



AUDIT AND STANDARDS COMMITTEE AGENDA

Thursday, 20 July 2023 at 10.00 am in the Saltwell Room Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	Apologies for Absence
2	Minutes (Pages 3 - 10) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 20 June 2023.
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.
4	Annual Report to Cabinet and Council 2022/23 (Pages 11 - 18) Report of the Strategic Director Resources and Digital
5	Corporate Risk Management 2023/24 Quarter 1 Update (Pages 19 - 22) Report of the Strategic Director Resources and Digital
6	External Auditor : Audit Strategy Memorandum Year Ending 31 March 2023 (Pages 23 - 58) Report of the Strategic Director, Resources and Digital
7	Exclusion of the Press and Public The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraphs 7 of Schedule 12A to the Local Government Act 1972.
8	Internal Audit Plan 2023/24 Quarterly Monitoring Report to 30 June 2023 (Pages 59 - 68) Report of the Strategic Director Resources and Digital
9	Date and time of next meeting Tuesday 26 September 2023 at 4.00 pm in the Blaydon Room

Contact: Helen Wade Tel: 0191 433 3993 - Email: helenwade@gateshead.gov.uk
Date: Wednesday, 12 July 2023

GATESHEAD METROPOLITAN BOROUGH COUNCIL AUDIT AND STANDARDS COMMITTEE MEETING

Tuesday, 20 June 2023

PRESENT: Councillor L Kirton (Chair)

Councillor(s): R Mullen, L Green, H Kelly, J McElroy, C Ord
and Mr Stuart Bell (Independent Member)

IN ATTENDANCE: Councillor(s):

APOLOGIES: Councillor(s): R Beadle

ASC443 CONSTITUTION

The Constitution of the Committee for municipal year 2023/24 was noted.

ASC444 MINUTES

The minutes were approved as a correct record.

ASC445 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC446 TREASURY ANNUAL REPORT 2022/23

The Committee received a report requesting to review the proposed Treasury Annual Report prior to consideration by Cabinet.

In line with what the Government defines as best practice and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council must consider a Treasury Annual Report each year.

The Committee were asked to review the Treasury Annual Report which was attached at Appendices 2, 3 and 4 to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management and submit any comments to Cabinet.

The Committee asked if the Council undertook future stress analysis in order to mitigate any interest rate rises. Officers reported that this was part of the cash flow analysis.

The Committee asked if the Council undertook regular analysis on its borrowing levels. Officers reported that borrowing levels are checked and analysed on a daily basis by finance officers.

RESOLVED - The Committee noted and agreed that the Treasury Annual Report be submitted to Cabinet for approval.

ASC447 MEMBERS ASSURANCE STATEMENT 2022/23

The Committee received a report informing them of the opinion of Members of the Cabinet on the effectiveness of the Council's governance arrangements to feed into the Annual Governance Statement.

Assurance was sought from Councillors who served in the Cabinet during 2022/23, in the form of a self-assessment statement, on the effectiveness of the Council's corporate governance arrangements.

All Cabinet Members considered that governance arrangements are effective.

Based on the evidence identified in the assurance statement from Members of Cabinet, governance arrangements are considered to be effective.

RESOLVED - i) That the information be noted
 ii) The Committee noted the assurances of Members of Cabinet and the evidence on oversight and endorsed the opinion that the Council's governance arrangements are effective

ASC448 MANAGERS ASSURANCE STATEMENT 2022-23

The Committee received a report informing them of the assurance which Service Directors have placed on their control systems to feed into the Annual Governance Statement.

The Audit and Standards Committee agreed on 7 March 2023 an assurance framework which would provide evidence for the completion of the Annual Governance Statement, Assurances from senior managers on the effectiveness of controls they have in place are fundamental within the framework.

Service Directors were asked to complete self-assessments which took the form of a questionnaire covering the processes in place to manage their key control and governance processes. This included a requirement to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance in 18 key areas, with a requirement to detail the evidence to support their assessment.

