

Audit and Governance Committee

A meeting of Audit and Governance Committee was held on Monday, 27th July, 2020.

Present: Cllr Barry Woodhouse (Chair), Cllr Lauriane Povey, Cllr Chris Clough, Cllr Stefan Houghton, Cllr Eileen Johnson (sub for Cllr Chris Barlow), Cllr Ross Patterson, Cllr Maurice Perry, Cllr Mick Stoker

Officers: Andrew Barber, Andrew Bryson, Derek Macdonald (F&BS), Michael Henderson, Nigel Hart (A,D&ES)

Also in attendance: Gavin Barker (Mazars)

Apologies: Cllr Chris Barlow, Cllr Laura Tunney

AGC 1/20

Declarations of Interest
Councillor Johnson, Woodhouse and Stoker declared a personal/non prejudicial interest in item 4 External Audit Progress Report, as they were the recipients of pensions, from Teesside Pension Fund, which was mentioned during discussion on that item.

AGC 2/20

Minutes from the Audit and Governance Committee meeting which was held 10th February 2020

The minutes of the meeting held on 10 February 2020 were confirmed as a correct record.

AGC 3/20

External Audit Progress Report

Members considered a report that provided an update in delivering Mazars' responsibilities, as the Council's External Auditors. The report covered a longer period than normal, given that the COVID-19 pandemic had meant that the Committee had not met since 10 February 2020.

Key issues highlighted by Mazars included:

- changes to publication of draft and final accounts.
- the requirement for a 'common' inspection period had been removed.
- the Auditors planned to present their Audit Completion Report to the Committee on 28 September 2020 and a revised timetable for this was provided.
- the Committee noted that the work had gone well, and no significant issues had presented. Members were provided with assurances that, though the production of the statements and audit work had been carried out differently, due to Covid-19 related restrictions, it had been with no less rigour and was to the usual high standards.
- the Committee was provided with a summary of national publications, including a number issued relating to Covid-19'. Reference was made to the Code of Audit Practice; News releases Q & As; 2020/21 Audit Fee Scale.

- the Committee was advised that it was anticipated that there would be pressure to raise audit fees for 2019/20 and there would be discussions between the Council and Mazars, in this regard, when the Audit was completed.
- The PSAA client survey had revealed that Mazars had performed very well in its own right, and in comparison to the other firms in the sector.
- there was a range of Covid-19 related publications and reference was made to a paper that highlighted the key financial challenges, from the pandemic, and issues for medium term financial planning.

Discussion:

- members noted that fee increases could be in the region of 10 - 15 %, which would result in a cash increase of around £10,000 - £15,000.
- members noted that Pension fund audits had to undertake additional procedures around investments, and it was explained that the Teesside Pension Fund audit, which was not undertaken by Mazars, was on track to be completed within statutory deadlines.

RESOLVED that the report be noted.

**AGC
4/20**

Internal Audit Annual Report and Opinion

Members considered the Annual Report of the Head of Internal Audit, as required by the Public Sector Internal Audit Standards (PSIAS).

The report included the Audit & Risk Manager's annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. As such it formed an integral part of the formulation of the Council's Annual Governance Statement.

The Annual report showed the current position in respect of the progress against the 2019/2020 audit plan and the results of the work that had been undertaken.

It was agreed that the Council had been through some unprecedented times during the COVID-19 crisis. This had invariably had an impact on the completion of the audit plan and the ability to complete on-going assignments. The audit opinion had been prepared based on the completed audits and the testing completed to date in the other audits. At the start of the year the minimum level of coverage was set at 45% of the audit portfolio, actual coverage during the year was 46, therefore, enough coverage had been achieved to enable an opinion to be formed.

Members noted the Head of Internal Audit's Opinion of the overall adequacy and effectiveness of the Council's governance, risk and control framework:

"From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's control environment to support the

preparation of the Annual Governance Statement.

It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time.

Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction."

RESOLVED that the Annual Internal Audit Report for 2019/20 incorporating the Head of Internal Audit's opinion on the Council's control environment and the performance of the Internal Audit Section be received..

**AGC
5/20**

Internal Audit Activity Report

Members were provided with an update of the assurance work carried out by the Internal Audit Section and the proposed areas of focus for the next period.

The Committee was reminded of a revised approach to recording and planning internal audit work. The revised approach strengthened arrangements to risk management, by reporting results of assurance work against corporate risks. To support this, future activity reports would be incorporated into the risk register update report.

Progress to date had been good. Despite the restrictions caused by COVID, the audit team had continued to support departments, as necessary, with ad-hoc queries and in maintaining effective systems of control. Time had been spent uploading past results into the new model of reporting and work had commenced on reviewing a number of controls.

Included in the activity report was a forward plan of areas to be reviewed as well as an assessment of the resources available to undertake the work.

RESOLVED that the current position, as identified in the update report be noted.

**AGC
6/20**

Internal Audit Charter

The Committee considered a report that advised Members of the Internal Audit Charter and proposed approach to delivering the audit service for the financial year 2020-2021.

