

**Date:** Monday 26 February 2024 at 4.00 pm

**Venue:** Jim Cooke Conference Suite, Stockton Central Library, Church Road,  
Stockton on Tees TS18 1TU

**Cllr Barry Woodhouse (Chair)**  
**Cllr Stefan Houghton (Vice-Chair)**

Cllr Marc Besford  
Cllr Paul Rowling  
Cllr Mick Stoker  
Cllr Laura Tunney

Cllr Ross Patterson  
Cllr Susan Scott  
Cllr Emily Tate

## **AGENDA**

- |           |  |                 |
|-----------|--|-----------------|
| <b>1</b>  | <b>Evacuation Procedure</b>  | (Pages 7 - 8)   |
| <b>2</b>  | <b>Apologies for Absence</b>   |                 |
| <b>3</b>  | <b>Declarations of Interest</b>  |                 |
| <b>4</b>  | <b>Minutes</b>   |                 |
|           | To approve the minutes of the last meeting held on 27 <sup>th</sup><br>November 2023 | (Pages 9 - 12)  |
| <b>5</b>  | <b>Annual Governance Statement Action Plan Update</b>                                | (Pages 13 - 16) |
| <b>6</b>  | <b>Risk Register Update &amp; Audit Activity</b>                                     | (Pages 17 - 20) |
| <b>7</b>  | <b>Internal Audit Charter</b>  | (Pages 21 - 28) |
| <b>8</b>  | <b>Annual Report of the Audit Committee (Final)</b>                                  | (Pages 29 - 34) |
| <b>9</b>  | <b>External Auditors - Verbal Update</b>   |                 |
| <b>10</b> | <b>External Auditors - Auditors Annual Report 2021/22</b>                            | (Pages 35 - 58) |

**Members of the Public - Rights to Attend Meeting**

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting, including the opportunities available for any member of the public to speak at the meeting; or for details of access to the meeting for disabled people, please

Contact: John Devine, Democratic Services Officer on email [john.devine@stockton.gov.uk](mailto:john.devine@stockton.gov.uk)

**KEY - Declarable interests are:-**

- Disclosable Pecuniary Interests (DPI's)
- Other Registerable Interests (ORI's)
- Non Registerable Interests (NRI's)

**Members – Declaration of Interest Guidance**



**Table 1 - Disclosable Pecuniary Interests**

Subject	Description
<b>Employment, office, trade, profession or vocation</b>	Any employment, office, trade, profession or vocation carried on for profit or gain
<b>Sponsorship</b>	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
<b>Contracts</b>	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
<b>Land and property</b>	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
<b>Licences</b>	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer.
<b>Corporate tenancies</b>	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
<b>Securities</b>	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.

\* 'director' includes a member of the committee of management of an industrial and provident society.

\* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

## Table 2 – Other Registerable Interest

You must register as an Other Registrable Interest:

- a) any unpaid directorships
- b) any body of which you are a member or are in a position of general control or management and to which you are nominated or appointed by your authority
- c) any body
  - (i) exercising functions of a public nature
  - (ii) directed to charitable purposes or
  - (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management

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## **Jim Cooke Conference Suite, Stockton Central Library** **Evacuation Procedure & Housekeeping**

If the fire or bomb alarm should sound please exit by the nearest emergency exit. The Fire alarm is a continuous ring and the Bomb alarm is the same as the fire alarm however it is an intermittent ring.

If the Fire Alarm rings exit through the nearest available emergency exit and form up in Municipal Buildings Car Park.

The assembly point for everyone if the Bomb alarm is sounded is the car park at the rear of Splash on Church Road.

The emergency exits are located via the doors between the 2 projector screens. The key coded emergency exit door will automatically disengage when the alarm sounds.

The Toilets are located on the Ground floor corridor of Municipal Buildings next to the emergency exit. Both the ladies and gents toilets are located on the right hand side.

### **Microphones**

During the meeting, members of the Committee, and officers in attendance, will have access to a microphone. Please use the microphones, when directed to speak by the Chair, to ensure you are heard by the Committee.

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## AUDIT AND GOVERNANCE COMMITTEE

A meeting of Audit and Governance Committee was held on Monday 27 November 2023.

**Present:** Cllr Barry Woodhouse (Chair), Cllr Stefan Houghton (Vice-Chair), Cllr Marc Besford, Cllr Ross Patterson, Cllr Paul Rowling, Cllr Susan Scott and Cllr Mick Stoker.

**Officers:** Andy Bryson, Martin Skipsey and John Devine.

**Also in attendance:** Cllr Eileen Johnson (Observer) and Gavin Barker (Mazars)

**Apologies:** Cllr Emily Tate and Cllr Laura Tunney.

### **AGC/32/23 Evacuation Procedure**

The Evacuation Procedure was noted.

### **AGC/33/23 Declarations of Interest**

There were no declarations of interest.

### **AGC/34/23 Minutes**

Consideration was given to the minutes from the meeting held on the 25 September 2023 for approval and signature.

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

### **AGC/35/23 Health & Safety Report**

Officers presented the Health & Safety Report to members noting the updated layout for members convenience. The report and future reports would show the various areas of risk and number of incidents and training delivered for each area.

Sections of the report were highlighted by Officers for Members attention. Some of the sections highlighted were Violence & Aggression, which had 73 incidents reported. This was noted as being a reduction from the 96 incidents reported in the year previous.

Another section highlighted was Culture in which work had been done to refresh the H&S policies, and Officers had developed a specific introduction programme for new managers. Officers were confident that both tasks would help to ensure a H&S culture would be embedded.

Members praised the new layout of the report noting that it was easier to follow, Members also asked how much of the training shown in the report was delivered in person or virtually. Officers informed members that each section would be handled differently but usually a mixture of both ways. An example was given for the Asbestos

training the Council provided to workers, with the initial sessions being classroom based but refresher courses being held online.

Members AGREED to note the report.

### **AGC/36/23 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:

- From the last quarter two red controls had been identified, the first referred to the achievement of recycling targets. This had been previously reported to members. While the second control referred to how learners were recorded by the Learning & Skills service in relation to funding.
- Another area highlighted by Officers was the Assurances by Theme which was represented by a graph in the report. Officers were happy to report here was nothing of particular concern to bring to Members attention.

Members AGREED to note the report.

### **AGC/37/23 External Audit - Progress Report**

Mazars reported that the Audit for 2020/21 had been completed, the audit certificate had been issued on 15th September 2023. The audit certificate formally closed and concluded the 2020/21 Audit.

The Audit for 2021/22 had been substantially completed with the audit completion report being issued in November 2022, however following the resolution of the previous issues which Mazars had updated Members on, a further national issue had arisen.

The new national issue was related to the impact of the delay in the 2021/22 audit work. The previous delays had resulted in the triennial revaluation of the Teesside Pension Fund being available with more up to date information for management to reflect in the 2021/22 financial statements. The way forward took time as the delay was unprecedented, the way forward was agreed as the following:

- Authorities (Including the Council) obtained updated IAS19 valuation reports and amended the 2021/22 financial statements for the new figures.

- Pension Fund auditors were to complete testing on the reliability and accuracy of the updated pension fund membership data.

Unfortunately, Mazars were unable to be provided with the full results of the testing until September 2023. But there were significant discrepancies the membership data used by the fund and that indicated by testing. Mazars informed Members that only around 27% of audit opinions had been able to be issued by mid-July 2023 due to this delay. Mazars told members that the delays outlined above had been unprecedented, While also stating that it was their priority to bring the audit to a conclusion as soon as possible.

The Mazars report went on to state:

It is important to note that in relation to the 2021/22 audit of the financial statements:

- We still anticipate issuing an unqualified audit opinion;
- The delays are nothing to do with management or those charged with governance, and are national issues beyond the Council's control;
- The issues causing the delays are all in relation to technical accounting issues, none of which will have an impact on the resources available to the Council or its underlying financial position.

Officers then moved onto the 2022/23 Audit update. Reminding members that the Audit Strategy Memorandum for the 2022/23 audit had been presented to the July 23 Audit & Governance Committee, which indicated the timing for completion was October 23 subject to the completion of the 21/22 audit.

The audit fieldwork for 2022/23 financial statements was substantially completed with the key outstanding areas being property, plant and equipment, and IT audit. One issue that Mazars had been working with Officers in relation to the 2022/23 financial statements was accounting for the net pension asset (this was the first time there had been a net pension asset). Through the looking at the actuarial report to see if the net asset disclosed needed to be capped at a lower level, but the actuarial report had in fact confirmed that the net asset disclosed was less than the asset ceiling and consequently a further adjustment to the 2022/23 financial statements has not been required.

Mazars informed members that they were aiming for the 2022/23 audit to be completed by December 2023. However, as for the 2021/22 audit, Mazars were anticipating a further delay in receiving the Pension Fund auditor assurance letter. Officers were working to minimise the delay with the latest estimated date to issue an opinion by 31 March 2024.

Mazars understand that nationally just one per cent of local authority accounts were signed off by 30 September 2023 and the Government, the NAO, audit suppliers and regulators were working together to find a way to clear the backlog in 2023/24, which is the first year of a new external audit contract let by Public Sector Audit Appointments Limited. Mazars would update the Audit and Governance Committee as soon as a way forward was agreed with all stakeholders as all parties recognised that the current situation in the public sector external audit market is unsustainable.

Members AGREED to note the update.

## **AGC/38/23 Treasury Management Mid Term Review**

Members were presented with a report informing them of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2023.

Offices highlighted several sections of the report to Members:

- The first six months of the report show a decrease in the level of borrowing for the Council.
- Future borrowings is being analysed based on the capital programme and would be included in the next medium term financial plan.
- The Councils investment balances had increased throughout the year, but Officers did note that the levels fluctuate through the year.
- The final section of the report dealt with compliance and the various ways the Council had demonstrated it complied with the CIPFA Code of Practice and the Authorities approved Treasury Management Strategy.

Members noted the work done by Officers and commented on the relatively good position that the Council had found itself in, when compared to the increased number of Councils which had issued Section 114 Notices.

Members AGREED to note the report.

## **AGC/39/23 Annual Report of the Audit Committee**

Members were presented with a report which informed the Committee of the work of the Audit and Governance Committee during the 1st October 2022 to 30th September 2023 period. The Annual Report produced by the Chairman of the Audit and Governance Committee had been prepared in accordance with the "Audit Committees, Practical Guidance for Local Authorities" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018.

The report demonstrated how the Audit and Governance Committee had fulfilled its key functions and how it was fully committed to helping to improve the Council's governance and control environments. Members noted the report however the Chairman requested that Members contact him or Democratic services prior to the next scheduled meeting of the Audit and Governance Committee should they have any comments/queries.

RESOLVED that the report be noted.

## **AGC/40/23 Work Programme 2022/23**

Member AGREED to note the work programme 2022/23

## **AGENDA ITEM**

### **REPORT TO AUDIT AND GOVERNANCE COMMITTEE**

**26 FEBRUARY 2024**

### **REPORT OF DIRECTOR OF CORPORATE SERVICES**

## **ANNUAL GOVERNANCE STATEMENT 2022/23 PROGRESS UPDATE**

### **PURPOSE OF REPORT**

This report includes an update on progress against the action plan contained in the Council's Annual Governance Statement for 2022/23.

### **RECOMMENDATIONS**

1. That Members note the progress of the Annual Governance Statement for 2022/23 action plan.

### **DETAIL**

1. The Accounts and Audit Regulations 2015 require 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 (AGS) to accompany its Statement of Accounts. The AGS was presented to Audit and Governance Committee on 25 September 2023.
2. The AGS includes a high-level action plan detailing actions to be undertaken in 2023/24 and this report provides an update in Appendix A.

### **FINANCIAL AND LEGAL IMPLICATIONS**

3. The Accounts and Audit Regulations 2015 and Statutory Instrument 234/2015 require all English authorities to prepare an Annual Governance Statement and for it to accompany the Statement of Accounts.

#### **RISK ASSESSMENT**

4. None directly from this report.

#### **COMMUNITY STRATEGY IMPLICATIONS**

5. None directly from this report.

#### **CONSULTATION**

6. None directly from this report.

**Contact Officer: Martin Skipsey**

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## APPENDIX A

## ACTION PLAN

Action	Outcome	Responsibility	By When	Progress
Review and update the Risk management Strategy	Updated strategy and associated risk management processes	Assistant Director Procurement and Governance	End of 2023/24	New approach to Risk Management agreed at CMT. New Risk Register produced identifying strategic risks and emerging risks.
Deliver the Children Services Improvement Plan developed after the OFSTED Inspection	Improved OFSTED Rating	Good and Beyond Board	End of 2023/24	Ongoing delivery of the Improvement Plan – on track.
Review and update the hotel company governance arrangements	Updated arrangements	Monitoring Officer	End of 3 <sup>rd</sup> Qtr 2023/24	<p>A review of current hotel governance arrangements has been undertaken by Womble Bond Dickinson. Recommendations include:</p> <ul style="list-style-type: none"> <li>• the need to produce a comprehensive Shareholder Agreement that defines 'reserved matters' where the Council must provide consent to the Holding Company and Hotel Company for certain matters,</li> <li>• the requirement to provide both financial and operating information in respect of the hotel's operation on a regular basis,</li> <li>• the requirement to provide clarity and training for the Council's officer who is tasked with supporting the Council's role</li> </ul>

				<p>as shareholder – the Shareholder Representative, and</p> <ul style="list-style-type: none"> <li>• provide a mechanism for the Shareholder Representative to maintain a strategic relationship between Council’s Executive and the company.</li> </ul>
Update the Schemes of Delegation to reflect changes in organisational structures.	New schemes in place	Head of Legal Services	End of 2023/24	A review of the departmental Schemes of Delegation has commenced.



## AGENDA ITEM

### REPORT TO AUDIT & GOVERNANCE COMMITTEE 26 FEBRUARY 2024

### REPORT OF DIRECTOR OF CORPORATE SERVICES

## CORPORATE RISK REGISTER UPDATE REPORT AND INTERNAL AUDIT ACTIVITY REPORT

### SUMMARY

The Committee is reminded that quarterly reports on the Corporate Risk Register are presented for the purpose of reviewing the key risks that have 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, are minimised.

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

To inform members of the progress of audit testing to date and present a forward plan of testing and the resources available to meet the plan to support the assessment of risk.

### RECOMMENDATIONS

It is recommended that:-

1. The current risk position as identified in the attached update report is noted.
2. The results of audit activity is noted and agree that the work for the next quarter be prioritised using the audit risk assessment methodology as outlined in the Audit Charter.

### DETAIL

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. To support this, audit work is aligned to the strategic risk register and activity is structured around the strategic risks of the organisation.
2. The overall summary shows a summary of audit results against each risk area. The audit assurance is an indicator of how well controls to manage risks are operating, however this is an indicator of internal controls and there may be

external factors that remain outside of the council's control which may need to be reflected in a higher risk score.

Risk	Red	Amber	Green	Total	Assurance
			2	2	100.00
A growing economy		1	9	10	93.02
Clean and green spaces		3	6	9	84.78
Cohesive and safe communities			16	16	100.00
Dedicated and resourceful employees		2	24	26	95.68
Education and skills development			24	24	100.00
Financially sustainable and value for money		10	73	83	95.20
Great places to live and visit	2	5	34	41	89.93
Job creation and increased employment		1	1	2	87.50
People are supported and protected from harm	3	8	69	80	91.77
People live healthy lives	1	1	9	11	85.29
Rich cultural experiences			8	8	100.00
Strong leadership and governance	2	16	95	113	91.00
<b>Total</b>	<b>8</b>	<b>47</b>	<b>370</b>	<b>425</b>	<b>92.78</b>

- Audit testing results breaks down work undertaken in the previous period to provide members with an update on where audit resources have been employed and the results of that work. This will highlight any concerns raised in the period. There have been 2 Red controls identified in the period. The first relates to the achievement of recycling targets, this has previously been reported as red, the second is relates to the completion of the Public Health Joint Strategic Needs Assessment.

Risk	Red	Amber	Green	Total
Clean and green spaces		1		1
Dedicated and resourceful employees		1	4	5
Education and skills development			9	9
Financially sustainable and value for money		3	10	13
Great places to live and visit	1	3	1	5
People are supported and protected from harm		5	11	16
People live healthy lives	1			1
Rich cultural experiences			1	1
Strong leadership and governance		2	21	23
<b>Total</b>	<b>2</b>	<b>15</b>	<b>57</b>	<b>74</b>

- The next section is a graph against key governance themes, this is for all testing undertaken not just in the period. With all areas showing as 75% or higher there are no issues to bring to members attention.



- Planned work identifies the areas to be examined in the next period as required by the Public Sector Internal Audit Standards. Members are reminded that each control is risk assessed to determine the frequency of testing, audit work is planned and undertaken a rolling programme which prioritises controls with the highest risk rating in accordance with this methodology. I am required to report any concerns I may have that would impact on the independence of the audit service or the adequacy of resources, I can confirm that I have no concerns in either regard.
- Quality Assurance and Improvement shows a balanced scorecard for the delivery of the audit service. The majority of indicators will be reported annually but the ones shown provide an update on progress against agreed work to date. The level of adequate resources is calculated after staff time is adjusted to allow for Annual Leave, Bank Holidays and a reasonable amount of Admin Time.

**Quality, Assurance & Improvement Process**

Period Covered: November 2023 to January 2024

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 3 Months)	15	16
Portfolio Coverage (Period)	80	81
Presentation of Annual Report (Annual)	June	*
Presentation of Activity Report	Qtrly	*

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	*
Fraud Strategy Review	31/03/2022	*
Client Satisfaction	TBC	*
Recommendation Implementation	TBC	*

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	*
External Assessment (Every 5 Years)	March 2023	*
Staff Meetings Held (Period)	6	10
Up to Date Audit Manual	March 2023	*

People		
Measure	Target	Performance
Productivity (Period)	75%	73%
Training (Per Financial Year)	20	*
Code of Conduct (Annual)	100%	*
Appraisals (Annual)	100%	*

\* - To be reported as part of annual report

- NFI Progress – 91% of matches have been checked. No fraud and have been identified and only 1 error identified. This provides another source of assurance that our controls are operating effectively.

REPORT THEME	Sum of MATCHES	Sum of PROCESSED	
Blue Badges	507	444	88%
Concessionary Travel	511	510	
Council Tax Reduction Scheme	356	81	
Creditors	2641	2641	
Housing Benefits	29	4	
Payroll	54	32	
Procurement	59	59	
Residents Parking	6	5	
<b>Grand Total</b>	<b>4163</b>	<b>3776</b>	<b>91%</b>

## FINANCIAL AND LEGAL IMPLICATIONS

None directly

## RISK ASSESSMENT

This is a summary of the Council's risk environment.

## COUNCIL PLAN IMPLICATIONS

None

## CONSULTATION

N/A

**Name of Contact Officer:** Andrew Barber, Audit & Risk Manager  
**Telephone No:** 01642 526176  
**Email Address:** a.barber@stockton.gov.uk

**AGENDA NO:**

**REPORT TO AUDIT COMMITTEE**

**26 FEBRUARY 2024**

**REPORT OF DIRECTOR OF  
CORPORATE SERVICES**

## **INTERNAL AUDIT CHARTER**

### **SUMMARY**

The purpose of this report is to advise Members of the Internal Audit Charter and proposed approach to delivering the audit service for the coming audit year 2024-2025.

### **RECOMMENDATION**

1. That the Audit Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

### **DETAIL**

1. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Council 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”.

2. The attached audit charter outlines how combined internal audit service will be delivered to Darlington Borough Council and Stockton-on-Tees Borough Council.

### **Public Sector Internal Audit Standards**

3. The Public Sector Internal Audit Standards were published on 18<sup>th</sup> December 2012 and updated in March 2016. These standards, which are based on the requirements of the Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They are mandatory and apply to all internal audit service providers, whether in-house, shared or outsourced.
4. There are three distinct areas covered by the standards: -
  - A definition of Internal Auditing;
  - A Code of Ethics designed to promote an ethical, professional culture; and
  - The International Standards for the Professional Practice of Internal Auditing.

5. CIPFA has provided guidance on the application of Public Sector Internal Audit Standard in the form of an Application Note. The Internal Audit Charter (attached) has been prepared in accordance with the Public Sector Internal Audit Standards and this guidance.

### **Internal Audit Charter**

6. The Charter is a high-level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.
7. The charter sets out the approach for delivery of the audit service:
  - Purpose of the Internal Audit Service
  - Scope of Internal Audit work
  - Access to Information
  - Resourcing of the Service
  - Future Development of the Service
8. The Internal Audit Charter is attached at **Appendix A**.

### **Audit Planning**

9. The standards state 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 will be undertaken on a quarterly basis as previously agreed. The structure of the plan has been updated with a focus around auditing controls rather than service areas. This will impact on the level of detail provided to members at the planning stage.
10. The risk assessment uses a number of 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 assesses the impact any issues may have on the council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment.
11. As part of the process, the plan is subject to consultation with the Council's external auditors. High priority is given to key financial controls, any significant corporate projects and specific areas requested by Management. A lower priority is given to controls which, although very important to stakeholders, have less impact corporately. All areas of activity are tested in their entirety at least once in a four year period.
12. The proposed level of resources within the service can be identified as gross audit days based on 8 FTE's. This resource is sufficient to complete the testing outlined by the risk assessment.

## Development of the Audit Service

13. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:

- Review and update the Quality, Assurance and Improvement measures.
- Embed new ways of working and seek feedback on reporting processes.

**Andrew Barber**  
**Assurance Manager**

**Contact Officer: Mr Andrew Barber, Assurance Manager**  
**Telephone No. 526176**  
**E-mail: [a.barber@stockton.gov.uk](mailto:a.barber@stockton.gov.uk)**

## FINANCIAL AND LEGAL IMPLICATIONS

None

## RISK ASSESSMENT

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

## COMMUNITY STRATEGY IMPLICATIONS

None

## CONSULTATION

The Audit Plan has been submitted to the Senior Management Team for comment.

<u>Background Papers:</u>	None
<u>Ward(s) and Ward Councillors:</u>	None
<u>Property Implications:</u>	None

## **Internal Audit Charter**

### **Introduction**

This document will outline how the internal audit service to Stockton-on-Tees Borough Council and Darlington Borough Council will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

### **Purpose of the Service**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### **Authority to Undertake the Function**

Each authority is required 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.

This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

### **Internal Audit's Responsibilities**

The service will be delivered in accordance with the purpose outlined above and by ensuring it:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focussed
- Promotes organisational improvement

The service will ensure it complies with the IIA International Standards for Internal Audit by adopting the Public Sector Internal Audit Standards.

For the purposes of applying these standards "the board" are represented by the Audit Committee through the scheme of delegation in place within each authority. "Senior Management" is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have



senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.

The service will report the findings of its work to the board and to senior management a minimum of 3 times per year in line with the Audit Committee schedule. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.

Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes.

Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The "Chief Audit Executive (CAE)" role as specified by the standards is undertaken by the Assurance Manager. An annual report will be produced giving an overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.

Day-to-day line management for the service will be provided by the Assistant Director, Procurement and Governance within the Corporate Services Department of Stockton-on-Tees Borough Council.

In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Assistant Director, Procurement and Governance has operational responsibility, the Audit & Risk Manager has the right to agree the scope of/report findings of this work to any member of senior management.

The Assurance Manager also has operational responsibility for Risk Management and Health & Safety in SBC. The impact on actual/perceived independence is limited as these services are congruent with the core principles of Internal Audit and the Assurance Manager must ensure they conform to professional standards however, in order to maintain the actual or perceived independence of the audit function the Audit Manager has the right to agree the scope of/findings of the other functions of the Assurance Manager to any member of senior management.

The Assurance Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.

The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:

- Integrity
- Objectivity
- Competence
- Confidentiality
- Conflicts of Interest

Failure to abide by this code will result in action being taken against individuals through either the Council's disciplinary process, professional disciplinary process or a combination of both.

An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up

to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.

In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.

The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the audit committee.

### **Delivery of the Service**

An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.

Each control in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and planning will be undertaken on a quarterly basis. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-Assessment returns and where applicable the schools risk action groups.

Frequency of testing of each control will be determined by a risk assessment. Planning will be focussed on the adequacy of resources to meet the pre-defined frequency of testing requirements rather than a detailed break-down of testing to be undertaken.

A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.

The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

### **Monitoring the Service**

A Quality Assurance and Improvement Programme (QAIP) will be developed to reflect the new ways way planning and recording work.

The QAIP will detail:

- Performance measures for assessing the service
- Complaints procedure
- Process for reviewing compliance with the Standards.

Regular reports will be presented to the board on the outcomes of the QAIP

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## **AGENDA ITEM:**

### **REPORT TO AUDIT & GOVERNANCE COMMITTEE**

### **REPORT OF THE CHAIRMAN OF THE AUDIT AND GOVERNANCE COMMITTEE**

**26<sup>th</sup> FEBRUARY 2024**

## **AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT**

### **SUMMARY**

This report is to inform members of the work of the Audit and Governance Committee during the period 1st October 2022 to 30th September 2023.

### **Introduction**

This Annual Report produced by the Chairman of the Audit and Governance Committee has been prepared in accordance with the "Audit Committees, Practical Guidance for Local Authorities" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018.

The report demonstrates how the Audit and Governance Committee has fulfilled its key functions and how it is fully committed to helping to improve the Council's governance and control environments.

The Guidance defines the purpose of an Audit and Governance Committee as follows:

- Audit & Governance Committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- The purpose of an Audit and Governance Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

### **Functions of the Audit and Governance Committee**

The Committee's activities during the period were designed to make a positive contribution to the continual improvement of governance arrangements across the Council, as well as performing the key functions as identified in the Constitution. The Audit and Governance Committee as identified in the constitution is required to:

- a) monitor the integrity of the Council's financial statements and approve the Statement of Accounts;
- b) approve the Annual Governance Statement;

- c) oversee risk management and the Council's risk registers;
- d) review any proposed changes to accounting policies and procedure rules;
- e) review the performance of the Treasury Management Strategy;
- f) approve the role and responsibilities of the Internal Audit Service (the Services' functions, aims and objectives);
- g) receive and consider the Annual Audit Letter from the Council's External Auditor;
- h) agree the programme of value for money work;
- i) approve the internal and external audit plans;
- j) review Internal Audit work on a quarterly basis; internal and external annual reports together with any management response and receive details of specific significant issues highlighted via audit work and refer to the Executive Scrutiny Committee; the Select Committees; Cabinet or Council, as appropriate, any issues arising which are key in nature;
- k) maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour, and consider the Council's compliance with its own and other published standards and controls; and
- l) consider details of any key ethical and wider corporate governance issues which may be referred to it.

### **Audit and Governance Committee Membership**

The membership of the Audit and Governance Committee is as follows;

Cllr Barry Woodhouse (Chairman),  
Cllr Stefan Houghton (Vice-Chair),  
Cllr Marc Besford,  
Cllr Mick Stoker,  
Cllr Emily Tate,  
Cllr Ross Patterson,  
Cllr Laura Tunney,  
Cllr Susan Scott,  
Cllr Paul Rowling.

The Audit Committee and the Audit and Governance Committee met 5 times during the reporting period, 28<sup>th</sup> November 2022, 23<sup>rd</sup> March 2023, 31<sup>st</sup> May 2023, 31<sup>st</sup> July 2023 and 25<sup>th</sup> September 2023.

### **Officers**

The Audit and Governance Committee continues to be well supported by Officers, providing reports in accordance with the Committee's work programme. During the reporting period and on behalf of the Director of Finance, Transformation and Performance and the Director of Corporate Services, the Chief Accountant, Assistant Director Procurement and Governance, Assurance Manager and Health and Safety Manager routinely provided reports and attended the meetings.

### **External Audit**

When required the External Auditors, Mazars, have also attended the Audit and Governance Committee meetings.

### **Core Activity**

The Committee's work and outcomes in each of its areas of responsibility are summarised in the following subsections.

### Internal Audit

The Audit and Governance Committee:

- Approved Internal Audit's Audit Plans;
- Approved the Internal Audit Charter which proposed the approach to delivering the audit services for the 2023/24 financial year.
- Received the External Quality Assessment Peer Review; the purpose of the report was to advise Members of the results of the review of the Internal Audit Service.
- Received the Anti-Fraud and Corruption Strategy
- Considered regular reports produced by the Audit and Risk Manager highlighting progress against the audit plan and performance against key indicators and any significant issues arising during the period.
- Received and approved the Internal Audit Annual Report of the Audit and Risk Manager 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. It is his 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.

### External Audit

The Audit and Governance Committee:

- Received regular reports from Mazars with updates on progress in delivering their responsibilities as our external auditor.
- Received the External Auditors Audit Certificate 2020/21 which formally concluded the 2020/21 audit.
- Received the Audit Strategy Memorandum for the year ending 31 March 2023. The purpose of this document was to summarise Mazars audit approach, highlight significant audit risks and areas of key judgements and to provide the Council with the details of their audit team and fees.
- Received the Auditors Draft Annual Report for 2021/22 which summarised the work Mazars had undertaken for the year ended 31 March 2022.
- Received the Audit Completion Report for the 2021/22 financial year. This document summarised the external auditors findings from the annual audit of the 2021/22 accounts.
- Received a follow up letter to the Audit Completion Report for 2021/22 which provided an update of pending matters noted in the original Audit Completion report.

### Annual Statement of Accounts

The Audit and Governance Committee:

- Approved the Annual Financial Statements for 2021/22 (subject to satisfactory conclusion to the pension fund audit assurance work).
- Received and reviewed the draft Annual Statement of Accounts for the 2022/23 financial year.

### Treasury Management

The Audit and Governance Committee:

- Received a 2022/23 mid-term report on the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2022.
- Received the Treasury Management Annual Report for 2022/23 that informed members of the performance against treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2022.

### Risk Management

The Audit and Governance Committee:

- Received quarterly reports from the Audit and Risk Manager on developments within the Corporate Risk Registers to ensure the Members were aware of any emerging risks across the Council and the extent to which the Strategic Risk Management Strategy was being embedded.
- Considered and challenged the Corporate Strategic Risk Register.

### Governance

The Audit and Governance Committee:

- Received the Council's draft Annual Governance Statement for 2022/23 for consideration and comments.
- Approved the Annual Governance Statement for 2022/23.
- Received the Constitution update report which had been approved by full council in March 2023.

### Health and Safety

The Audit and Governance Committee:

- Received quarterly reports detailing the 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.

### **Chairman's Conclusion**

A new Vice Chair and a blend of newly elected members of the Committee and existing members have shown a strong commitment to the work for which they have been given responsibility and the committee has functioned well. The members have studied agendas and asked searching questions of officers not only presenting reports but also requesting further investigation of issues and explanation by the Chair and supporting officers of the committee. From the information received and reviewed the committee has not identified any issues that are not already being managed effectively that required escalation.

While recognising the valuable contribution made by members we must also pay tribute to the officers of this Authority who despite reduced staffing, reorganisation and a harsh financial environment have worked diligently to ensure sound fiscal controls and compliance with relevant regulations often being subjected to extra pressures due to delays in the delivery of information from external institutions. Reorganisation of the Council's management structure is proving a seamless transition with officers in many cases taking on different and added responsibilities. All of this and the adjustment post Covid 19 to "normal" working and a return to the office environment must of course be monitored and a work / life balance must be maintained.



In conclusion I would add that our officers have worked both in the office and occasionally from home throughout the year in a challenging environment showing a commitment and dedication to the Borough's sound financial management under at times extreme pressure and for this effort we must record our gratitude as a committee and a Council.

The Audit and Governance Committee is established with comprehensive terms of reference. The Chair of the Audit and Governance Committee has prepared this annual report on the Committee's work for presentation to Cabinet and hopefully this shows that effective corporate and ethical governance is critical to an authority's performance and in demonstrating continuous improvement it is therefore, a fundamental element of the modernisation agenda. Probity, transparency and high standards are an inherent part of corporate/ethical governance.

**Name of Contact Officer: Barry Woodhouse**  
**Post Title: Chairman of the Audit and Governance Committee**  
**Telephone No:**  
**Email Address: [barry.woodhouse@stockton.gov.uk](mailto:barry.woodhouse@stockton.gov.uk)**

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# Auditor's Annual Report

Stockton-on-Tees Borough Council  
– year ended 31 March 2022

December 2023



- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities

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. No responsibility is accepted 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

# 01

## Section 01: **Introduction**

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Stockton-on-Tees Borough Council ('the Council') for the year ended 31 March 2022. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 20 December 2023. Our opinion on the financial statements was unqualified.



### Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.



### Value for Money arrangements

In our audit report issued on 20 December 2023 we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



### Whole of Government Accounts (WGA)

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We plan to report to NAO in December 2023. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

# 02

Section 02:

## **Audit of the financial statements**

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2022 and of its financial performance for the year then ended. Our audit report, issued on 20 December 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

## Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 11 July 2022, in advance of the revised statutory deadlines and were of a good quality. The accounts were supported by high quality working papers and we received full cooperation from the Finance team in responding to our queries on a prompt basis.

## Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

The completion of the audit was initially delayed for two reasons, neither of which was under the control of management or the audit team:

- **Pension fund assurance letter** – this was not received from the auditor of the Teesside Pension Fund until 22 March 2023; and
- **Infrastructure** – guidance was issued by CIPFA on 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 our work followed on from this.

In the event, the Pension Fund Auditor letter was not received until 22 March 2023. It is very unusual to receive these assurances as late as this. There were no material issues arising from the Pension Fund auditor's work to impact on the 2021/22 financial statements.

However, as a result of the long delay, new information was now 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 now 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 we 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 us on the results of their testing.

The Pension Fund auditor reported to us on 11 September 2023, but there were a number of issues that we had to follow up on. We issued our unqualified audit opinion on 20 December 2023, with no further matters to report.



# 03

Section 03:

**Commentary on VFM arrangements**

### 3 Commentary on VFM arrangements

Page 42

#### Overall summary



# 3 VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

There are no significant weaknesses to report.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

# 3 VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	No	No	No
 <b>Governance</b>	14	No	No	No
 <b>Improving economy, efficiency and effectiveness</b>	17	No	No	No

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities and our fees

# 3 Commentary on VFM arrangements

Page 45

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# 3 VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council has an established process for developing its Medium Term Financial Plan (MTFP). The Council's arrangements have delivered significant levels of savings in recent years. We considered the timetable for the MTFP and confirmed that it allows for early engagement with stakeholders. We confirmed the MTFP is revisited on a regular basis and adjusted to reflect any changes impacting on the Council's financial position such as changes in economic outlook and changes in central government funding. During the latter part of 2021/22 the impact of inflationary pressures was starting to emerge. A particular example being that of energy and fuel. Additional funding was allocated in the 2022/23 Budget and MTFP for this and for projected pay award pressures.

We confirmed that there is regular budget monitoring including quarterly reports to the Council's Cabinet. The outturn report for 2021/22 was presented to the July Cabinet meeting and the overall reported position was not significantly different to that reported during the financial year and records departmental overspends of £2.4 million compared with the budget. This position is associated with continued pressures in Children's Services which are mainly the result of increased costs of external residential care placements for children in the Council's care. The report notes the Council's financial position was supported by the Government Covid Support grant and the final instalment of the Covid sales, fees and charges income compensation scheme. Other pressures included a continued national pressure in respect of special education needs but despite these factors the report notes that:

'Overall there is an improvement in the draft outturn 2021/22 financial position compared to that projected at December of around £1.4m'.

This is evidence of the effectiveness of financial management arrangements despite the continued pressures created by the pandemic.

### How the Council plans to bridge funding gaps and identifies achievable savings

The MTFP arrangements include the identification of pressures and savings. The February 2022 MTFP details

estimated pressures over the life of the MTFP totalling £16.6 million over the 2022/23 to 2025/26 period. After adoption of the social care levy for 2022/23 the Council set a balanced budget for the year and pressures reduced to £3.7 million for 2023/24 to 2025/26. The Council has a good track record of identifying and delivering savings.

The MTFP recognises the increasing difficulty of identifying savings and managing the impact on front line services especially given the uncertainty about future funding levels. Our review of the MTFP and associated assumptions identified no evidence of a significant weakness in arrangements.

### How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council developed a refreshed three year Council Plan which was agreed by Cabinet in February 2022. This sets out the Council's contribution to delivering the vision of a place where people are healthy, safe and protected from harm, a place that is clean, vibrant and attractive and a place with a thriving economy where everyone has opportunities to succeed.

We confirmed that the MTFP was developed on reasonable assumptions including forecast funding streams, identification of budget pressures and savings targets required and ability to draw from the budget support reserves if required. The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. In-year monitoring reports detail the pressures faced by the Council, whether savings are being achieved, and if resources need to be redirected to areas in need.

Our review of the MTFP did not identify a reliance on 'one-off' measures to balance the budget. The assumptions in the MTFP and recent outturn against budget confirms the Council has a track record of prudent assumptions in the MTFP.

Our work did not identify any evidence to indicate a significant weakness in arrangements

# 3 VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### How the Council ensures that its financial plan is consistent with other plans

The MTFP and Capital Programme are considered and reviewed in the context of other plans such as the Capital, Investment and Treasury Management Strategies and the Annual Pay Statement. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year.

Other operational planning and its impact on the MTFP is also considered, together with the impact of working with other public bodies.

In line with the Prudential Code and the Council's Capital Strategy, revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process to ensure such investments are fully funded. A detailed Capital plan is included in the MTFP.

The Cabinet and Council consider the updated financial position at various stages throughout the year and allow for Member scrutiny and challenge. The latest MTFP update was considered by the Cabinet and Council at their February 2022 budget setting meetings.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being risk assessed for impact on communities and service delivery. Each saving proposal includes an equality impact assessment. We have considered this in current and prior year savings process with no significant changes in the process noted.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2021/22 to ensure funding set aside remains in line with strategic and statutory priorities of the Council. This is evidenced in the outturn reports presented to Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### How the Council identifies and manages risks to financial resilience

The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the Plan. The 2022/23 MTFP details risks associated with future funding and the ongoing economic uncertainty created by COVID-19. We confirmed that areas of pressure faced in the 2021/22 financial year are reflected in the 2022/23 MTFP. These include the demand pressures faced in some services provided by the Council, such as looked after

children. Despite these uncertainties the 2022/23 MTFP still includes continued investments across a number of key front line service areas, including continued town centre investment in Thornaby, Stockton and Billingham.

During the latter part of 2021/22 the impact of inflationary pressures was starting to emerge. A particular example being that of energy and fuel. For energy the Council used information from the regional purchasing organisation, NEPO, to project costs for the year 2022/23 and into the MTFP. This information provided the basis for the additional resources that were agreed as part of the 2022/23 Budget and MTFP.

The Council has an established risk management framework and the Audit and Governance Committee receives regular risk management updates.

We confirmed that management reported to Cabinet on the Council's commercial activities, including the hotel as part of the updated MTFP in February 2022.

There was regular reporting of the Council's 2021/22 financial position to Cabinet throughout the year. The outturn report presented to the July 2022 Cabinet meeting was consistent with the financial position reported during the year, after including the impact of additional COVID-19 funding, and did not indicate a weakness in the Council's budget monitoring and reporting arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the financial sustainability reporting criteria.

# 3 Commentary on VFM arrangements

Page 48

## Governance

How the body ensures that it makes informed decisions and properly manages its risks





# 3 VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an active internal audit team and the Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Audit and Governance Committee. As detailed in the plan the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommend actions, when required, to strengthen processes or procedures. These are regularly reported to Audit and Governance Committee which holds management to account where weaknesses are identified. The Audit and Governance Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit Opinion was presented to the Audit and Governance Committee meeting in May 2022. This provides the 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'. We have reviewed the Internal Audit Plan and matters arising. We have identified no evidence of a significant weakness in arrangements.

An anti-fraud and corruption strategy is in place and was updated and reported to the November 2022 Committee, we confirmed there is also regular reporting to the Audit and Governance Committee on counter fraud activities, including fraud investigations.

As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements.

### How the Council approaches and carries out its annual budget setting process

The Council's MTFP arrangements include the identification and evaluation of risks to the Council's finances. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

### How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We have reviewed Cabinet minutes and confirmed there was regular reporting of the financial position during 2021/22 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year, after taking account of additional COVID-19 grants, and did not indicate a significant weakness in arrangements. As well as being reported to Senior Management Team and Cabinet, reports are also presented to Executive Scrutiny Committee.

The Council has a good record of delivering against its budgets and this is evidence of effective arrangements for budgetary control.

The financial statements timetable is approved by the Audit and Governance Committee and was delivered in 2021/22. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

# 3 VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

Decisions are made in accordance with the Constitution and Scheme of Delegation.

We have reviewed Council minutes in the year and have not identified any evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Service Select Committee meetings provide an opportunity to challenge decisions. An Executive Scrutiny Committee is in place to oversee and coordinate the work and our review identified no matters that indicate a significant weakness in arrangements.

### How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts also records material related party transactions and details of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. Our work did not indicate a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Panel is responsible for promoting and maintaining high standards of conduct by Members. It is responsible for advising and arranging relevant training relating to the requirements of the Code of Conduct. The Standards Panel has not met recently which indicates there has not been any member misconduct to investigate.

A system of scrutiny is in place as set out and documented in the Annual Governance Statement. We reviewed the Scrutiny Annual Report for 2021/22 and identified no evidence of a significant weakness in arrangements.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2021/22 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a significant weakness in arrangements.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the governance reporting criteria.

### 3 Commentary on VFM arrangements

Page 51

#### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# 3 VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

### How financial and performance information has been used to assess performance to identify areas for improvement

Directorates have well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement.

The Council has a performance management framework, reporting against a series of indicators. Corporate performance against key performance indicators is presented to Cabinet on a six monthly basis. Our review of those reports identified no evidence of a significant weakness in arrangements.

Service reviews have also been used to identify areas for improvement and to deliver agreed changes. For example, Children’s Services was identified as an area for improvement following an Ofsted inspection report published in July 2019 (requires improvement to be good) with specific issues identified around delays for some children in their assessed needs being met.

The Council Plan includes priorities in relation to children’s care and helping families to stay together and monitors the rate of children in care as a specific performance measure. More detailed monitoring of the number of contacts and care plans with families are monitored by the service (including initial enquiries, rate of referrals, rate of assessments complete, etc). Detailed evidence of monitoring and actions is available from the monthly tactical operational performance (TOP) meetings.

The Council’s financial performance is reported on a regular basis to Cabinet with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and equality impact assessments.

### How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Cabinet has monitored performance during the year. Performance is measured against the Council Plan and the format of reports is aligned to the vision and hopes for the Borough. In 2021/22 the six monthly report tracked performance against the Council Plan priority actions and included a detailed commentary on progress.

Assessment by service regulators was limited in the 2021/22 year as a result of the COVID-19 pandemic but the Council has arrangements for responding to the most recent Ofsted inspection of Children’s Services, as detailed above.

### How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council ensures that it is represented at a senior level in its key partnerships, such as partnerships with health. For example, the Council has a well-established and successful partnership with Health via the Better Care Fund. The Council is represented from a service perspective by the relevant Director and from a financial perspective by the Director of Finance, Development and Regeneration and Deputy Chief Executive. The Strategic Finance lead for Adults and Health provides regular support and input. Where necessary key required actions will be incorporated into Council planning, priorities and plans.

In addition, the Council is working in partnership with Keepmoat Homes Limited to deliver the redevelopment on the Victoria Estate in Stockton. The scheme runs under a collaborative agreement and is overseen by a Project Board. The Board comprises two officers of the Council and two representatives from Keepmoat, the Board is now well established and is operating successfully.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. The impact of the pandemic saw an increase in the use of Council on-line services.

# 3 VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

**How the Council commissions or procures services, how the Council ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits**

Key commissioning and procurement decisions are taken by suitably skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

The Council operate a Strategic Procurement function across two teams, each supporting a specific range of Council services and functions.

As a response to the pandemic, the Council established a new brokerage function for Adult Social Care packages to match needs to available services and ensure adults got the most appropriate care. This has now been extended to Children's care packages to focus on finding, placing and maintaining young people in the best education, employment or training setting.

There is evidence that the Council has arrangements in place to ensure procurement is done in accordance with relevant legislation, professional standards and internal policies, no issues identified that suggest a significant weakness.

### Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4 Other reporting responsibilities and our fees

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We plan to report to NAO in December 2023. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 4 Other reporting responsibilities and our fees

## Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in April 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:.

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice (2021/22 scale fee now includes group fees, with a small rounding difference)	£97,604	£100,824
Additional fees in respect of group consolidation (recurring)	£3,228	£0
Increases arising from regulatory pressures (as reported in the 2019/20 audit; in 2021/22 we increased this fee by 25% to reflect a 25% increase in the PSAA fee rates for this work)	£15,128	£18,910
Additional fees in respect of the new VFM approach (recurring, as agreed from the 2020/21 audit)	£10,000	£10,000
Additional fees in respect of new ISA540 requirements, estimates (recurring, as agreed from the 2020/21 audit)	£4,400	£4,400
Additional fees in respect of the Council's infrastructure (additional work required in relation to the national issue in this year's audit – not recurring)	£nil	£10,000
Additional fees in respect of the issues with Pension Fund Auditor assurance, the updating of accounts for triennial pensions, and follow up of the PF auditor's letter – not recurring	£nil	£7,000
<b>Total fees</b>	<b>£130,360</b>	<b>£151,134</b>



# 4 Other reporting responsibilities and our fees

## Fees for other work

In 2021/22 the Council has engaged Mazars LLP for the following audit related assurance services:

- Housing Benefit assurance - £12,287 plus VAT (£11,170 in 2020/21); and
- Teachers' Pensions assurance - £4,895 plus VAT (£4,450 in 2020/21).

Gavin Barker, Director –Public and Social Sector

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