

Audit and Governance Committee

A meeting of Audit and Governance Committee was held on Monday 24th February 2025.

Present: Cllr Barry Woodhouse (Chair), Cllr Stefan Houghton (Vice-Chair), Cllr Mohammed Mazi, Cllr Ross Patterson, Cllr Paul Rowling, Cllr Mick Stoker, Cllr Laura Tunney and Cllr Katie Weston

Officers: Andy Bryson, Clare Harper, Andrew Barber and Sarah Whaley

Also in attendance: Cllr Eileen Johnson (Observer), James Collins (Mazars) and Nora Natova (Mazars)

Apologies:

AGC/45/24 Evacuation Procedure

The evacuation procedure was noted.

AGC/46/24 Declarations of Interest

There were no declarations of interest.

AGC/47/24 Minutes

RESOLVED that the minutes be agreed and signed as a correct record by the Chair.

AGC/48/24 External Auditor's Annual Report 2023/24

The Auditor's Annual Report (AAR) summarised the work Forvis Mazars had undertaken as the external auditor for Stockton-on-Tees Borough Council ('the Council') for the year ended 31 March 2024. Although the report was addressed to the Council, it was designed to be read by a wider audience including members of the public and other external stakeholders.

The Council's External Auditors responsibilities were 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 outlined how the Council's External Auditors had discharged those responsibilities and the findings from their work. Full details of which were contained within the main report.

The main topics discussed were as follows:

- The Value for Money Report (VFM) was highlighted. The Council's External Auditors had not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provided Forvis Mazars commentary on the Council's arrangements.
- It was highlighted that the Council were aware and acknowledged where it may be overspending in particular areas as well as acknowledging that reserves could not

continue to be used, and looking at how the Council could deliver services in better / different ways. The Councils External Auditor highlighted that these challenges were recognised and would be monitored closely in future.

- Brief discussion was had around the Councils Medium Term Financial Plan (MTFP) and where any gaps were identified, how those gaps would be plugged going forward.
- It was highlighted that in terms of local authority borrowing this could only be used for capital expenditure not to boost a local authority's financial situation.
- It was acknowledged that Stockton-on-Tees Borough Council was in a better financial position than many other councils across the country.

RESOLVED that the report be noted.

AGC/49/24 External Audit Completion Report 2023/24

The Councils External Auditors presented their Audit Completion Report for the year ended 31 March 2024 to the Audit and Governance Committee for consideration. The purpose of the document was to summarise their audit conclusions. The scope of the Councils External Auditors work, included identifying significant audit risks, and other key judgement areas, which was outlined in the Audit Strategy Memorandum, which was presented to the Councils Audit and Governance Committee on 30 October 2024.

The Councils External Auditors had reviewed their Audit Strategy Memorandum and concluded that the significant audit risks and other key judgement areas set out in that report remained appropriate.

The main topics discussed were as follows:

- Financial pressures being faced in children's services and future plans the Council were looking at to alleviate those pressures.
- There were no significant weaknesses to report, however it had been acknowledged that continued use of reserves to maintain the Councils financial position could not be maintained.
- The Council needed to continue to deliver the 'Powering Our Future' initiative to deliver future savings.
- Brief discussion was had around Teesside Pension Fund and that the Teesside Pension Fund Auditor intended to issue a disclaimed audit opinion on the Teesside Pension Fund for the year ended 31 March 2024. Forvis Mazars audit approach included consideration of work undertaken on the Pension Fund.

Consequently, there would be an impact on Forvis Mazars audit opinion for Stockton-on-Tees Borough Council, details of which were contained within the main report.

- It was highlighted that Forvis Mazars work was substantially complete and there were currently no other matters, except for pensions, of which they were aware would require modification of their audit opinion, subject to the satisfactory resolution of the outstanding matters set out below.

Pensions
Financial Statements
Group Accounts
Audit Quality Procedures and Closure
Events after the reporting period
Whole Government accounts

- Brief discussion was had around materiality which at the planning stage was set at 11.345m for the Group and 11.292m for the Council using a benchmark of 2% gross expenditure at the surplus deficit level.
- In terms of significant risks there were no material issues or risks in terms of management override of controls.
- Forvis Mazars highlighted their 'significant findings' full details which were contained within their report. Forvis Mazars concluded that during the course of the audit they did not encounter any significant difficulties, and they had the full cooperation of the Council's management throughout, however they had experienced some delays in completing their work on the Council's PPE balance. It was therefore important that Forvis Mazars continued to work with management to ensure the audit process was completed in a timely and efficient manner.
- Forvis Mazars also highlighted a 2nd observation relating to the fixed asset register.
- The Committee were informed that it was identified during Forvis Mazars testing of grant income that the Council no longer maintained remittance advices for two sample items (£2.009m) relating to the business rates relief grant. This was because of the Council's policy to delete emails after 6 months. Forvis Mazars journals testing encountered a similar issue where the Council was unable to provide the original journal authorisation for one sample item. Management was able to provide retrospective approval for the journal posted and other evidence to support the testing. Overall, Forvis Mazars were able to obtain sufficient assurance from all other evidence provided by the Council to conclude on the testing.
- Brief discussion was had around the 'summary of misstatements' which included unadjusted misstatements and adjusted misstatement.
- Members attention was drawn to the Value for Money (VFM) section.

