



Audit Committee

North Tyneside Council

14 November 2017

Wednesday 22 November 2017 Room 0.01, Quadrant East, The Silverlink North, Cobalt Business Park, North Tyneside commencing at 6.00pm.

Agenda Item	Page
1. Apologies for Absence	
To receive apologies for absence from the meeting.	
2. Declarations of Interest and Dispensations	
You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda.	
You are also requested to complete the Declarations of Interests card available at the meeting and return it to the Democratic Support Officer before leaving the meeting.	
3. Minutes	4.
To confirm the minutes of the meeting held on 27 September 2017.	

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Agenda Item	Page
<p>4. 2016/17 Annual Audit Letter</p> <p>To consider a report which details the audit work undertaken by Mazars, the Authority's external auditors, for the year ended 31 March 2017.</p>	7.
<p>5. Audit Progress Report</p> <p>To receive an update from Mazars in meeting its responsibilities as the Council's external auditors, including key emerging national issues and developments.</p>	23.
<p>6. Annual Governance Statement - Update</p> <p>To give consideration to a report which explains how the Authority reviews the effectiveness of its governance arrangements, details the outcome of the mid year review and considers the proposed method of compiling the evidence for the 2017/18 Annual Governance Statement.</p>	29.
<p>7. Annual Statement of Accounts 2017/18</p> <p>To give consideration to a report which sets out the plan for the closure of the 2017/18 Accounts.</p>	48
<p>8. Strategic Audit Plan 2017/18 – Interim Monitoring Statement</p> <p>To consider the interim monitoring statement in respect of the Strategic Audit Plan 2017/18.</p>	
<p>9. Exclusion Resolution</p> <p>The Committee will be requested to pass the following resolution: Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.</p>	

10. **Public Sector Internal Audit Standards**

To give consideration to a report on the Public Sector Internal Audit Standards which were amended in April 2017.

11. **Corporate Risk Management Summary Report**

To consider a report which sets out the corporate risks which have been identified for monitoring and management by the Authority's Senior Leadership Team.

Members of the Audit Committee:-

Mr K Robinson (Chair)
Mr M Wilkinson (Deputy Chair)

Councillor G Bell
Councillor L Bell
Councillor D Cox
Councillor N Craven
Councillor S Graham
Councillor A McMullen
Councillor J Wallace

Audit Committee

27 September 2017

Present: Mr M Wilkinson (Chair)
Councillors L Bell, D Cox, N Craven, A McMullen,
T Mulvenna and J Wallace.

AC16/09/17 Apologies

Apologies for absence were submitted on behalf of Mr K Robinson and Councillors G Bell and S Graham.

AC17/09/17 Substitutes

Pursuant to the Council's constitution the appointment of the following substitute member was reported:-

Councillor T Mulvenna for Councillor S Graham

AC18/09/17 Declarations of Interest and Dispensations

There were no declarations of interest or dispensations reported.

AC19/09/17 Minutes

Resolved that the minutes of the meeting held on the 24 May 2017 be confirmed as a correct record and signed by the Chair.

AC20/09/17 Annual Statement of Accounts 2016/17

Consideration was given to a report which provided an update on the approvals process for the annual statement of accounts.

It was explained that the Chief Finance Officer was currently required to sign and certify the Statement of Accounts as a true and fair view of the Authority's financial position by the 30 June each year. In addition the audited set of accounts was required to be published by the 30 September each year. The Accounts and Audit Regulations 2015 had made changes to the timetable for the sign off and publication of the Authority's accounts. From the 2017/18 financial year the statement of accounts had to be certified by the 31 May and the accounts published by the 31 July.

The Audit Committee at its meeting held on 30 November 2016 (minute AC25 /11/16 refers) had been advised that it had been the intention to bring forward the target date for the handing over of the draft accounts to the Chief Finance Officer to the 31 May 2017. This target date had been met although it was acknowledged the issues around valuations and the need to restate the previous year's accounts meant that further work had been required. The signed and certified accounts had subsequently been published on the 16 June 2017, which was two weeks earlier than the statutory deadline.

It was explained that a timetable for the 2017/18 closedown process was currently being developed and it was the intention to circulate this to the relevant sections and individuals in early October 2017. A de-briefing session had been arranged with the Chief Finance Officer and all those involved in the closedown process, including ENGIE and Capita, to go through the issues identified and to begin the process for the 2017/18 closedown. It was also explained that discussions were taking place with the External Auditors to ensure that both organisations worked together to allow the Authority to meet the statutory deadlines.

A report on the 2017/18 closedown of the accounts would be presented to the November meeting of the Committee

The Chair thanked the officers for their update.

Resolved that (1) the work undertaken in respect of the production of the 2016/17 accounts be noted; and
(2) the report on how the lessons learnt from the closedown of the 2016/17 accounts would be incorporated into the 2017/18 plan be noted.

AC21/09/17 Presentation on the Key Features of the 2016/17 Accounts

Consideration was given to a presentation which provided details of the main points from the 2016/17 financial statements. It was explained that the final outturn position of the general fund had been £0.426M over budget and the Housing Revenue Account had been £2.265M better than budgeted for.

It was explained that there had been a need to restate the closing balances of the 2015/16 accounts in relation to Property, Plant and Equipment due to revisions made to the value of several assets.

Reference was made to the changes which had been made relation to the valuation of social housing. Prior to 2016 the valuation of council house assets had been reduced by a regional adjustment factor in recognition of their status as social housing. This factor had been at 37% of the value. Changes to the Social Housing Factor Discount had resulted in social housing assets now being valued in the Authority's balance sheet at 44% as opposed to the previous valuation which was a significant change which impacted on the Housing Revenue Account.

Details of the Comprehensive Income and Expenditure Statements were presented together with the key variances and the reasons for the variances. It was explained that the majority of the variances had been as a result of changes to regulations. Reference was also made to the key items around the valuation of the pension fund which had an impact on the liabilities reported.

It was acknowledged that for the Authority to get a clean bill of health was a very positive finding and as a result of the work of all concerned.

Resolved that the presentation be noted

AC22/09/17 Audit Completion Report

Consideration was given to a report, by Gareth Davies and Diane Harold from Mazars, the Authority's external auditors, which provided details of the outcome of the external audit of the Authority's 2016/17 financial statement. The report provided an unqualified audit opinion of the accounts and the arrangements in place to secure value for money. In addition the significant findings from the audit were outlined together with a number of internal control recommendations and the management response to those recommendations.

Reference was also made to the earlier deadline for the closure of the accounts and it was explained that external auditor had not encountered any significant difficulties and therefore did not anticipate any difficulties in meeting the new deadlines.

Members sought clarification on a number of issues including:

- The risk of management override of controls. It was explained that there were no significant risks identified but some internal control improvements were required.
- The issues in relation to care plans administered by Adult Social Care. It was explained that the issues identified were more of an issue to be addressed by Adult Social Care management although it was noted that a new system to be installed with the service area would provide a more transparent audit trail. It was also explained that the response would be monitored.

The Chair thanked Mazars for their report

Resolved that the report be noted

AC23/09/17 Audit Progress Report – September 2017

The Committee received a progress report presented by Gareth Davies from Mazars, the Council's external auditors, in respect of the 2016/17 audit year.

It was explained that work on the housing benefit subsidy returns was ongoing along with works on various other claims and returns.

The report also outlined a number of publications and updates relevant to the Committee and Authority. It was noted that Public Sector Audit Appointments Limited had carried out a review of the performance of audit firms to provide assurance that auditors were providing high quality audits for their clients. Mazars had been given a top rating as a result of this review.

Reference was also made the works undertaken by Mazars in respect of a number of combined authorities including the North East Combined Authority.

The Chair thanked Mazars for their report.

Resolved that the report be noted.

Annual Audit Letter

North Tyneside Council



North Tyneside Council

For the year ended 31 March 2017



Contents

Executive summary	3
Audit of the financial statements	4
Value for Money conclusion	8
Other reporting responsibilities.....	14
Our fees.....	15
Future challenges.....	16

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

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

Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North Tyneside Council ('the Council') for the year ended 31 March 2017. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of work	Summary
Financial statements opinion	On 28 September 2017 we issued our opinion that the financial statements give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 28 September 2017 we issued our opinion that the Narrative Statement published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 28 September 2017 we issued our conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	In line with instructions issued by the NAO, on 28 September we issued our assurance certificate which reported that the Council's consolidation pack was consistent with the audited financial statements.
Matters that we report by exception	We have not identified any matters to report in relation to: <ul style="list-style-type: none">• whether the Annual Governance Statement is in line with our understanding of the Council and the requirements of the Delivering Good Governance in Local Government Framework 2016;• reports in the public interest or written recommendations made under s24 of the 2014 Act;• exercise of other powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 28 September 2017.

Audit of the financial statements

Financial statements opinion

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.