The Committee sought further clarification on who was classed as a senior manager and also as to why some column on the table showed differing numbers, officers explained that senior managers were Service Director level and that some of the questions asked were not relevant to all managers across the organisation.

RESOLVED - i) That the information be noted
 ii) That the assurances provided by senior managers be noted

ASC449 REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT 2022/23

The Committee were asked to review the effectiveness of internal audit within the Council for 2022/23.

The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement.

Best practice highlights that “internal audit”, in this context, includes not only the internal Audit Service but also the Audit and Standards Committee in 2022/23.

The review ensures that the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report, included as a separate report on this agenda, can be relied upon as a key source of evidence in the Annual Governance Statement.

The review of the effectiveness of the system of Internal Audit for 2022/23 has been undertaken by the Council's Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & Governance. The Committee were advised that the basis of the review was as follows:

- Self-assessment against Public Sector Internal Audit Standards (PSIAS);
- Self-assessment against the CIPFA Statement of the Role of the Head of Internal Audit;
- Reliance placed upon Internal Audit by the Council's external auditor;
- Assessment of the effectiveness of the Audit and Standards Committee; and
- Relevant performance information

Performance monitoring of the work carried out by the Internal Audit Service provides further assurance that the system of Internal Audit is operating effectively and adding value to the Council as a whole. During 2022/23 the following key performance indicators are relevant:

- 99% of audits were completed within budgeted time against a target of 90%
- Productive or chargeable time was recorded at 71.5% of overall time against as annual target of 72% of overall time
- The average score of the customer satisfaction questionnaires returned is 3.73 out of 4 (93%) against a target of 3.4 (85%)
- The target for implementation of audit recommendations was 100% for high priority recommendations and 90% for medium priority and best practice recommendations. The rate of implementation of all recommendations was 99.7% with 100% of all medium and high priority recommendations having been implemented.

The Committee were advised that CIPFA benchmarking has been suspended since

2020/21 and as yet have not restarted. As previously reported to the Audit and Standards Committee on 28 October 2019, benchmarking for 2019/20 highlighted the Internal Audit Service as being low cost with high productivity in comparison with other local authorities. The Service has continued to be low cost and high productivity demonstrating that the Council is receiving value for money from its Internal Audit Service.

The Committee queried the parameters of the scoring mechanism for the customer satisfaction questionnaires and were advised that the level of scoring was based on industry standard.

The Committee asked when benchmarking would be re-started and were advised that corporate benchmarking was underway and Tyne and Wear Treasurers would be undertaking their own.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee considered and endorsed the opinion that the Council's system of internal audit is operating successfully

ASC450 CORPORATE RISK MANAGEMENT - ANNUAL REPORT 2022/23

The Committee received a report which outlined the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee noted the Corporate Risk Management Annual Report 2022/23 as shown in Appendix 1 and agreed that the Council has effective risk management arrangements in place

ASC451 EXCLUSION OF THE PRESS AND PUBLIC

- RESOLVED -
- That the press and public be excluded from the meeting during the consideration of the remaining business in accordance with Paragraph 3 of Schedule 12A to the Local Government Act 1972

ASC452 COUNTER FRAUD ARRANGEMENTS - ANNUAL REPORT 2022/23

The Committee received a report outlining the arrangements that exist within the Council for countering fraud and provided an update on activity undertaken since 1 April 2022 by the Internal Audit and Risk Service in relation to work of the Corporate Fraud Team.