A copy of the Audit Charter was provided to the Committee. It was explained that the Charter was a high-level statement of how the Internal Audit Service would be delivered to meet the requirements of relevant legislation and standards.

The charter set out the approach for delivery of the audit service.

The standards stated that a risk-based plan, designed to implement the audit charter and allow an annual internal audit opinion to be prepared, should be

produced.

Audit planning would be undertaken on a quarterly basis. The structure of the plan had been updated with a focus around auditing controls rather than service areas. This would impact on the level of detail provided to members at the planning stage.

The risk assessment used several factors to determine the likelihood of issues occurring, including an understanding of the full scope of controls in operation, major change, concerns/external interest and results of previous audit work. It then assessed the impact any issues may have on the Council's strategic objectives, reputation, financial plans, assets and the potential impact on individuals and/or the environment.

As part of the process, the plan was subject to consultation with the Council's external auditors. High priority was given to key financial systems, any significant corporate projects and specific areas requested by Management. A lower priority was given to systems which, although very important to stakeholders, had less impact corporately. All areas of activity were tested in their entirety at least once in a five-year period.

The service was continuously striving to improve the way it operated, and the following actions had been identified to further enhance the service:

- Review and update the Quality, Assurance and Improvement measures.
- Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
- Establish how the service could place reliance on other sources of assurance.
- Implement the new format Audit Report to Directors.
- Implement the new format Corporate Risk Register and Assurance Report to Audit Committee.
- Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.

RESOLVED that:

1. the Internal Audit Charter and the rights conferred in it, be approved.
2. the approach to delivering the audit service, for the coming financial year 2020-21, be noted.

**AGC
7/20**

Draft Statement of Accounts 2019/2020

The Committee considered the Council's Draft Statement of Accounts 2019/2020.

The accounts had been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020" which was

prepared under International Financial Reporting Standards.

Members noted that regulations issued in response to the Coronavirus had moved the publication date for audited accounts from 31 July to 30 November 2020 for all local authority bodies. Regulations provided more flexibility regarding the public inspection period.

It was explained that, based on the updated regulations, it was intended that following this meeting the period in which electors had the right to examine the accounts, question the auditor and to make objections at audit would be set. This was a period of 30 working days which would commence on 28th July and end on Monday 7th September 2020.

The accounts for 2019/2020 included additional statements in relation to the Council's group undertakings for the ownership of the Stockton Hotel and Stockton Holding Companies.

Key financial figures (non-group) were highlighted to the Committee; these included in the accounts:

- A deficit of £1.137 million was reported against directorate revenue budgets for 2019/20. This position reflected planned use of General fund balances agreed as part of the previous year's medium-term financial plan.
- Total capital spending was £63.246 million during 2019/20.
- Current long-term investments and cash equivalents amounted to £37.2m million. This was an increase of £15.9 million from the previous year and was due to additional funding being provided at year end, from the Government, for Covid 19 and the authority entering into short term loans, so there was sufficient cash funds available, while the picture around the pandemic became clearer.
- The Council's current long and short-term borrowings totalled £107.754 million which was an increase of £54.496 million, over the previous year. This increase reflected the approvals made in funding the capital programme.
- The Council's earmarked reserves (excluding schools) stood at £55.117 million which was a decrease of £7.338 million from the previous year. This reflected the planned use of reserves including funding the capital programme.
- The Council's Pension Scheme deficit was estimated at £305.7 million, an increase of £78.5 million from the previous year.
- The level of General Fund balances at the 31st March stood at £7.221 million. The approved budget for 2020/21 would replenish these balances to the required level of £7.4m

RESOLVED that the Draft Statemen of Accounts for 2019/2020 be noted.

**AGC
8/20**

Annual Governance Statement - Draft

The Committee considered a report relating to the Annual Governance Statement for 2019/20.

Members were reminded that the Council was required to conduct a review, at least once a year, of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts.

A draft Statement of Governance was provided to the Committee for consideration and it was noted that, at this time, the Council had not identified any significant issues that were not being addressed within the Statement.

The final Annual Governance Statement would be presented for approval alongside the audited Statement of Accounts. Subject to that approval the Statement would be signed by the Managing Director and the Leader. A key objective of this 'signing-off' process was to secure corporate ownership of the statement's contents.

RESOLVED that the Draft Annual Governance Statement 2019/20 be noted.

**AGC
9/20** **Health and Safety Report**

Members considered a report detailing regular non-responsive services provided by the Council's Health and Safety Unit to monitor, improve and to ensure compliance of the health, safety and well-being control environment for the period 1st April 2019 – 31st March 2020.

Members noted the high number of physical assaults in school. It was explained that these related to assaults on staff, by pupils.

RESOLVED that the report be noted.

**AGC
10/20** **Audit Committee Terms of Reference / Training - Discussion**

Members were reminded of the Committee's Terms of Reference.

The Chairman highlighted that, should any Member require any further training, in terms of Audit and Governance, then they should contact him or Member Services.

RESOLVED that the Terms of Reference be noted.

**AGC
11/20** **Audit and Governance Committee Work Programme**

Members noted and agreed the Committee's Work Programme.

RESOLVED that the Work Programme be noted.