

Audit and Governance Committee

A meeting of Audit and Governance Committee was held on Monday, 28th June, 2021.

Present: Cllr Barry Woodhouse(Chairman), Cllr Lauriane Povey(Vice-Chair), Cllr Steve Matthews (Sub Cllr Stefan Houghton), Cllr Eileen Johnson, Cllr Ross Patterson, Cllr Mick Stoker, Cllr Hugo Stratton, Cllr Laura Tunney

Officers: Andrew Bryson, Derek Macdonald, Martin Skipsey (F&BS), Rachel Harrison, Sarah Whaley (A,D&ES)

Also in attendance: Gavin Barker (Mazars)

Apologies: Cllr Chris Barlow, Cllr Stefan Houghton,

AGC 1/21 **Declarations of Interest**

There were no declarations of interest.

AGC 2/21 **Draft Minutes from the meeting which was held 22nd February 2021**

Consideration was given to the minutes from the meeting which was held on the 22nd February 2021 for approval and signature.

RESOLVED that the minutes be approved and signed as a correct record by the Chairman.

AGC 3/21 **External Audit- Audit Strategy Memorandum**

Members were presented with the 'External Audit- Audit Strategy Memorandum' report for the year ending March 2021, the purpose of which was to summarise Mazars audit approach, highlight significant risks and areas of key judgements and to provide details of Mazars audit team.

The main topics discussed were as follows:

The Committee were reminded that a new Senior Manager Cath Andrew had recently joined the Mazars team and would be working with the Council in term of external Audit.

Brief discussion was had around Key areas of Responsibility in particular Value for Money (VFM) arrangements, which since the new Code of Audit Practice, (the Code) had changed the way in which Mazars reported their findings from 202/21. Under the new code the key output of Mazars work on VFM arrangements would be a commentary on those arrangements which would form part of the Auditors Annual report.

Members attention was drawn to the Audit Scope, approach, and timeline. Mazars were still to carry out detailed work with the financial statements being agreed end of September 2021.

It was also highlighted that Mazars were also responsible for the group financial

statements which consolidated the Councils single entity accounts with the components of Stockton Borough Holding Company Ltd and Stockton Hotels Company Ltd.

In terms of significant risks and other key judgement areas, Mazars highlighted the risks associated with the 'Management override of controls (Council and Group). This was identified as a significant risk due the unique position, that management, within an organisation were in, to be able to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.

Pension liabilities, valuation of property, plant and equipment were also identified as significant risks. The calculation of pension figures could be subject to volatility and included estimates based upon a complex interaction of actuarial assumptions. Plant property and equipment (PPE) valuations were made by valuation experts, however there still remained a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved.

Mazars highlighted that the audit fees for 2019 / 20 which had been agreed were now due for payment.

Mazars continued to be committed to independence as required by the Ethical Standards for auditors.

Members briefly discussed materiality and other misstatements. Mazars reminded the Committee that they did not confirm the Council offered value for money but that they had the necessary arrangements and controls in place to deliver value for money.

Members welcomed the additional detail on the VFM report.

RESOLVED that the report be noted.

**AGC
4/21**

External Audit- Progress Report

Members were presented with a report which provided the Audit and Governance Committee with an update on progress in delivering Mazars responsibilities as Stockton Borough Councils external auditors which also includes, a summary of recent national reports and publications.

Public Sector Audit Appointments (PSAA) Limited had recently confirmed its agreement of the fee variations related to the 2019/20 audit. Mazars would arrange for billing in due course.

At the time Mazars Audit Strategy Memorandum for 2020/21, dated 22 February 2021 was prepared, the planned timeline for completion of the audit was in accordance with the revised timetable for completion announced by MHCLG of the end of September 2021. Mazars did alert members to the pressures they were experiencing in terms of recruitment and retention, and the continuing impact of the pandemic, particularly in light of the 2020/21 timetable for audit

completion moving to 30 September 2021, whereas the timetable for 2019/20 had been 30 November 2020.

Mazars highlight those difficulties reported previously had continued and had affected all audit firms nationally working within the local audit regime, as detailed in an independent review by Sir Tony Redmond.

It was highlighted that the Mazars north east office were experiencing a high level of staff turnover. A skills shortage in the profession meant that there was a shortage of people coming through, this had resulted in Mazars having to recruit internationally. The shortage meant it was difficult for Mazars to deliver the audit programme, however the Opinion Audit for Stockton was scheduled to be delivered by the end of September 2021 subject to receiving the Pension Fund Audit or Assurance.

The National Audit Office reported only 45% of 2019/20 audits met the 30th November 2020 deadline, this deadline had been extended by two months on the grounds the 31st July was unrealistic.

The Value for Money (VFM) could be reported by the end of November, as not all areas of VFM report would be complete by the end of September. Mazars would continue to assess the situation. Mazars still had a commitment as a firm to deliver work to timetable and industry standards.

Members expressed their full understanding to Mazars position and acknowledged the impact the pandemic was having on the audit sector.

RESOLVED that the report be noted.

AGC 5/21 Internal Audit Annual Report

Members were asked to consider and note 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.