RESOLVED that the report be noted.

AGC/50/24 Annual Statement of Accounts 2023/24

Members were presented with the Council's (and Group) Annual Statement of Accounts for 2023/2024. The accounts were included within the main report.

It was a statutory requirement of the Accounts and Audit Regulations 2015 (as amended) that the audited 2023/24 Statement of Accounts were approved by Members of the Committee and published on the Council's website on or before the backstop date of 28th February 2025. In order to comply with the regulations, the Deputy Chief Executive & Director of Finance, Transformation and Performance and Chair of the Committee were required to sign the Statement of Responsibilities

confirming the approval of the accounts and the authorisation to issue these as a public document.

As noted in Forvis Mazars draft Annual Auditors Report and Audit Completion Report for 2023-24, they had provided a Modified Qualified Opinion on Stocktons (and Group) accounts for the 2023-24 financial year.

Forvis Mazars opinion was directly attributable to the fact that the Teesside Pension Fund Auditor was intending to issue a disclaimed audit opinion on the Teesside Pension Fund for the year ended 31 March 2024 as they had been unable to obtain sufficient appropriate audit evidence ahead of the 28 February 2025 backstop date. Consequently, no assurance on the asset valuations had been provided. This has had a direct impact on Forvis Mazars providing assurance on the pension asset figures included within Stocktons Annual Statement of Accounts for 2023-24.

This was the only finding which required modification on Forvis Mazars audit opinion. Relevant assurance was provided in relation to all other aspects of the Councils audit for 2023-24.

The main topics discussed were as follows:

- The public inspection period for the accounts was from 1 July to 9 August and there was no request received from any member of the public.

- Brief discussion was had around the following:

The Narrative

Expenditure position

Balance sheet

Core financial statement

Various Reserves

Comprehensive income and expenditure

Long term and short-term borrowing

Total net asset position which was reduced due to Teesside Pension Fund

- Financial pressures being faced in Adult Social Care and Childrens Services

- Suggestion was made to simplify the revenue position to make it easier for the public to understand.

The Officers recommendation was that the Deputy Chief Executive & Director of Finance, Transformation and Performance and Chair of the Committee sign the Statement of Responsibilities for the Annual Statements confirming the approval of the accounts and the authorisation to issue these as a public document.

RESOLVED that Members agreed the officer's recommendation as detailed above.

AGC/51/24 Annual Report of the Audit Committee (Final)

Members were asked to consider and note the Annual Report of the Audit Committee (Final) which informed Members of the work of the Audit and Governance Committee during the period 1st October 2023 to 30th September 2024.

This 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.

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

- Audit & Governance Committees were a key component of an authority's governance framework. Their function was to provide an independent and high level resource to support good governance and strong public financial management.
- The purpose of the Audit and Governance Committee was 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 made an important contribution to ensuring that effective assurance arrangements were in place.

The report outlined the following:

- Functions of the Audit and Governance Committee
- The Audit and Governance Committee Membership including the Officers that supported the Committee.
- The External Audit function.
- The Audit and Governance Committees core activity
- The Chairmans Conclusion

Full details of the above were contained within the main report.

RESOLVED the report be noted.

AGC/52/24 Audit Activity Report

Members were presented with the Audit Activity Report which informed them of the progress of audit testing to date and presented a forward plan of testing and the resources available to meet the plan to support the assessment of risk.

Members were asked to note the results of audit activity and agree that the work for the next quarter be prioritised using the audit risk assessment methodology as outlined in the Audit Charter.

Internal auditing was an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helped 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 the results of audit work were an integral part of the assurance framework in place to assess the current risk status.

The overall summary showed a summary of audit results against each theme. It was highlighted to Members that the themes in use had been revised, officers felt the revised list would be easier to understand and provide more clarity to readers.