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

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

Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£6.604 million
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• Senior Officers' Remuneration - £367k• Members' Allowances - £193k• Exit Packages (correct banding used)
Trivial threshold	£198k

Our response to significant risks

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

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • identified significant transactions outside the normal course of business; • the selection and application of accounting policies; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.</p>
<p>Revenue recognition There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we concluded there were insufficient grounds for rebuttal in 2016/17.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing revenue items recorded to ensure they have been recognised in the appropriate year; • testing adjustment journals; and • for major grant income, agreeing amounts to third party documentation. 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in this report.</p>
<p>Valuation of property, plant and equipment (PPE)</p>	<p>We:</p> <ul style="list-style-type: none"> • considered the Council's arrangements for ensuring that PPE values are reasonable; 	<p>Our work provided the assurance we sought and did not highlight any significant issues to bring to your attention, other than the internal control recommendations detailed further in</p>

Significant risk	How we addressed the risk	Audit conclusion
<p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>The value of the Council's PPE is material to the accounts and involves management judgements over the valuations and useful lives of assets.</p>	<ul style="list-style-type: none"> engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer (where appropriate); assessed the competence, skills and experience of the valuer and the instructions issued to the valuer; and where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. 	<p>this report, the amendments to the prior period adjustment and the unadjusted misstatements.</p> <p>See also our follow-up of the previous year recommendation in respect of valuations.</p>
<p>Valuation of defined benefit pension scheme</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and considered the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office. 	<p>Our audit provided the assurance we sought and did not highlight any significant issues to bring to your attention.</p>

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our audit did not identify any significant deficiencies in internal control, however we highlighted some internal control recommendations, as well as following-up previous year internal control recommendations. Internal control recommendations identified are detailed below.

Adult social care (ASC) underpayment of direct payments (priority 2 - medium)	
Description of deficiency	Our testing at the planning stage identified underpayment of ASC direct payments relating to controls not working as designed to ensure payment rates matched the agreed support plan.
Potential effects	Understatement of expenditure and ASC clients are underpaid.

Recommendation	The Council reviews controls and processes to ensure they are operating as designed.
Management response	The Council immediately took action earlier in the year when this issue was highlighted and we obtained assurance there was no material underlying error. The Council is running a monthly report to allow it to check any breaks in payment result in the correct care rate subsequently being used.

The previous year recommendations we followed-up are summarised below.

1. **Members interests:** ensuring changes to interests are declared within 28 days as required by the Code of Conduct **(priority 2 - medium)**;
2. **Adult Social Care:** ensuring there is adequate evidence to support rates paid for care **(priority 2 - medium)**;
3. **Property, Plant and Equipment:** Valuer's judgement **(priority 2 - medium)**;
4. **Private Finance Initiative:** retention monies **(priority 3 - low)**;
5. **Cut-off testing:** recommendation arising from testing **(priority 3 - low)**;
6. **Property:** ensuring there is a signed tenancy agreement in place **(priority 3 - low)**;
7. **Journals:** maintaining an audit log of deleted journals **(priority 2 - medium)**;
8. **IT audit review:** security - leavers process **(priority 2 - medium)**; and
9. **IT audit review:** security - Axis Income Management periodic user review **(priority 2 - medium)**.

Value for Money conclusion

Value for Money conclusion

Unqualified

Summary of our work

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

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

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

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
	Financial and performance information and reliable and timely financial reporting	
Informed decision making	<p>The Council has continued to regularly report on its financial performance via regular reports to Cabinet and the Finance sub-committee.</p> <p>The Council's finance reports contain a summary of financial performance, which is crucial to facilitate Members' oversight of financial performance and this clarity will be increasingly important in the coming year as financial pressures emerge.</p> <p>The Council's performance is reported to Cabinet by way of regular updates on the recently refreshed 'Our North Tyneside Plan'. The Overview and Scrutiny Committee also receives updates on the 'Our North Tyneside Plan' and challenges officers on performance where appropriate. This strategic performance reporting is supplemented by service-level reporting. Included within the finance reports are regular updates on the 'Creating a Brighter Future' Council-wide transformation plan.</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
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Achievement of savings

As part of addressing the significant risk identified (see next section), we reviewed a sample of savings in order to assess the reasonableness of plans in place and their deliverability. Overall, we obtained sufficient appropriate evidence of the robustness of the Council's arrangements in this regard.

- In respect of 2016/17, we considered the actual savings delivered: we noted the shortfall of £1.2m in savings required out of a total of £15.737m.
- We also considered 2017/18 planned savings and carried out sample testing.
- Finally, we considered the progress being made in respect of savings for 2018/19 onwards; inevitably, at this stage, future plans are not fully quantified although we note there is a project plan in place, with potential areas of savings which are to be quantified.

The Creating a Brighter Future (CBF) transformation programme includes regular detailed traffic-light reports to Overview & Scrutiny, which are summarised for inclusion in the regular finance reports to Cabinet. There is scope to further enhance the reporting of progress on the CBF programme by quantifying the value of savings achieved or any shortfall, so there is clarity on progress. We note the new style Quarter 1 finance budget report does include a clear summary of savings against target; it is important that this reporting also quantifies the value of savings not achieved from previous years, so that there is clarity on the overall progress of the programme.

We set out below the financial performance over the last three years, both in terms of the overall budget and in respect of savings.

	Net budget	Year-end outturn: under (over) spend	Savings – target	Savings – actual	Savings not achieved
15/16	156,757	1,573	14,158	13,631	527
16/17	155,684	- 426	15,737	14,508	1,229
17/18 projected*	154,106	- 8,842	18,338	14,176	4,162

* as per July 2017 Cabinet report

The first budget monitoring report for 2017/18 showed a projected overspend of £8.8m, of which approximately half is in respect of savings required for 17/18 which may not be achieved. The Council is being prudent in not recognising savings until they are fully achieved, however the scale of savings yet to be achieved for 2017/18 represents a key risk area.

Sub-criteria	Commentary	Arrangements in place?
	<p><i>Budget reports and the medium-term financial strategy</i></p> <p>In addition, we also reviewed budget monitoring and the overarching medium-term financial strategy (MTFS).</p> <p>The Council has continued to report regularly on its financial performance to both Cabinet and the Finance sub-Committee. The 2016/17 outturn was an overall net overspend of £0.426m (2015/16 underspend of £1.573m) as compared to a much higher projected overspend of approximately £5m part-way during the year. We carried out work to understand the actions taken by the Council during the year to reduce this overspend.</p> <p>Capital spend in the year totalled £122m. We note that the level of slippage to 2017/18 and future years is higher than in previous years at £34m. This is down to two main schemes – Swan Hunter and Coastal Regeneration. The Council has recognised that the level of reprogramming is high and has taken to address this, including profiling ‘review and challenge’ sessions as part of ensuring there is a realistic and deliverable Investment Plan in place for 2017/18.</p> <p><i>Medium-term financial strategy (MTFS)</i></p> <p>The Council approved an updated MTFS in February 2017, covering 2017-2020, based on the refreshed ‘Our North Tyneside’ strategic plan and building on the previous year’s MTFS. The latest MTFS sets out the key challenges and risks facing the Council in delivering its refreshed transformation plan “Creating a Brighter Future”, which is predicated on the continued development of the ‘Target Operating Model’ in the coming years.</p> <p>We considered the robustness of the MTFS as a whole, critically challenging the assumptions it has been based on. Overall, our assessment is that the MTFS is robust, subject to the deliverability of the planned savings, which the Council itself acknowledges is a key financial risk to monitor.</p> <p><i>Key financial ratios</i></p> <p>We also considered key financial ratios for the Council, including the working capital ratio (current assets less current liabilities). In recent years, the Council has borrowed on a short-term basis, being most beneficial to it, therefore its levels of short-term borrowing have increased, offset by a decrease in long-term borrowing. The Council recognises this is a short-term strategy and its Treasury Management strategy has been designed to allow it to move to long-term borrowing when appropriate.</p> <p>The Council’s General Fund unearmarked balance remains at £6.6m. As financial pressures continue, the Council should keep under consideration the adequacy of this balance. We note also the strategic reserve totalling £13.930m.</p> <p>The key challenges, as recognised by the Council itself include:</p> <ul style="list-style-type: none"> • continued growth in demand in Adult and Children’s Social Care Services; 	

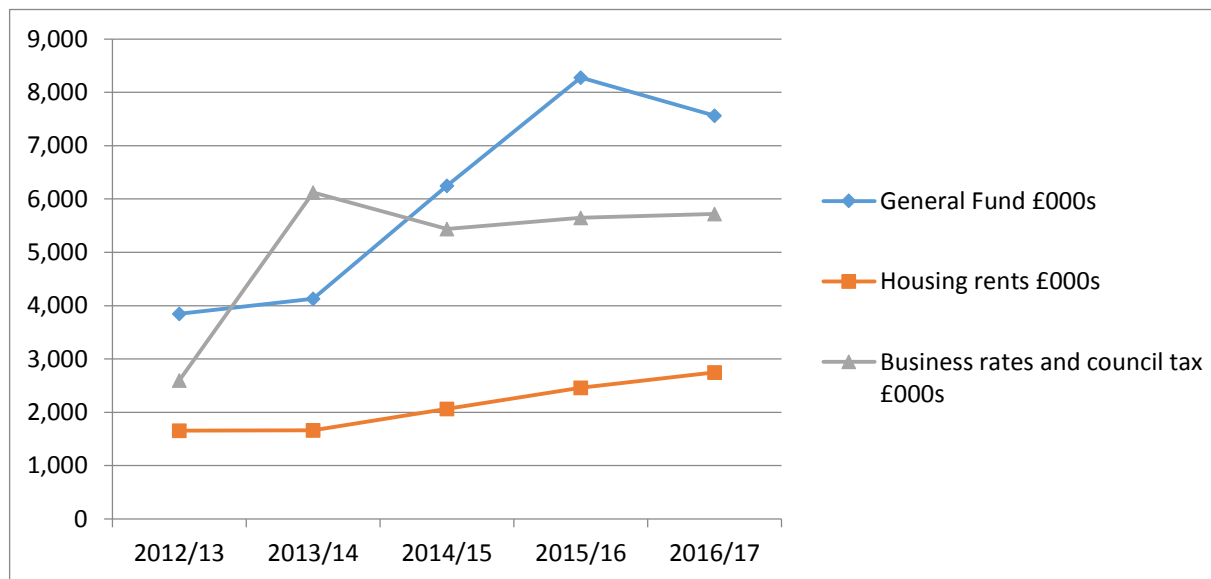
Sub-criteria	Commentary	Arrangements in place?
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- the timing of delivery of some aspects of the Creating a Brighter Future Programme to the extent that achievement of some savings may be at risk;
- on-going issues around agreeing adequate levels of contributions from the North Tyneside Clinical Commissioning Group for clients with health needs and to support social care;
- the impact of the National Living Wage on care providers, impacting on commissioning costs.

