

AUDIT AND GOVERNANCE COMMITTEE

A meeting of Audit and Governance Committee was held on Monday 25 September 2023.

Present: Cllr Barry Woodhouse (Chair), Cllr Stefan Houghton (Vice-Chair), Cllr Marc Besford, Cllr Eileen Johnson, Cllr Sufi Mubeen, Cllr Ross Patterson, Cllr Paul Rowling and Cllr Emily Tate.

Officers: Andy Bryson (F,T&P), Andrew Barber, Martin Skipsey and Rachel Harrison (CS).

Also in attendance: Gavin Barker (Mazars)

Apologies: Cllr Susan Scott and Cllr Mick Stoker.

AGC/19/23 Evacuation Procedure

The Evacuation procedure was noted.

AGC/20/23 Declarations of Interest

There were no declarations of interest.

AGC/21/23 Minutes

Consideration was given to the minutes from the meeting held on the 31 of July 2023 for approval and signature.

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

AGC/22/23 Annual Governance Statement

Officers presented the Annual Governance Statement 2022/23 to members.

Members were reminded that 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 2022/23 was 30 September 2023 at which point they were subject to the external audit process.

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 from the governance framework, a description of the process applied in reviewing the effectiveness of the

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 2022/23 was attached within Appendix A of the main report. At this time the Council had not identified any significant issues that were not being addressed within the Statement.

Members were pleased a review and update to the hotel company governance arrangements were included in the report and enquired when an update regarding this would be brought back to the committee. Officers replied an update would be provided at the February Audit and Governance meeting.

RESOLVED that the report be noted.

AGC/23/23 Treasury Management Annual Report

Members were presented with the Treasury Management Annual Report which informed the committee of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Council in February 2022.

The main topics discussed were as follows:

On 31st March 2023 the Council held £94.24m of loans, an increase of £9.78m from the previous year. For cash flow purposes the Council entered into three £5m short term loans at the end of 2022/23 financial year.

The Council's investments decreased to £28.8m by the end of March 2023.

£13.56m of the Council' investments were held in an externally managed strategic pooled property fund. These funds generated a dividend return of 4.2%

The Director of Finance, Transformation and Performance and Deputy Chief Executive reported that all treasury management activities undertaken during the year complied fully with the Chartered Institute of Public Finance and Accountancy Code of Practice and the Council's approved Treasury Management Strategy.

Members questioned whether due to interest rates had the cost of borrowing gone up? Officers responded that all long-term loans held by the authority were on fixed rates and that the recent rise in interest rates did not affect these loans. Interest rate rises though would affect and future short- and long-term loans entered into.

Members queried if the Council could compare borrowing with other Local Authorities of a similar size. Officers replied that it depended on the type of borrowing and if the information was disclosed in the other Local annual accounts and published on their websites.

RESOLVED that the report be noted.

AGC/24/23 External Auditor - Audit Certificate 2020/21

Members were presented with the External Auditor- Audit Certificate for the 2020/21 financial year which formally concluded the 2020/21 audit.

There was a substantial delay in the issue of the Audit Certificate, due to awaiting confirmation from the National Audit Office that Stockton-on-Tees Borough Council would not be selected for additional Whole of Government Accounts (WGA) work as a sampled component.

Members were informed that the certificate had been published on the Council's website.

Members questioned if the National Audit Office had selected the Council for WGA work would the certificate had been delayed even longer? Mazars responded that it would not have extended the time frame for much longer.

RESOLVED that the Audit Certificate be noted.

AGC/25/23 External Auditor - Follow Up Letter to the Audit Completion Report 2021/22

Members were presented with an update/conclusion of pending matters in relation to the Audit Completion Report.

As required by International Standards on Auditing (UK). Mazars provided an update on matters that were marked outstanding within the Audit Completion Report dated November 2022. In November Mazars reported to Members that work had been substantially complete with only two areas not complete. Those audit areas were identified as Pensions and Infrastructure.