This report encompassed the reporting requirements specified in Standard 2450 of the PSIAS.

Internal Audit was an independent appraisal function established by the Council to objectively examine, evaluate, and report on the adequacy of internal controls. This role ensured that there was proper economic, efficient, and effective use of resources. It also ensured that the Council had adequate accounting records and control systems.

This was the first annual report prepared following the change of emphasis from service/system based audits to the review of controls. As such the format of the report had changed from previous years.

The main topics discussed were as follows:

- 360 out of 322 planned audits had been completed exceeding the target. The approach was changed to more time emphasised looking at actual audits compared to time spent writing audits up.
- The council continued to have an appropriate, and overall, effective system of internal control, upon which it could place reasonable reliance to deliver the Council's objectives and detect fraud and other malpractice within a reasonable period.
- Member's attention was drawn to the audit results, in which the majority of controls were rated green with only small numbers shown as either amber or red.
- Controls were tested against parts of the council plan supporting the overall opinion of adequacy of the control environment as a whole..
- The Counter Fraud Strategy and Council Tax fraud would be presented at the November meeting of the Audit and Governance Committee
- It was highlighted that the authorities Audit Service complied with the requirements of the PSIA standards.
- Members attention was drawn to the 'Quality, Assurance and Improvement Process' contained within the report which demonstrated that the Council had a sound approach to Audit.

RESOLVED that the report be noted.

**AGC
6/21**

Annual Financial Statements draft prior to Audit

Due to timescale pressures whilst preparing the Draft Annual Financial Statements, Members agreed to defer the item to a future meeting of the Audit and Governance Committee.

RESOLVED that the item be deferred to a future meeting the Audit and Governance Committee.

**AGC
7/21**

Draft Annual Governance Statement 2020/21

Draft Annual Governance Statement 2020/21

Members were presented with a report of the Council's Draft Annual Governance Statement for 2020/21.

The Accounts and Audit Regulations 2015 required all authorities in England 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. The deadline for completion of the Statement of Accounts for 2020/21 was 30 September 2021 at which point they were subject to the external audit process.

The audited Statement of Accounts and the Annual Governance Statement would be presented for approval to this Committee.

A further requirement of the regulations stated that the Statement should be signed by the Chief Executive and the leading Member of the Council, following approval by the Committee. A key objective of this signing off process was to secure corporate ownership of the statement's contents.

The Annual Governance Statement included an acknowledgement of responsibility for ensuring that proper arrangements were in place around the governance of its affairs and an indication of the level of assurance that the system provided. The statement also included a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

The Council's Annual Governance Statement for 2020/21 was included with the main report. At this time the Council had not identified any significant issues that were not being addressed within the Statement.

The main topics highlighted were as follows:

-It was noted Mazars Annual Audit Letter from 2019/20 concluded the Council had proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources.

- The impact of COVID-19 on governance arrangements which were overcome very quickly by introducing new ways of working such as working from home, introducing virtual meeting arrangements etc. This meant that except for the early days when the pandemic struck the impact of COVID-19 had not had a great detrimental impact on governance processes.

The Council had commenced a full self-assessment against the Financial Management Code, the work to date showed most elements of the code were in place.

Members commented on the impact of Covid 19 on a range of services and the impact on the Council in the long run.

RESOLVED tht the report be noted

**AGC
8/21**

Risk Register Update and Audit Activity

Members were asked to consider and note the quarterly Corporate Risk Register Update Report and Internal Audit Activity Report.

The Committee was reminded that quarterly reports on the Corporate Risk Register were presented for the purpose of reviewing the key risks that had been identified as having the potential to deflect services from achieving their objectives over the next 12 months and beyond. They also set out the actions being taken to ensure that the risks, and possible adverse outcomes, were minimised.

As a reminder, risks were scored on a scale of one to five for both 'impact' and 'likelihood'.

Members attention was drawn to the summary which gave an overview of each risk and provided a summary of the current status of the risk. A mistake was highlighted on education skills in which the current score was 12 and desired score was 9.

The report was noted.

RESOLVED that the report be noted.

AGC 9/21 **Health and Safety Report**

Members were presented with the Health and Safety Report which provided the Committee with an update on the health, safety, and wellbeing performance of the Council for the period 1st April 2020 – 31st March 2021.

Due to the impact of the COVID-19 Coronavirus pandemic and the measures put into place to minimise the risk of transmission of infection, a number of activities have been interrupted or delivered by new ways of working, resulting in an abridged report.

The main topics discussed were as follows:

- Health and Safety training events were postponed due to Covid 19. eLearning continued to run with 440 candidates completing training modules.
- The programme of planned audit activity which was postponed due to COVID-19 was due to start again.
- In terms of Construction (Design & Management), there was very little activity in this area.
- Due to COVID-19, the Department for Education continued to advise against schools taking domestic and foreign residential, educational visits, therefore no visits had taken place.
- The Open Water Strategy had elements of its action plan delayed due to the pandemic which was beginning to be revisited.
- Accidents, physical and verbal assault figures were down which could have been largely due to less staff in office buildings.

RESOLVED that the report be noted.

**AGC
10/21**

Work Programme

The Work Programme was noted.