Audit testing results broke down work undertaken in the previous period to provide members with an update on where audit resources had been employed and the results of that work. This would highlight any concerns raised in the period. There had been 5 Red controls identified in the period, which were detailed within the report. Members were reminded that testing frequencies were adjusted based on their status, controls rated as red were reviewed every 3 months. This may give the impression that the same issues were being raised each quarter whilst recommendations were being implemented, officers monitored progress of implementation. Reds previously reported that were making good progress were waste and recycling targets, a requirement to review the information sharing protocols with occupational health partners, and the Joint Strategic Needs Assessment. The remaining Red controls Business Continuity in Adoption Tees Valley and the effective management of cash park machine income.

Planned work identified the areas to be examined in the next period as required by the Public Sector Internal Audit Standards. Members were reminded that each control was risk assessed to determine the frequency of testing, audit work was planned and undertaken a rolling programme which prioritised controls with the highest risk rating in accordance with this methodology. The Audit & Risk Manager was required to report any concerns he may have that would impact on the independence of the audit service or the adequacy of resources, it was confirmed that the Audit & Risk Manager had no concerns in either regard.

Quality Assurance and Improvement showed a balanced scorecard for the delivery of the audit service. Most indicators would be reported annually but the ones contained within the report provided an update on progress against agreed work to date. The level of adequate resources was calculated after staff time was adjusted to allow for Annual Leave, Bank Holidays and a reasonable amount of Admin Time. The Service fell slightly short of their target for completion of work, however analysis completion for the year to date should not impact on the ability to provide an opinion. Productivity levels were lower than expected, this was partly due to maternity leave and the Christmas period. Whilst the Service had been able to balance workloads sufficiently to manage the maternity leave the Service were unable to plan for their 15 day contingency therefore any additional work identified would require a delay in some other work, which would be managed on a risk basis.

RESOLVED that Members note the results of audit activity and agree that the work for the next quarter be prioritised using the audit risk assessment methodology as outlined in the Audit Charter.

AGC/53/24 Internal Audit Charter

The purpose of this report was to advise Members of the Internal Audit Charter and proposed approach to delivering the audit service for the coming audit year 2025-2026.

The requirement for the Council to have an internal audit function was outlined in Section 151 of the Local Government Act 1972. More specific requirements were

detailed in the Accounts and Audit (England & Wales) Regulations 2015 which required 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”.

The audit charter outlined how combined internal audit service would be delivered to Darlington Borough Council and Stockton-on-Tees Borough Council.

The Global Standards for Internal Audit had been revised during the previous 12 months. The revised standards were applicable from April 2025. Officers had undertaken a self-assessment against the revised standards, on the whole the service was compliant with these new standards, however there were some minor adjustments required some of which had been incorporated into the Audit Charter

The standards are now structured around 5 domains as detailed within the report.

Brief discussion was had around the Charter.

RESOLVED that:

1. That the Audit and Governance Committee approves the Internal Audit Charter and the rights of access conferred within (as detailed within the report).
2. That the Audit and Governance Committee agree the alternate arrangements for board oversight of service funding and management of the Chief Audit Executive to recognise the differences between the private and public sector (as detailed within the report).

AGC/54/24 Internal Audit Strategy

Members were presented with the Internal Audit Strategy and proposed approach to improving the audit service for the period 2025-2028.

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

Public Sector Internal Audit Standards

The Global Standards for Internal Audit had been revised during the previous 12 months. The revised standards were applicable from April 2025. The standards introduced a requirement to prepare a strategy to develop the Internal Audit Service.

The service had had a strategy in place for a number of years and this was recognised in the attached strategy for 2025-2028. The strategy outlined how the Council would continue to develop the service over the next 3 years:

- Enhance how we will work with other assurance providers;
- Enhance our use of data analytics to improve our understanding of risk;
- Develop some training materials to ensure core skills to manage risks are maintained.

RESOLVED that the Audit and Governance Committee approve the Internal Audit Strategy for 2025-2028.

AGC/55/24 Final Audit Governance Statement 23-24

The Chair explained that he had agreed to the following item being considered as urgent as the matter had to be determined by the Audit and Governance Committee immediately and it was not practicable to defer to the next meeting or call a special meeting.

Members were asked to consider and note the draft Final Audit Governance Statement for 2023 / 2024 and provide comments if required.

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 draft Statement of Accounts for 2023/24 was 30 September 2024 at which point they were subject to the external audit process.

The final Annual Governance Statement would be presented for approval by the Audit and Governance Committee alongside the audited Statement of Accounts.

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

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

The Council's Annual Governance Statement of 2023/2024 was contained within the report. At this time the Council had not identified any significant issues that were not being addressed within the Statement. Officers would be present at the meeting to report on the governance framework and control environment in place within the Council that enabled the detailed preparation of the statement.

RESOLVED that the report be noted.

Chair: