements – an unqualified opinion was issued and presented to the Council's Accounts Committee on 26 July 2019; and
  - 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.
31. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

### **The Legal and Regulatory Framework**

32. 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.

### **Financial Controls**

33. 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.

### **Partnerships**

34. Service Directors review partnerships within their Service's 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.
35. Based on evidence arising from partnerships for 2019/20 effective controls are in place.

### **Other Reports**

### **Achievement of Going Concern Status**

36. The Committee received a report considering the Council's status as a going concern.

37. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that there continues to be a risk that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the Council's monitoring officer, to all authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.
38. The report outlined the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.
39. Based on the assessment undertaken, the Council's Chief Finance Officer's (Section 151 officer) view was that the Council is fully aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the 2018/19 Statement of Accounts should be prepared on that basis.

#### **Audit Completion Report and Council's Statement of Accounts**

40. The outcome and findings of the audit of the Council's Statement of Accounts 2018/19 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 22 July 2019. Mazars issued an unqualified opinion on the Statement of Accounts and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and resolved that the Accounts Committee be advised that they had no issues to raise on the outcomes and findings of the Council's Statement of Accounts 2018/19 by Mazars

#### **Treasury Management Policy & Strategy and Six Monthly Update**

41. In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

#### **Local Code of Governance Update**

42. The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly, and the Audit and Standards Committee were asked to consider and approve an updated version on 28 January 2019, based on the CIPFA Delivering Good Governance in Local Government: Framework. The Code defines how the Council complies with the principles of good governance laid down

by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.

### **Training and Development**

43. A report was presented to the Committee setting out progress on training and development requirements for the Committee.
- Following a change in membership of the Committee in May 2019, induction training was provided to the new Chair and Vice Chair, as well as new Committee members.
  - Chair attended a CIPFA course 'Introduction to the Knowledge & Skills of the Audit Committee.
  - A development plan was agreed setting out a schedule of delivery of key training topics, which it was agreed would be open to all Council members to attend which will assist with any future membership changes of the Committee.
44. To date, the following training has been delivered:
- Treasury Management
  - Ethics and Probity
  - Risk

### **Internal Audit Service – Compliance with Public Sector Internal Audit Standards**

45. A report was circulated for the Committee to note the independent assessment of Internal Audit's compliance against Public Sector Internal Standards (PSIAS), conducted by Mazars. One of the requirements of the Standards is for an external assessment of compliance to be conducted at least once every five years by a qualified and independent assessor. The overall conclusion of the review was that the Internal Audit Service is substantially compliant with the PSIAS, subject to a number of minor areas for action which were outlined in the report. An action plan to address the issues was included, progress against which will be regularly reported to the Committee.