In regard to Pensions Mazars received the Pension Fund auditor letter which highlighted number of apparent significant discrepancies in the data. The Pension Fund auditor indicated to Mazars that they did not intend to carry out any further work to investigate or resolve the apparent significant discrepancies. Mazars informed the Pension Fund auditor that they needed to follow up the issues themselves. Mazars were in the process of following the issues up at the time of the up update of the Audit Completion report and were waiting for a meeting to move forward.

As officers had previously made Members aware a national issue in relation to the accounting for infrastructure. This had impacted every local authority related entity with material infrastructure balances. The issue was entirely technical in nature and did not impact on the resources available to the Council or the level of usable reserves held by the Council. A statutory override was put in place by Government to address the information deficits and Chartered Institute of Public Finance and Accountancy (CIPFA) guidance was issued. The Council had adopted the statutory override in full. Mazars were satisfied that the Council had followed the relevant guidance when reviewing its infrastructure assets and had made the required disclosures in the financial statements. The issue had been resolved.

Members asked if Mazars had to complete extra work regarding the Pension Fund discrepancies who would pay for it? Mazars replied that Stockton-on-Tees Borough Council would be responsible for paying.

RESOLVED that the report be noted.

AGC/26/23 External Auditor - Auditor's Draft Annual Report 2021/22

Members were presented with the External Auditor's Draft Annual Report 2021/22.

The Auditor's Annual Report (AAR) summarised the work Mazars (Stockton on Tees Borough Councils External Auditors) had undertaken for the year ended 31 March 2022. Although the report was addressed to the Council, it was designed to be read by the wider audience including members of the public and other external stakeholders.

The completion of the audit was initially delayed due to the Pension Fund assurance letter not being received from the auditor of the Teesside Pension Fund until 22 March 2023. It was also delayed due to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the 11 January 2023 which set out how authorities should address the technical issues that had arisen in relation to accounting for infrastructure and how the statutory override that had been put in place by Government in December 2022 should be addressed. This impacted on the Council having the information needed to respond to this issue, and then Mazars work followed on from this.

As a result of the delay, new information became available to update the pension disclosures in the financial statements in that the triennial revaluation of Teesside Pension Fund as at 31 March 2022 was completed, and needed to be reflected in the 2021/22 financial statements. This required the Council to obtain an updated report from the actuary, and Mazars needed to carry out some additional procedures, including requiring the Pension Fund auditor to test the membership data used in the triennial revaluation and report to Mazars on the results of their testing.

The Pension Fund auditor reported to Mazars on 11 September 2023, but there were a number of issues the Mazars had to follow up on before they could issue their unqualified opinion.

In regard to Value for Money arrangements no risks of significant weakness were identified and no recommendations were made.

The summary of final fees from Mazars for the year 2021/22 was higher due to new scale fees and the inclusion of group fees with a small rounding difference and the additional work that needed to be carried out by Mazars in relation to the national issue in the year's audit.

Members thanked Mazars for their hard work regarding the Draft Annual Report.

Members queried whether a document which set out the scale of fees that Mazars used to charge the Council. Mazars replied that the Public Sector Audit Appointments created guidance on the scale of fees and for extra charges that may incur.

RESOLVED that the report be noted.

AGC/27/23 External Auditor - Audit Strategy Memorandum 2022/23

Members were presented with the External Audit – Audit Strategy Memorandum report for the year ending March 2023, 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.

Mazars representative Gavin Barker gave a brief overview of the report which included the following:

1. Audit scope, approach, and timeline
2. Significant risks and other key judgement areas
3. Value for Money
4. Fees for audit and other services
5. Mazars commitment to independence
6. Materiality and misstatements

The main topics discussed were as follows:

- The Pension Fund auditor was coming to the end of its contract, Mazars were extending their portfolio becoming the auditors for Middlesbrough, Darlington, and the Teesside Pension Fund.
- Members welcomed the news that Mazars were taking over the contract for the Teesside Pension Fund.

RESOLVED that the report be noted.

AGC/28/23 Risk Register Update and Audit Activity

Members were presented with the Corporate Risk Register Update and Internal Audit Activity Report.

The Committee was reminded that quarterly reports on the Corporate Risk Register was 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. The report 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'.

The main topics discussed were as follows:

- There had been no new Red controls identified in the period.
- Members were informed that all governance themes which covered all testing undertaken not just done within the period, were showing as 75% or higher.
- The team were successful in recruiting an internal candidate to the vacant Auditor post and they had started so the audit service was back up to full capacity.

Members questioned how red controls could be improved to become yellow and green. Officers responded actions plans were put in place with regular monitoring taking place to ensure the actions were being carried out to ensure progress was being made.

RESOLVED the report be noted.

AGC/29/23 Fraud and Corruption Strategy Review

Consideration was given to a report that advised Members of the Anti-Fraud and Corruption arrangements for the period 2022-23.

The strategy had been developed in line with the code of practice with each of the 5 themes addressed. The format of the strategy had been redefined from previous versions to improve the visual appeal of the strategy and make it more effective. The strategy was endorsed by senior management with a foreword provided by the Deputy Chief Executive as the responsible finance officer and the Chair of the Audit Committee reflecting the importance of tackling fraud within the authority. At the core of the code was understanding the Council's fraud risk and ensuring adequate resources were provided to address the areas of greatest risk. A risk had been added to the strategic risk register to facilitate this. Based on the results of local counter fraud activity and the national estimates of where fraud occurred it would appear the resources available and where they were deployed were commensurate with the current level of risk exposure. There were a number of emerging risk areas (specifically social care and procurement), work would be undertaken from existing resources to assess the risks posed and whether there was a need for additional controls in those areas. There were a significant number of promotional materials available to support counter fraud efforts. Included in the strategy were a number of actions around raising awareness and ensuring everyone understood the risk of fraud therefore helping to prevent fraud occurring and where it did, ensuring it was reported and the appropriate action was taken. The audit plan supported the fraud risk assessment process providing advice and guidance where controls needed to be improved. Good practice suggested continuous monitoring was an effective process for detecting fraud early. Much of the work within the audit plan was moving towards continuous monitoring not only to improve the efficiency and effectiveness of the audit service but also to support the early detection of fraud reducing its impact.

Members asked there was a requirement for annual fraud training. Officers responded that there was not currently an identified need for any additional fraud training, but it was regularly monitored. General guidance was available to all staff on the intranet.

Members queried if there was an anti-fraud template that all authorities had to follow. Officers replied that the Council's strategy has been developed in line with the code of practice with each of the 5 key themes addressed, but all Councils' strategies were different. The controls in place at Stockton-on-Tees Borough Council were working.

RESOLVED that the report be noted.

AGC/30/23 Annual Statement of Accounts 2021-22

The Chair agreed to accept this item as a matter of urgency to allow publication of the Annual Accounts at the earliest opportunity in accordance with statutory requirements.

Members were presented with the Council's Annual Statement of Accounts 2021/2022.

Consideration was given to conclude and publish the accounts for the 2021/22 financial year without further action for the Audit and Governance Committee and delegate to the Director of Finance, Transformation and Performance and Deputy Chief Executive and the Chair of the Audit and Governance Committee to agree a further amendment if there is an unexpected outcome and the Pension Fund auditor assurance level changes.

AGREED to conclude and publish the accounts for the 2021/22 financial year without further action for the Audit and Governance Committee and delegate to the Director of Finance, Transformation and Performance and Deputy Chief Executive and the Chair of the Audit and Governance Committee to agree a further amendment if there is an unexpected outcome and the Pension Fund auditor assurance level changes.

AGC/31/23 Work Programme

The Work Programme was noted.