Bad debt provision

The Council's overall bad debt provision (impairment allowance) has increased from £8.1m in 2012/13 to £16.034m in 2016/17. Approximately half is accounted for by the provision made for business rates, council tax and housing rents as set out in the figure below. Our audit work has not identified any issues in respect of the calculation of provisions, however we note the increase in recent years. We note also the increase in housing rent arrears; the yearly increase has not been significant at £0.279m, however over the last five years, housing rent arrears have increased by £1.2m or 51%, totalling £3.6m.

Figure 1: the Council's bad debt provision over the last five years



Sub-criteria	Commentary	Arrangements in place?
	<p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <p>The Council's governance framework is set out in its Annual Governance Statement (published as part of its Annual Report including financial statements) along with how the effectiveness of that framework is reviewed throughout the year. Regular risk management reports are presented to Members.</p> <p>The Council has received an overall 'satisfactory' internal audit opinion for 2016/17, with one limited assurance report in respect of IT business continuity and disaster recovery. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Council.</p> <p>The Audit Committee published its first annual report this year, following on from the review of the Committee at the end of the previous year, with the summary review reporting:</p> <ul style="list-style-type: none"> • how the Committee has the potential to be a real 'force for good'; and • that previously the Committee may have felt isolated in its operation but that significant steps have been undertaken during 2016/17 to develop the interaction between the Committee, Senior Leadership Team members and other Committees. 	
Sustainable resource deployment	<p><i>Effective planning of finances</i></p> <p>The Council approved a balanced budget in its latest refresh of its Medium-Term Financial Strategy (MTFS) earlier this year. Our consideration of the robustness of the MTFS is set out earlier in this report.</p> <p><i>Organisational development</i></p> <p>The Council recognises the importance of a robust workforce strategy and having a sustainable workforce in the future to support its strategic priorities, which may be increasingly made up of a mix of public, private and voluntary support. Separate strategies are in place for key areas, such as Children's for which the Council has invested in a variety of programmes, partnerships and initiatives that aim to create an environment in which its workforce can flourish.</p>	Yes
Working with partners and other third parties	<p>The Council is party to an increasingly wide range of partnerships and recognises the importance of these in delivering on its objectives. Its Annual Governance Statement highlights partnerships as a governance issue to be closely monitored and the need to continue to embed and review partnership governance arrangements, as well as ensuring boundaries and responsibilities remain clear and are robustly managed.</p> <p>Given the use of service organisations, the Council's financial and performance reporting includes updates on its key partnerships with Capita, Engie and Kier, supported by the monthly Operational Partnership Board.</p> <p>2015/16 was the first year of the Better Care Fund Pooled Budget for North Tyneside and there were pressures in respect of the Clinical Commissioning Group's (CCG) own financial pressures which have continued in 2016/17. Since</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
	<p>then, the new system-wide Sustainability and Transformation Plans have largely superseded Better Care Funds as the new model for transformation in the health sector. The Council is carefully monitoring the impact upon its services and its work with NHS partners.</p> <p>During 2016/17, the Council worked with the CCG and other partners in respect of a potential new Accountable Care Organisation; this has not progressed further following due diligence work in September of last year.</p> <p>The Council continues to engage with partners in respect of the local devolution agenda.</p>	

Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to the VFM conclusion exists. In our Audit Strategy Memorandum, we reported that we had identified a significant VFM risk. The work we carried out in relation to the significant risk is outlined below.

Value for Money conclusion risk	Work undertaken	Conclusion
<p>Level of savings required in medium term financial strategy</p> <p>The Council is facing continuing financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to these challenges via a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services, encapsulated in its 'Target Operating Model' and 'Creating a Brighter Future' programme.</p> <p>The level of savings the Council needs to achieve over the period of its medium-term financial strategy, on top of savings already achieved in recent years, represents a significant risk to the value for money conclusion.</p>	<p>We carried out audit procedures reviewing the robustness of:</p> <ul style="list-style-type: none"> the medium-term financial strategy; budget monitoring reports and other finance updates; and a sample of the savings plans and underlying assumptions to their delivery. 	<p>Our work has provided the assurance we sought and has not highlighted any significant issues to bring to your attention.</p> <p>The table in the preceding section contains summary comments from our audit procedures to address this risk.</p> <p>The scale of financial challenges facing the Council is increasing each year. A robust Medium-Term Financial Strategy is in place, predicated upon the achievement of savings.</p> <p>2016/17 savings targeted of 15.737m were not achieved in full, with a carried forward impact on 2017/18 savings required of 18.338m.</p> <p>There is scope for a clearer trail and quantification of where savings are not achieved which has been addressed in the July 17 budget report.</p> <p>The Council is well aware that it needs to maintain a focus on robust underlying budget management as well as monitoring the achievement of savings and developing plans for future years' savings.</p>

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts consistency with the financial statements	Consistent
Other information published alongside the financial statements	Consistent

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

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Council. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Council, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any objections or questions in the advertised period.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Council.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Council in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to them whether consolidation data that the Council has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

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

Our fees

Fees for work as the Council's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2017. Having completed our work for the 2016/17 financial year, we can confirm our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£135,765	£135,765
Certification of Housing Benefit Subsidy return (<i>subject to completion of work</i>)	£12,075	£12,075

We confirm these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Fees for non-PSAA work

Area of work	2016/17 proposed fee*
Teachers Pensions	£3,750
School-Centred Initial Teacher Training (SCITT)	£2,000
Pooling of housing capital receipts	£1,800

**to be confirmed, noting there are new additional testing requirements in respect of Teachers' pensions for 2016/17*

We have also been engaged by the Council to carry out the external audit of North Tyneside Trading Company and North Tyneside Trading Company (Development) for a total fee of £3,500.

Future challenge

Financial outlook

The Council is well aware of the significant challenges that lie ahead and has a Medium-Term Financial Strategy in place designed to achieve the efficiencies needed to balance its budget.

As set out earlier in this report, delivery of the Medium-Term Financial Strategy via overall budget monitoring and the transformation programme reporting is vital. However, achievement of planned savings is inevitably becoming harder and for at least the last few years, the Council is facing a significant budget gap at an early stage of the year – in terms of the projected underspend and non-achievement of savings. Where savings are not achieved in any one year (as has been the case), this has resulted in additional pressure on subsequent years which requires continued close scrutiny and monitoring by officers and Members.

Operational challenges

As set out by the Council itself in its 2016/17 Annual Governance Statement, the key challenges facing it include:

- Welfare Reform and the impact on the Council's Housing Revenue Account;
- delivery of the challenging transformation programme – Creating a Brighter Future;
- impact of the regional Sustainability and Transformation Plan as it evolves;
- changes to the retention of business rates;
- Information Governance risks;
- delivery of key partnerships including of course the devolution agenda.
- national education policy changes; and
- the impact of the UK's exit from the European Union.

How we will work with the Council

We will focus our 2017/18 audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money. We will also share with the Council relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be working with officers to prepare for the earlier accounts and audit timetable which will take effect from the 2017/18 financial year

Audit Progress Report

North Tyneside Council



North Tyneside Council

November 2017



Contents

Audit progress 3

National publications and other updates 4

Contact details 6

Audit progress

The following work is on-going:

- Pooled capital receipts return 2016/17 assurance work;
- North Tyneside Trading Companies 2016/17 external audit; and
- on-going review of minutes and agendas and liaison with officers as part of our planning for the 2017/18 audit year.

We have completed our work on the 2016/17 Benefits subsidy return and Teachers' Pensions return and we will report findings to the next Committee, upon completion of all grant assurance work.

In this period, we have also begun our planning for 2017/18 audit. As part of that, we have issued two key documents to officers:

- Final Accounts 2017/18 joint working protocol; and
- Final Accounts 2016/17 Memorandum.

We will also be attending a joint planning meeting with officers during November as part of further preparation for the earlier deadline for the 2017/18 audited accounts (July rather than September 2018) where we will present our project plan and discuss our joint approach.

Finally, we will bring our 2017/18 Audit Strategy Memorandum to the 28th March Audit Committee.

National publications and other updates

National publications and other updates

1. **A short guide to Local Authorities, National Audit Office**
2. **Cyber security and information risk guidance for Audit Committees, National Audit Office**
3. **Care Quality Commission regulating health and social care, National Audit Office**
4. **Oversight of audit quality: quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd**

1. A short guide to Local Authorities, National Audit Office

The NAO is publishing a suite of short guides for the new Parliament, one for each government department and a selection of cross-government issues. The guide gives an overview of how local government is funded, the pressures local authorities face, staffing, major recent developments and what to look out for in the main local authority services.

For example, the guide highlights 39% of the 2015-16 local authorities budgeted non-schools expenditure (£16.8 billion) was allocated to adult social care. The guide also highlights key challenges to accountability in local government.

<https://www.nao.org.uk/report/short-guide-to-local-authorities/>

2. Cyber security and information risk guidance for Audit Committees, National Audit Office

Cyber security is the activity required to protect an organisation's computers, networks, programmes and data from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management processes, as well as technical controls.

Government guidance makes it clear that cyber security is now an area of management activity that audit committees should scrutinise. Together with the rapidly changing nature of the risk, this means that audit committees need to understand whether management is adopting a clear approach, and whether the organisation is complying with its rules and standards, and is adequately resourced for cyber security.

'Cyber security and information risk guidance for Audit Committees' is fully consistent with and complements the guidance provided by the government. It provides a checklist of questions and issues covering:

- the overall approach to cyber security and risk management;
- capability needed to manage cyber security;

- specific aspects, such as information risk management, network security, user education, incident management, malware protection, monitoring, and home and mobile working; and
- related areas, such as using cloud services and developing new services or technology.

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

3. Care Quality Commission regulating health and social care, National Audit Office

The Care Quality Commission has improved as an organisation, but now needs to overcome some persistent issues with the timeliness of some of its regulation activities if it is to sustain further improvement, the National Audit Office (NAO) has found.

The report found that the Commission has completed its inspection and rating programme comprising more than 28,000 provider locations, which provides a benchmark of the quality of health and social care services. It has significantly reduced staff vacancies and is increasing its focus on cost savings. In addition, the Commission has improved how it measures its performance, and takes action to correct poor performance.

Inspection staff, however, highlighted concerns to the NAO about how well the broader information systems currently supported them. The NAO also found that Commission does not meet its timeliness targets for some of its regulation activities, such as registration and publication of inspection reports.

According to the NAO, although most providers and inspectors think that the Commission's judgements are fair, stakeholders have concerns about consistency. The Commission is seeking to address consistency issues through its quality assurance processes and training.

The Commission is taking more enforcement action when care falls below fundamental standards, and there is evidence that it influences providers to improve quality, with most of the providers rated either inadequate or requires improvement having improved their rating on re-inspection. The number of completed enforcement actions increased over 2015-16 and 2016-17, while the number of providers entering special measures remained steady. The Commission links the increase with a focus on improving its inspectors' skills and knowledge about enforcement. Poor recording, however, means the Commission cannot be assured that enforcement action is always completed.

The Commission made progress in implementing its new strategy during 2016-17 although it missed early milestones on rolling out use of resources assessments and designing its approach to the next phase of inspection.

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

4. Oversight of audit quality: quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

The latest monitoring report highlights full compliance with the PSAA's contractual requirements for Mazars.

<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.

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North Tyneside Council Report to Audit Committee Date: 22 November 2017

ITEM 6

Title: Annual Governance
Statement Update

Report from Service: Finance

Report Author: Janice Gillespie, Head of Finance (Tel: 643 5701)

Wards affected: All

PART 1

1.1 Purpose:

- 1.1.1 The Annual Governance Statement (AGS) explains how the Authority delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 6(1) of the Accounts & Audit Regulations 2015 which require the Authority to publish an AGS.
- 1.1.2 The purpose of this report is to advise the Audit Committee of the outcome of the mid-year review of the action plan agreed as part of the 2016/17 AGS.
- 1.1.3 The report will also outline the proposed method for compiling the evidence for the 2017/18 AGS.

1.2 Recommendation(s):

- 1.2.1 It is recommended that the:
- (a) Audit Committee note the outcome of the mid-year review of the Authority's action plan agreed as part of the 2016/17 AGS; and
 - (b) Audit Committee note the proposed method for compiling the evidence for the 2017/18 AGS.

1.3 Forward plan:

- 1.3.1 This report is included within the annual workplan for the Audit Committee.

1.4 Council plan and policy framework:

- 1.4.1 The AGS covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

- 1.5.1 Regulation 6(1) of the Accounts and Audit Regulations 2015 requires audited bodies to conduct a review at least once a year of the effectiveness of its internal controls and produce an AGS.
- 1.5.2 Good governance is fundamental to the proper running of the Authority. It enables an Authority to pursue its vision effectively as well as underpinning that vision with control and management of risk. The arrangements in place must be proportionate to the risks and are acknowledged as being the responsibility of each authority in its area of operation.
- 1.5.3 The process of preparing the AGS should add value to the effectiveness of the corporate governance and internal control framework.
- 1.5.4 The AGS is an integral part of the Annual Financial Statement and is audited by external audit as part of the annual audit of the accounts. The external auditor considers whether the AGS reflects compliance with ‘Delivering Good Governance in Local Government – A Framework’ published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in April 2016. The external auditor reports on compliance with proper practices specified by CIPFA/SOLACE. In its Audit Completion Report 2016/17, the external auditor issued an unqualified opinion on all financial statements including the AGS.
- 1.5.5 At the meeting of the Audit Committee on 24 May 2017 it was noted that no significant governance issues had been identified and that the governance arrangements in place within the Council were considered adequate by the Senior Leadership Team (SLT).
- 1.5.6 Areas were highlighted within the 2016/17 AGS as requiring continuous monitoring to ensure that they do not become significant governance issues in the future. These were identified as:

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
<p>Housing Revenue Account (HRA) – as a result of reduced income to the HRA there is a risk that the Authority will be unable to protect its housing asset and services to tenants.</p> <p>Government policy on Welfare Reform has resulted in a number of direct challenges to rent collection, for example the Spare Room Subsidy and the Benefit Cap.</p> <p>Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes contained in the Housing & Planning Act 2016; reducing social housing rents by 1% each year for the next 4 years, mean that there will be less income and that income will be harder to collect.</p> <p>The Government’s White Paper, Fixing Our</p>	<ul style="list-style-type: none"> • Any impact from changes in Government legislation is reflected in the HRA plan and approved by Cabinet as part of the annual review of the HRA. • Revised 30 year Capital Investment Plan is in place. • Kier North Tyneside Review, a Cabinet sub-group has been established to consider options post 2019 in respect of the contract. • The Authority has representation on the DCLG (Department for Communities & Local

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
<p>Broken Housing Market, was published on 7 February 2017. The White Paper sets out the government's plans to boost the supply of new homes in England. As part of the White Paper, it seeks views on changes to planning policy and legislation in relation to planning for housing, sustainable development and the environment.</p>	<p>Government) and the CIPFA HRA working groups. Specific issues can be raised through these forums and the Authority can also comment and influence changes on HRA regulations.</p> <ul style="list-style-type: none"> • The Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. • Self service/agile working, through the implementation of self service and agile working overall costs should be reduced. • A watching brief will be kept on the implications of the White Paper and representations to Government will be made as appropriate.
<p>Creating a Brighter Future Programme (CBF) – there is a risk that if the CBF programme/Target Operating Model (TOM) are not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on Council services within reducing resources.</p> <p>To enable the objectives of the CBF to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue throughout the year.</p> <p>There is a risk that budget monitoring does not fully align with the CBF and TOM.</p>	<ul style="list-style-type: none"> • Governance framework – there are monthly Programme Board meetings via Senior Leadership Team (SLT). This ensures that there is visibility and accountability. • Regular updates are reported to Lead Member Briefings. This informs Cabinet Members of progress and of any issues. • The TOM addresses the financial challenge whilst enabling the Authority to deliver Our North Tyneside Plan and CBF priorities. A number of business cases have been put in place to support the delivery of the TOM and reduction of cost. • A refreshed Joint Strategic Needs Assessment (JSNA) is in place which provides a new approach to needs assessment to provide an improved foundation for the CBF.

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
	<ul style="list-style-type: none"> • The CBF Programme Risk Register highlights and reports key risks attached to the strategic aims of the CBF programme. The CBF Board receive this report enabling informed decisions to be made. • The development and acceptance of the Efficiency Plan will secure the Revenue Support Grant (RSG) (subject to Central Government change) which will give a degree of certainty for the next 3 years.
<p>Impact of the Northumberland, Tyne & Wear and North Durham (NTWND) Sustainability & Transformation Plan (STP) - the purpose of the STP in the NHS is to ensure that health and care services are based upon the needs of local populations in order to support the successful implementation of the NHS 5 Year Forward View (5YFV). STPs are intended to bring together key partners across Clinical Commissioning Groups (CCGs), Foundation Trusts, local authorities and other health and care service providers organised as STP 'footprints'. A footprint is the geographical area in which people and organisations are working together to develop plans to transform and sustain the delivery of health care services.</p> <p>North Tyneside CCG is required to develop a 2 year operational plan consistent with the local STP and the 5YFV, delivering core access and quality standards for patients and restoring and maintaining financial balance.</p> <p>The NTWND STP identifies a number of key transformational areas (improve health inequalities, improve the quality and experience of care, out of hospital collaboration, optimal use of the acute sector, transforming mental health and closing the financial gap). The financial gap could be as large as £641m by 2021 across Northumberland, Tyne & Wear and North Durham.</p> <p>NHS Planning Guidance 2016 requires CCGs to produce an Operational Plan 2016/17 to</p>	<ul style="list-style-type: none"> • The Chief Executive has written to NHS England on behalf of the chief executives of all NECA (North East Combined Authorities) local authorities about the process of developing the STP. • The Head of Health, Education, Care and Safeguarding and the Chair of the Health and Wellbeing Board have been authorised by Cabinet to seek more detail on the plans for the NHS and to monitor the progress of the STP in North Tyneside. • A report was taken to Council on 23 March 2017 'Response to the Council motion on reduction of NHS services & implications of the STP in North Tyneside'. The report was agreed by Council and details the review of the STP and service reductions that has been undertaken.

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
<p>2018/19 to cover the first 2 years implementation of the STP.</p> <p>Concern has been expressed about the extent to which the Authority has been a true partner in the development of the STP. In particular, the concern centres around the lack of engagement with local authorities and understanding the financial implications of the plans upon the ability of the Authority to deliver services to residents, such as, adult social care, children's services and public health.</p>	
<p>Business Rates - the Chancellor of the Exchequer announced in October 2015 that local authorities will be able to keep all the business rates that they collect from local businesses.</p> <p>The original business rate retention scheme gave local authorities the potential to retain 50% of business rate income and up to half of any growth in business rates revenue from new assessments added to the rating list. The remainder was returned to central government and redistributed.</p> <p>Full retention will potentially give local authorities greater ability to plan for the long term, more financial independence and an increased incentive to generate growth as 100% of business rates will be retained.</p> <p>There are a number of risks with the new proposals which the Authority will need to address. For example, a lack of business growth or the shutting of a business will impact on the Authority's revenues.</p> <p>The Authority will also have to bear 100% of business rates appeals, this was previously 50%.</p> <p>The current business rates system has a safety net in place for those local authorities that see a reduction in business rate income by more than 7.5%. It is anticipated that this will stay in place, but this hasn't been confirmed. The Authority will need to assess and plan for this potential risk. In addition resource implications will need to be taken into account to manage the change in the administration of business rates.</p>	<ul style="list-style-type: none"> • A Task & Finish Group, Business Rates Retention, has been set-up to influence central government direction on the proposed Business Rates Retention system. This has involved the establishment by the Local Government Association (LGA) and DCLG of an officer-level steering group and 3 working groups. The working groups meet regularly and cover service responsibilities, needs & redistribution, system design, accounting & accountability and business interests. • Presentations have been received from DCLG both to the region and jointly to the Local Government Association. • The Authority considers and responds to consultations issued on the proposed changes to business rates. • Regular meetings are held with the Valuation Office. These meetings highlight any significant changes to the ratings list and the implications of the 2017 revaluations. • Weekly monitoring of the Valuation Office appeals data is carried out to gain an understanding of the Authority's

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
	<p>position.</p> <ul style="list-style-type: none"> • DCLG issued further consultation on 100% Business Rates Retention in February 2017, which the Authority will respond to. This links in with Governments Fair Funding Review and devolution of further responsibilities. • Proposals to change risk on appeals, Central Government bearing cost, with top slice to each authority's funding. • Valuation Office Agency have introduced new appeals process from 1 April 2017 called check, challenge, appeal which introduces additional processes to reduce the number of appeals made.
<p>Information Governance – there is a risk in relation to information governance that unless there are robust policies and systems in place and implemented there is a possibility that sensitive data may be lost. Some information held by the Authority is extremely sensitive in nature which requires robust policies and systems to be in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures that they need to follow when dealing with such information. If the Authority fails to have robust policies in place there is a risk that the Data Protection Act could be breached leading to fines and compensation claims.</p> <p>From May 2018 the General Data Protection Regulation (GDPR) will come into force. The GDPR sets out a number of new requirements for organisations. The new regulation places greater emphasis on accountability, for example informing residents in more detail about how the Authority will handle their data, shorter timescales for dealing with subject access requests and breaches, increased fines for non-compliance, data protection impact assessment (DPIA) must be carried out prior to commencing new processing activities,</p>	<ul style="list-style-type: none"> • Compulsory e-learning in respect of information sharing and information governance awareness training. It is mandatory for all staff handling information to undertake e-learning. • Strategic Information Management Forum. This is an assurance group which consists of Heads of Service and Senior Managers. Their role is to help to ensure that the Authority's information governance, IT systems and processes are fit for purpose. The Group enables Senior Managers to ensure that consistency is applied to the approach to information governance and sign off of referrals to the Information Commissioner's Office. • Information Management Strategy, this sets out how the Authority will manage its

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
<p>considering data privacy and protection at the start of a project (also known as Privacy by Design).</p>	<p>information going forward.</p> <ul style="list-style-type: none"> • Information governance standards for the sharing of information with partners. Data sharing was included in the contractual arrangements with both the Business and Technical Partners. An additional data sharing agreement has been produced for the business partner to reflect ICT services. It sets out procedures that staff need to follow in order to obtain access to information systems. • Strategic Information Governance Officer – providing a corporate approach working with day to day managers of the information governance processes and procedures, ensuring a training plan is in place and implemented. • In preparation for the introduction of the GDPR requirements the Authority is reviewing its approach to governance and how it manages Data Protection as a corporate issue.
<p>Partnerships – the Authority needs to continue to embed and review governance arrangements that are in place in respect of all partnerships to ensure required services are delivered satisfactorily, whilst also achieving and sustaining value for money.</p> <p>In addition the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that operations and staffing in both partner organisations and the Authority change over time.</p>	<ul style="list-style-type: none"> • The Governance structure that is in place ensures that the governance to manage partnerships is in place, e.g. Strategic Partnering Boards, Operational Partnering Boards, Senior Client Groups and a Commercial Group. • The performance payment mechanism ensures that the correct payments are made in relation to the partners. • Alignment of CBF with ENGIE strategic plans will ensure all parties are aware of how the business partnership is working towards developing the Authority’s priorities and ENGIE

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
	<p>business plan.</p> <ul style="list-style-type: none"> • ENGIE and Capita have been asked to contribute to the Authority's CBF/TOM objectives. The aim is to ensure that partnership delivery plans are in line with policy objectives. This is reflected in their annual service plans. • The Capita Deed of Variation has now been agreed and implemented.
<p>National Education Policy – there is a risk that national policy direction will disrupt the partnership between schools and the Authority.</p> <p>A new funding formula proposed for 2018, together with the Fostering & Adoption Act passed in 2016, could result in schools judged as inadequate or coasting converting to academy status.</p>	<ul style="list-style-type: none"> • Information has been sought from the Department for Education on how the Authority should respond to national changes and contribute even more to North East education. The Cabinet Member for Children, Young People and Learning has written to the Secretary of State for Education seeking clarification on a number of points relating to high performing local authority areas. This has been reinforced by the Mayor who has asked both MPs to do the same. • A review of 0-19 Services is due to take place. The redesign of the 0-19 Services (including Prevention and Early Help) will enable the Authority to deliver appropriate services, resulting in the needs of our vulnerable children and families being met.
<p>Exit from the European Union – there is a risk that the Authority may be placed at a disadvantage following the decision to leave the European Union (EU) in both financial and economic growth terms.</p> <p>The decision to leave the EU has resulted in a number of uncertainties including whether central Government will fill the gap left by European Funding on a like for like basis. There is also the potential impact on businesses within North Tyneside which will vary depending on their reliance on Europe as a market and their</p>	<ul style="list-style-type: none"> • The potential impact from leaving the EU has been included in the Authority's Financial Strategy. This will help to ensure that potential areas of impact following EU exit will be highlighted and included (where relevant) in budget planning. • Keep a watching brief, this will ensure that any changes whether to funding or legislation will be

Potential Governance Issue	Controls Identified in May 2017 Audit Committee Report
<p>sensitivity to fluctuations in monetary value. The full extent of the impact will not be clear until the precise trade terms are known which will apply once the UK formally leaves the EU.</p> <p>Opportunities will also arise covering: An opportunity for partnership between businesses and the Council to work together more effectively to stimulate and support economic growth opportunities; An opportunity for a comprehensive approach to establish the River Tyne as a hub for offshore and renewable energy investment; and There is an opportunity for local authorities to work more collaboratively with wider business partners through the Combined Authority and the North East Local Enterprise Partnership (NELEP).</p>	<p>identified and acted upon.</p> <ul style="list-style-type: none"> • The Authority is a member of various regional groups. This will help the Authority to keep up-to-date on progress and have the opportunity to exert influence via these groups, for example the Local Government Association. • Explore alternative funding opportunities. This will enable the Authority where possible to secure future funding that is not reliant on the EU.

1.5.7 **Appendix A** outlines the progress made to date on each of the above issues. It should be noted that none of these issues are felt to be giving rise to governance concerns.

2017/18 Approach

1.5.8 The 2017/18 AGS will be compiled in a similar way to that used in 2016/17. Meetings will be held with each Head of Service regarding the governance arrangements in place within their service. This information will be collated into an overall Assurance Statement and signed off by the Chief Executive.

1.5.9 The Assurance Statement forms one part of the process undertaken to complete the AGS. **Appendix B** sets out the overall process, and evidence that will be reviewed, to ensure that there are appropriate governance arrangements in place within the Authority.

1.5.10 The completed AGS will be presented to the Audit Committee in May 2018 for their consideration and approval prior to publication, by 31 May 2018, in the Annual Financial Report for 2017/18.

1.6 Decision options:

The options available are:

- (a) To accept the recommendations made in section 1.2.1; or
- (b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

The production of the Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

Appendix A – Review of 2016/17 AGS Action Plan

Appendix B – Process for Completing the 2017/18 AGS

1.9 Contact officers:

Janice Gillespie – Head of Finance - Tel: 643 5701

1.10 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Annual Governance Statement 2016/17 (P)
- (b) CIPFA/SOLACE 'Delivering Good Governance in Local Government' April 2016 (P)
- (c) CIPFA/SOLACE 'Delivering Good Governance in Local Government: Guidance Notes' April 2016 (P)
- (d) 'The Role of the Chief Finance Officer' (CIPFA)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Governance Statement is produced annually in accordance with regulation 6(1)(a) of the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

Consultation has taken place with members of the Senior Leadership Team.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

The annual review of the systems of internal control will cover all controls, including the arrangements in place for Risk Management within the Authority.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

Review of 2016/17 AGS Action Plan – November 2017

	Potential Governance Issue	Progress to Date
1	<p>Housing Revenue Account (HRA) – as a result of reduced income to the HRA there is a risk that the Authority will be unable to protect its housing asset and services to tenants.</p> <p>Government policy on Welfare Reform has resulted in a number of direct challenges to rent collection, for example the Spare Room Subsidy and the Benefit Cap.</p> <p>Further Welfare Reform changes, including the implementation of Universal Credit and its revised payment period, and changes contained in the Housing & Planning Act 2016; reducing social housing rents by 1% each year for the next 4 years, mean that there will be less income and that income will be harder to collect.</p> <p>The Government’s White Paper, Fixing Our Broken Housing Market, was published on 7 February 2017. The White Paper sets out the government’s plans to boost the supply of new homes in England. As part of the White Paper, it seeks views on changes to planning policy and legislation in relation to planning for housing, sustainable development and the environment.</p>	<p>In addition to the controls outlined in the May 2017 Audit Committee report (30 year HRA Capital Investment Plan, Kier North Tyneside review, representation on working groups, Financial Inclusion Strategy and self service/agile working) the following controls are either in place or are being developed to reduce the risk:</p> <ul style="list-style-type: none"> • Review of the Payment Strategy - review of the way in which tenants pay their rents, resulting in easier payment methods e.g. the introduction of more direct debit payments, which will ensure that rents are collected. • Annual review of the Housing Revenue Account - this ensures that any impact from changes in Government legislation are reflected in the HRA plan and approved by Cabinet. • Joined up working between Housing and Adult Social Care - this works towards ensuring there is appropriate and efficient delivery of relevant services to those who need it. • Cabinet at its meeting of the 27 September 2017 made the decision not to extend the current agreement for construction and housing repairs and maintenance services with Kier. This means that the contract will end on 31 March 2019 and service delivery will return to the direct management of the Authority. Significant works will take place over the forthcoming months to facilitate this change.
2	<p>Creating a Brighter Future Programme (CBF) – there is a risk that if the CBF programme/Target Operating</p>	<p>In the May 2017 Audit Committee report the following controls were listed against the CBF as contributing to a reduction in the level of risk</p>

Appendix A

	Potential Governance Issue	Progress to Date
	<p>Model (TOM) are not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on Council services within reducing resources.</p> <p>To enable the objectives of the CBF to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue throughout the year.</p> <p>There is a risk that budget monitoring does not fully align with the CBF and TOM.</p>	<p>– governance framework, regular updates reported to Lead Member Briefings, Target Operating Model (TOM) and CBF Programme Risk Register. In addition the following controls are in place:</p> <ul style="list-style-type: none"> • Ensuring information for both the budget and projects is in alignment - this increases the likelihood of obtaining an early indication of potential problem areas, ensuring expected efficiencies are met from the completion of project activities, with progress being reported to the CBF Board. • Monthly meetings with the Deputy Mayor and Councillor Glindon - this ensures that Elected Members are fully aware of progress being made and of any issues that may arise.
3	<p>Impact of the Northumberland, Tyne & Wear and North Durham (NTWND) Sustainability & Transformation Plan (STP) - the purpose of the STP in the NHS is to ensure that health and care services are based upon the needs of local populations in order to support the successful implementation of the NHS 5 Year Forward View (5YFV). STPs are intended to bring together key partners across Clinical Commissioning Groups (CCGs), Foundation Trusts, local authorities and other health and care service providers organised as STP ‘footprints’. A footprint is the geographical area in which people and organisations are working together to develop plans to transform and sustain the delivery of health care services.</p> <p>North Tyneside CCG is required to develop a 2 year operational plan consistent with the local STP and the</p>	<p>The controls in place in relation to the STP outlined in the Audit Committee report in May 2017 covered Cabinet authorisation for the Head of Health, Education, Care & Safeguarding and the Chair of the Health & Wellbeing Board to monitor the progress of the STP in North Tyneside and the outcome of the review of the STP as covered in the Council report of 23 March 2017.</p> <p>Additionally a report was taken to Council on 28 September 2017 ‘Northumberland, Tyne & Wear and North Durham Sustainability and Transformation Plan Joint Health Scrutiny Committee’. The report requested Council to:</p> <ul style="list-style-type: none"> • Endorse the establishment of a Northumberland, Tyne & Wear and North Durham STP Joint Health Scrutiny Committee. • Endorse the proposed draft protocol and terms of reference of the proposed Joint Health Scrutiny Committee.

	Potential Governance Issue	Progress to Date
	<p>5YFV, delivering core access and quality standards for patients and restoring and maintaining financial balance.</p> <p>The NTWND STP identifies a number of key transformational areas (improve health inequalities, improve the quality and experience of care, out of hospital collaboration, optimal use of the acute sector, transforming mental health and closing the financial gap). The financial gap could be as large as £641m by 2021 across Northumberland, Tyne & Wear and North Durham.</p> <p>NHS Planning Guidance 2016 requires CCGs to produce an Operational Plan 2016/17 to 2018/19 to cover the first 2 years implementation of the STP.</p> <p>Concern has been expressed about the extent to which the Authority has been a true partner in the development of the STP. In particular, the concern centres around the lack of engagement with local authorities and understanding the financial implications of the plans upon the ability of the Authority to deliver services to residents, such as, adult social care, children’s services and public health.</p>	<ul style="list-style-type: none"> • Authorise the Head of Law & Governance, in consultation with the Head of Finance, Chief Executive and Elected Mayor, to propose any revisions to the final protocol, terms of reference and associated matters for consideration by the Joint Committee. • Appoint three representatives to the Joint Committee and three named substitutes.
4	<p>Business Rates - the Chancellor of the Exchequer announced in October 2015 that local authorities will be able to keep all the business rates that they collect from local businesses.</p> <p>The original business rate retention scheme gave local authorities the potential to retain 50% of business rate</p>	<p>The May 2017 Audit Committee report listed the following controls as being in place to reduce the risk associated with business rates – a Task & Finish Group, Business Rates Retention is operational, regular meetings are held with the Valuation Office, weekly monitoring of the Valuation Office appeals data is carried out, risk assessment of the impact of business rates retention has been carried out.</p>

Appendix A

	Potential Governance Issue	Progress to Date
	<p>income and up to half of any growth in business rates revenue from new assessments added to the rating list. The remainder was returned to central government and redistributed.</p> <p>Full retention will potentially give local authorities greater ability to plan for the long term, more financial independence and an increased incentive to generate growth as 100% of business rates will be retained.</p> <p>There are a number of risks with the new proposals which the Authority will need to address. For example, a lack of business growth or the shutting of a business will impact on the Authority's revenues.</p> <p>The Authority will also have to bear 100% of business rates appeals, this was previously 50%.</p> <p>The current business rates system has a safety net in place for those local authorities that see a reduction in business rate income by more than 7.5%. It is anticipated that this will stay in place, but this hasn't been confirmed. The Authority will need to assess and plan for this potential risk. In addition resource implications will need to be taken into account to manage the change in the administration of business rates.</p>	<p>There are no additional controls to report over and above those already outlined in the May 2017 AGS report. It should be noted that Government have announced that 100% retention will not be delivered before the end of this Parliament.</p>
5	<p>Information Governance – there is a risk in relation to information governance that unless there are robust policies and systems in place and implemented there is a possibility that sensitive data may be lost. Some</p>	<p>Controls outlined in the May 2017 Audit Committee report covered compulsory e-learning in respect of information sharing and governance, establishment of Strategic Management Forum, Information Management Strategy is in place, data sharing agreement</p>

Appendix A

	Potential Governance Issue	Progress to Date
	<p>information held by the Authority is extremely sensitive in nature which requires robust policies and systems to be in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures that they need to follow when dealing with such information. If the Authority fails to have robust policies in place there is a risk that the Data Protection Act could be breached leading to fines and compensation claims.</p> <p>From May 2018 the General Data Protection Regulation (GDPR) will come into force. The GDPR sets out a number of new requirements for organisations. The new regulation places greater emphasis on accountability, for example informing residents in more detail about how the Authority will handle their data, shorter timescales for dealing with subject access requests and breaches, increased fines for non-compliance, data protection impact assessment (DPIA) must be carried out prior to commencing new processing activities, considering data privacy and protection at the start of a project (also known as Privacy by Design).</p>	<p>for the business partner. In addition the following controls are either in place or are being developed:</p> <ul style="list-style-type: none"> • Data Sharing Agreement for the Trading Company - a Data Sharing Agreement will ensure that information sharing is subject to the Authority's information governance processes. • Compliance with the General Data Protection Regulation (GDPR) - relevant policies and procedures will be developed and embedded throughout the Authority. This will ensure that staff are made aware of the requirements to be compliant with the GDPR by May 2018. By being compliant with the GDPR management of data within the Authority will be improved. • Implementation of ICT Tooling which will include SharePoint - this will introduce a Records Management System which will include robust document retention and disposal systems.
6	<p>Partnerships – the Authority needs to continue to embed and review governance arrangements that are in place in respect of all partnerships to ensure required services are delivered satisfactorily, whilst also achieving and sustaining value for money.</p> <p>In addition the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that operations and staffing in both</p>	<p>The May 2017 Audit Committee report outlined controls against the governance structure, performance payment mechanism, alignment of CBF with ENGIE strategic plans, agreement of the Capita Deed of Variation. In addition the following control is expected to be in place by the end of December 2017:</p> <ul style="list-style-type: none"> • ENGIE and Capita have been asked to contribute to the Council's CBF/TOM objectives - this will ensure that partnership delivery plans are in line with policy objectives. A

Appendix A

	Potential Governance Issue	Progress to Date
	partner organisations and the Authority change over time.	commercial offer has been received from ENGIE which is currently being considered.
7	<p>National Education Policy – there is a risk that national policy direction will disrupt the partnership between schools and the Authority.</p> <p>A new funding formula proposed for 2018, together with the Fostering & Adoption Act passed in 2016, could result in schools judged as inadequate or coasting converting to academy status.</p>	<p>The May 2017 Audit Committee report included 2 main controls against this risk area seeking information from the Department for Education on how the Authority should respond to national education policies and a review of 0-19 Services. In addition the following controls are either in place or being developed:</p> <ul style="list-style-type: none"> • Working towards achieving excellence – the Authority is considering what contribution it can make to the emerging proposal for Achieving Excellence Areas. • A solution is to be developed on how the Authority and schools will respond in the event of a school being judged as inadequate following an OFSTED inspection – the Authority is working closely with schools to identify and develop a suitable solution that will enable a school judged as inadequate to continue to be managed from within the Borough. This solution is intended to include some of our best schools converting to Academies; however this has been complicated by pension liability. Alternative solutions are being considered.
8	<p>Exit from the European Union – there is a risk that the Authority may be placed at a disadvantage following the decision to leave the European Union (EU) in both financial and economic growth terms.</p> <p>The decision to leave the EU has resulted in a number of uncertainties including whether central Government will fill the gap left by European Funding on a like for like</p>	<p>In the May 2017 Audit Committee report the following controls were listed as being in place: inclusion in the Authority’s Financial Strategy of the potential impact from leaving the EU, keeping a watching brief, membership of various regional groups and exploring alternative funding opportunities. The following additional controls are in place:</p> <ul style="list-style-type: none"> • Existing regeneration schemes are planned against known funding opportunities - this minimises the impact on schemes if

Potential Governance Issue	Progress to Date
<p>basis. There is also the potential impact on businesses within North Tyneside which will vary depending on their reliance on Europe as a market and their sensitivity to fluctuations in monetary value. The full extent of the impact will not be clear until the precise trade terms are known which will apply once the UK formally leaves the EU.</p> <p>Opportunities will also arise covering: An opportunity for partnership between businesses and the Council to work together more effectively to stimulate and support economic growth opportunities; An opportunity for a comprehensive approach to establish the River Tyne as a hub for offshore and renewable energy investment; and There is an opportunity for local authorities to work more collaboratively with wider business partners through the Combined Authority and the North East Local Enterprise Partnership (NELEP).</p>	<p>funding opportunities are withdrawn.</p> <ul style="list-style-type: none"> • Effective high level engagement with key businesses - appropriate high level relationships will enable the Authority to monitor the emerging impact of Brexit on our key businesses.

Annual Governance Statement (AGS) Framework

Evidence is gathered from a variety of sources including:

The Governance Framework – examination of key documents/functions

Council and Service Policies

Business Plans and Risk Registers



Supporting evidence and assurances are reviewed – this comes from:

Internal Audit – periodic and annual reports

Financial Management – financial plans, statutory returns, external audit

Members Assurance – scrutiny functions, Governance Committee

Risk Management – risk management strategy

Assurance Statement – completed annually

Chief Finance Officer's Statement – completed annually

Council and Cabinet Meetings



Draft AGS compiled together with action plan to address any identified governance issues



Draft AGS and action plan reviewed by Senior Leadership Team and Chief Executive



Draft AGS presented to Audit Committee for review and approval



AGS signed by Elected Mayor, Chief Executive, Chair of Council and Chair of Audit Committee



AGS included within the Annual Financial Report

North Tyneside Council Report to Audit Committee Date: 22 November 2017

ITEM 7

Title: Annual Statement of
Accounts 2017/18

Report from Service: Finance

Report Author: Janice Gillespie, Head of Finance (Tel: 643 5701)

Wards affected: All

PART 1

1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with the plan in respect of the closure of the 2017/18 Accounts.

1.2 Recommendation(s):

1.2.1 It is recommended that the:

(a) Audit Committee note the work outlined in the plan for the closure of the 2017/18 Accounts.

1.3 Forward plan:

1.3.1 This report is included within the annual workplan for the Audit Committee.

1.4 Council plan and policy framework:

1.4.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

1.5.1 This is the first year of the new regulations in respect of the production of the Authority's Annual Statement of Accounts. The Chief Finance Officer will now be required, no later than 31 May 2018, to sign and certify that the Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2018. The audited set of accounts will now be required, no later than 31 July 2018, be approved and subsequently published.

Preparation of the 2017/18 Annual Statement of Accounts

- 1.5.2 A review has taken place of the main issues that arose during the completion of the 2016/17 accounts – this has been in conjunction with the external auditor, key finance staff and the Chief Finance Officer.
- 1.5.3 Sessions have been held to identify the key risks associated with achieving the statutory deadlines – work is ongoing in finding appropriate solutions to ensure that the risks are mitigated as much as possible. A risk log is maintained and reviewed as part of the regular meetings held with both key finance staff and the Chief Finance Officer.
- 1.5.4 A detailed timetable has been prepared outlining the main tasks and actions that need to be taken – together with who is responsible and the agreed date for completion of each item. There are currently over 430 items on the timetable with approximately 270 of them due for completion in the six week period from the beginning of April 2018 to the middle of May 2018. Progress against each of the tasks is reviewed regularly, individuals are tasked with ensuring if there are going to be any problems in meeting the agreed dates that this is reported back to the project lead as soon as possible so that appropriate action can be taken and any impact on other deadlines is determined.
- 1.5.5 We have taken on board the points raised by external audit and incorporated them into the plan, these include:
 - 1.5.5.1 More regular meetings with Valuation - a key area of the accounts due to the high value of the assets;
 - 1.5.5.2 Involving all areas of the Authority – it is planned to have several articles in teamwork from the Chief Finance Officer outlining the role everyone has in ensuring the Accounts are produced on time and also the importance of responding to any audit queries on a timely basis; and
 - 1.5.5.3 Improving working papers – it is key that all of the working papers are of the same high standard to assist in the audit of the accounts.
- 1.5.6 We are also working closing with external audit to agree an appropriate course of action that will assist in any early testing they wish to do i.e. in early 2018 several areas of the Accounts can be reviewed and audited.
- 1.5.7 Throughout the whole process regular meetings will be held with the Chief Finance Officer so that any issues, risks or concerns are raised on a timely basis and appropriate action can be taken to resolve them.
- 1.5.8 A date of the 24 May 2018 has been set as the deadline for achieving a set of Accounts that can be reviewed and quality assured prior to the publication date of 31 May 2018.
- 1.5.9 An update of the progress made and any issues in respect of meeting these deadlines will be taken back to the Audit Committee in March 2018.

1.6 Decision options:

The options available are:

- (a) To accept the recommendations made in section 1.2.1.

1.7 Reasons for recommended option:

The production of an Audited Annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

1.9 Contact officers:

Janice Gillespie – Head of Finance - Tel: 643 5701
Cathy Davison – Principal Accountant – Tel 643 5727
Mary Gascoigne – Principal Accountant – Tel 643 5731

1.10 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Statement of Accounts is produced annually in accordance with the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

Consultation will take place with the key personnel and interested parties involved in the closedown process.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.

North Tyneside Council Report to Audit Committee Date: 22 November 2017

ITEM 8

Title: Strategic Audit Plan 2017/18
Interim Monitoring Statement

Report from Service Area: **Commissioning and Investment**

Report Author: **Allison Mitchell, Chief Internal Auditor** (Tel: 643 5720)

Wards affected: **All**

PART 1

1.1 Purpose:

The purpose of this report is to provide the Audit Committee with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2017/18 (this document is attached as **Appendix A**).

1.2 Recommendation(s):

It is recommended that the Audit Committee considers and notes the progress set out in the Strategic Audit Plan Interim Monitoring Statement, attached as **Appendix A**, and the coverage achieved by Internal Audit at this stage in the year with plans to monitor and manage resourcing / coverage in the remainder of 2017/18.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Strategic Audit Plan 2017/18 Interim Monitoring Statement

- 1.4.1 The Strategic Audit Plan 2017/18 was presented to, and approved by, the Audit Committee at its meeting on 29 March 2017. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent appraisal function for the Authority, and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).
- 1.4.2 An Interim Monitoring Statement, outlining progress against the Audit Plan at the mid-year point of 2017/18, is attached as **Appendix A**. Some vacancies within the team (in respect of which there have been some delays in making appointments) have contributed to delays in starting some assignments. Although appointments have now been made to most vacancies, it will be important to monitor resourcing closely for the remainder of the year to ensure that sufficient audit coverage is delivered. If required, it may be necessary to consider options for securing additional resources. This approach to monitoring and resourcing is being actively supported by the Head of Commissioning and Investment, to

whom regular resourcing and performance reports will be presented during the remainder of 2017/18.

1.4.3 A full outturn on the 2017/18 Annual Audit Plan will be reported to the Audit Committee in May 2018.

1.5 Decision Options:

It is recommended that the Audit Committee notes the level of coverage set out in the Strategic Audit Plan Interim Monitoring Statement, attached as **Appendix A**.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Strategic Audit Plan 2017/18 Interim Monitoring Statement

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel: 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013 (P)
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) [Financial Regulations](#)
- (d) Internal Audit Terms of Reference, March 2012 (P) [Internal Audit Terms of Reference](#)
- (e) Strategic Audit Plan 2017/18, March 2017 (P) [Strategic Audit Plan 2017/18](#)
- (f) Internal Audit Reports & Briefing Notes prepared during 2017/18 (C)
- (g) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
- (h) The Accounts and Audit Regulations 2015, April 2015 (P) [Accounts and Audit Regulations 2015](#)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

The Internal Audit service supports the Chief Finance Officer in discharging the requirements of section 151 Local Government Act 1972, which requires that local

authorities ‘make arrangements for the proper administration of their financial affairs’. Internal Audit examines the Authority’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority 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. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Internal Auditor should report periodically to senior management and the board on Internal Audit matters, including “performance relating to its plan”.

2.3 Consultation/community engagement

The Strategic Audit Plan 2017/18 was prepared following consultation with: the Chief Executive; Deputy Chief Executive; Head of Finance (Chief Finance Officer); all Heads of Service; and Cabinet Member for Finance and Resources. Resourcing issues have been discussed with the Chief Executive, Deputy Chief Executive, Head of Finance; and Chair of Audit Committee.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

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

2.6 Risk management

The risks associated with this report have been considered and discussed with the Senior Risk Advisor and will be managed in accordance with the North Tyneside Council risk process. The Strategic Audit Plan has been prepared following the assessment of risks facing the organisation, and those inherent in the areas proposed for review. Risks around resourcing will be monitored and managed as set out earlier in this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority’s counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report author Allison Mitchell
 Kevin McDonald

Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
Advice, Contingencies & Assurance	<ul style="list-style-type: none"> Advice & Guidance Contingencies & Work Requests Fraud & Special Investigations 	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; responding to allegations of fraud (<i>see also proactive anti-fraud work in counter fraud & internal control and probity section below</i>); project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	Ongoing throughout the year – on target .	G
Programme Assurance	<ul style="list-style-type: none"> Change programme New Systems / Methods of Service Delivery 	Internal Audit will add value by providing assurance on aspects of the approach and work undertaken, and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported will include providing assurance to the Senior Leadership Team on the Creating a Brighter Future programme and implementation of the Authority's Target Operating Model.	Ongoing throughout the year – on target .	G

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
Corporate and Cross Cutting	<ul style="list-style-type: none"> Pre Submission Review of Grant Claims 	To undertake grant claim certification in respect of external funding regimes on behalf of the Council, to ensure that grant funding requirements have been met and grant claims are submitted in accordance with grant conditions, to maximise available grant income.	Complete. <ul style="list-style-type: none"> Troubled Families (quarterly claim certification ongoing) Carbon Reduction Commitment Energy Efficiency Scheme Local Transport Plan (£1.026m) LGF Swans Wet Berth Scheme (£0.163m) LGF North Bank Corridor Scheme (£0.175m) Growth Hub Funding – for NECA / LEP (£0.422m) 	G

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
Corporate and Cross Cutting	<ul style="list-style-type: none"> Annual Opinion 	An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Chief Executive, Head of Finance (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council's Annual Governance Statement.	Annual Opinion for 2016/17 complete .	G
	<ul style="list-style-type: none"> Follow up on Recommendations 	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	Work in respect of 2017/18 Annual Opinion due to commence during Quarter 4. Ongoing throughout the year – on target .	
	<ul style="list-style-type: none"> Governance Reviews 	To review the Authority's approach to governance over collaborative working / commissioning of services with partner organisations. The areas to be covered will be developed during the year but will include: <ul style="list-style-type: none"> Evaluation of controls; Consistency of approach (taking into account factors such as proportionality and appropriateness); and Relevance / meeting strategic (and operational) objectives. 	Work undertaken on finalising 2 assignments from 2016/17: <ul style="list-style-type: none"> Information Governance Electronic Document Records Management System Review of Treasury Management is underway. Planned reviews yet to commence: <ul style="list-style-type: none"> Deprivation of Liberty processes Direct Payments Integration of Health & Social Care 	A

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
	<ul style="list-style-type: none"> Value for Money Reviews 	To undertake specific value for money reviews on a range of topics of relevance to the organisation.	<p>7 potential areas were initially identified:</p> <ul style="list-style-type: none"> IT 'state of the nation' 'Robotics' TOM – Commercialism TOM – Fees & Charges Self-service Property portfolio Procurement <p>Having undertaken mid-year assurance mapping, assurance has been provided in respect of some key areas via alternative means (i.e. Property Portfolio and Procurement). Internal Audit's planned coverage will therefore change to providing support to the working groups already established.</p>	A
Corporate and Cross Cutting	<ul style="list-style-type: none"> Health & Safety Business Continuity Management 	<p>Further to assurance work previously undertaken, to review the effectiveness of the Council's Health and Safety procedures, to provide assurance as to compliance with health and safety legislation.</p> <p>To assess cultural awareness of health and safety issues throughout the Council, determining the extent to which health and safety is considered and prioritised within service areas, and arrangements within each service for the management of health and safety risks.</p> <p>To review the arrangements in place for business continuity management across the authority and its major strategic partners; and to assess the ability to maintain continuity in the event that a business disruption was to occur.</p>	<p>Scheduled for second half of the year.</p> <p>Underway.</p>	G G

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
Children, Young People and Learning	<ul style="list-style-type: none"> Primary & First Schools, Middle Schools and Secondary Schools 	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools. The areas to be prioritised for thematic review will be identified on a risk assessed basis, in conjunction with the Deputy Chief Executive, Chief Finance Officer and Head of Health, Education, Care and Safeguarding.	Thematic ICT review complete .	G
	<ul style="list-style-type: none"> Schools' Financial Value Standard (SFVS) 	On behalf of the Head of Finance (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.	Review of school website Ofsted compliance currently underway . Annual report prepared for DfE deadline of 31 May 2017 – complete . Work in respect of 31 May 2018 DfE deadline due to commence during Quarter 3.	
Tyne Port Health Authority	<ul style="list-style-type: none"> Tyne Port Health Authority 	On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2017. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.	Complete.	G

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
ICT	<ul style="list-style-type: none"> System Reviews 	<p>To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether:</p> <ul style="list-style-type: none"> The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; All transactions are completely and accurately recorded and traceable; Access to information and facilities is controlled and restricted to authorised users according to their needs; The potential for fraud and error are minimised; The systems are effectively administered and supported; All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; The systems are continually available during working hours; The systems provide complete and accurate management information; and Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. 	<p>Work undertaken on finalising 2 assignments from 2016/17:</p> <ul style="list-style-type: none"> Access Approvals Hardware & Software Management <p>6 ICT Reviews were included in the Plan. 2 reviews are underway (Telephony and PCIDSS Compliance). In addition, our programme assurance work has continued in respect of three systems (Debtors system, Office 365 & Liquidlogic), rather than a system review, reflecting the changing risks associated with such systems. In respect of the final planned system review (Fleet Management system), risks have been re-evaluated as low and hence this will be included in a future year's plan.</p>	A
	<ul style="list-style-type: none"> Public Service Network (PSN) Compliance 	<p>To undertake the annual independent review of the Authority's compliance with the Public Service Network Code of Connection, to support the Authority's submission to the Public Services Network Authority for accreditation.</p>	<p>Scheduled for second half of the year.</p>	G

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
ICT	<ul style="list-style-type: none"> • Network Management 	<p>To determine whether:</p> <ul style="list-style-type: none"> • The authority has established organisational and operational policies and standards that address the selection, acquisition and installation of networks and related peripherals; • Established controls and procedures that will ensure network hardware and software contribute to the effective operation of the networks are in place; • Procedures incorporate adequate controls to ensure the resilience of the network; and • Appropriate contingency arrangements are developed and tested, to ensure the continuous availability of network functionality. 	Scheduled for second half of the year.	G

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Position as at 13 October 2017	RAG
Counter Fraud	<ul style="list-style-type: none"> • Pro-active anti-fraud work 	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	Ongoing throughout the year – on target.	G
Internal Control & Probity	<ul style="list-style-type: none"> • Key Financial Systems: <ul style="list-style-type: none"> - Payroll; - Creditors & Procurement; - Debt & Non Cash Income; - Cash & Non Credit Income; - Benefits (Local Council Tax Support Scheme; Housing Benefits); - Council Tax; - Business Rates; - Housing Rent Assessment & Collection 	<p>The audit priorities and objectives are determined taking a risk-based approach and advantage of the opportunities presented in operating in a shared working arrangement. The audits to be undertaken will be a blend of assignments with objectives primarily relating to issues of system compliance and those with objectives primarily aimed at driving improvement in economy, efficiency and effectiveness for the organisation:</p> <p>(i) evaluating the controls within a system designed to prevent and / or detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council policy, Financial Regulations, legislation and the requirements of external bodies such as HM Revenues and Customs; in addition to</p> <p>(ii) reviewing a range of systems' intelligence to assess how well a system is achieving its objectives and overall desired outcomes, safeguarding the interests of the Authority and achieving value for money.</p>	Scheduled for second half of the year. (2 assignments now commenced during October 2017 – Payroll and Creditors & Procurement.)	G