The Committee received details of counter fraud awareness and some of the awareness initiatives carried out in 2022/23 were:

- Various articles and posts were issued during September and October 2022 to inform employees and residents that the biennial National Fraud Initiative

- exercise was due to take place
- An Employee Bulletin, intranet update and social media posts were issued in November 2022 to raise the profile of the Corporate Fraud team as part of the National Fraud Awareness Week
- Regular alerts and warnings are received from the National Anti-Fraud Network (NAFN) regarding a range of frauds and scams against Council's and schools. All warnings are monitored by the Corporate Fraud Officers and communicated to the related service areas. Relevant warnings are added to the Corporate Fraud section on the internet and staff are alerted via the weekly team brief

The Committee were advised that the Corporate Fraud Team received 126 fraud referrals during 2022/23, 43 cases have been closed and for the most part were of a trivial nature or unproven. A further 36 were rejected and 7 cases are ongoing and still under investigation.

The remaining 40 cases were unallocated at the end of the year while prioritising work to progress the Digital Economy Act Data Sharing Hub pilot. Work is now underway sifting these referrals and investigations will follow. The referrals related to a variety of fraud types and a full breakdown was shown at Appendix A.

The Committee were advised that during the period 1 April 2022 to 31 March 2023 the team received 155 Right to Buy applications to check, of which 141 checks were completed as at the end of the financial year. During this period 10 RTB applications were cancelled as a result of the checks completed by the team resulting in £464,945 of discount saved. There were also 112 instances during the period where applicants cancelled their RTB applications.

As a result of the proactive RTB application checks, four housing benefit overpayments and one council tax reduction scheme overpayment were also identified resulting in action being taken to recover £12,702.

The Committee also received an update on DWP Joint Working, Fraud Case Management system and the National Fraud Initiative.

The Committee queried the length of time that a case would remain open and were advised that each case is different and the time frame would therefore be different but as a general rule of thumb cases would not remain open longer than 2 years.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee noted the counter fraud activity undertaken during the year and agreed that the Council has effective counter fraud arrangements in place

ASC453 INTERNAL AUDIT ANNUAL REPORT 2022-23

The Committee received a report informing them about work undertaken by the Internal Audit and Risk Service during 2021/22 and gave an overall assessment of the adequacy of the Council's internal control systems and governance

arrangements to inform the Annual Governance Statement and to provide a summary of the main findings.

The Committee were advised that based on evidence arising from the planned internal audit activity during 2022/23, the Council's internal control systems and governance arrangements are considered to be effective.

This opinion is based on all audit activity throughout the year, which has been reported to the Audit and Standards Committee on a quarterly basis and the opinion is based on internal audit work undertaken and completed. A summary of the audit activity for the year was attached to the main report at Appendix A.

For 2022/23, 80 audits (91%) concluded that systems and procedures in place were operating well or satisfactory. 8 audits (9%) concluded that systems and procedures had significant weaknesses. This audit work has not resulted in any areas for inclusion as future actions for improvement in the Annual Governance Statement for 2022/23.

The Committee hope that staff who discovered areas of significant weaknesses were recognised for their work, officers advised that all staff are recognised for their contribution to the audit findings.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee noted the audit opinion that the Council's internal control systems and governance arrangements are considered to be effective

ASC454 RE-ADMITTANCE OF THE PRESS AND PUBLIC

RESOLVED – That the press and public be re-admitted for the remainder of the meeting

ASC455 ANNUAL GOVERNANCE STATEMENT 2022/23

The Committee received a report and were asked to review the evidence of assurances provided on the Council's internal controls, risk management and governance arrangements, and approve the Annual Governance Statement (AGS) 2022/23, which was attached as Appendix A.

The Accounts and Audit Regulations 2015 required Councils to provide an Annual Governance Statement giving an assessment of governance arrangements and their effectiveness. This accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and the Chief Executive.

The Audit and Standards Committee agreed on 7 March 2023 the assurance framework which would provide evidence for the completion of the Annual Governance Statement. Assurances were required in the following areas:

- Governance arrangements

- Councillors
- Senior Managers
- The system of internal audit
- Risk management arrangements
- Counter Fraud arrangements
- Performance management and data quality
- Views of the external auditor and other external inspectorates
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance
- Other source of assurance

The Committee were advised that based on the review of the Council's governance arrangement during 2022/23, including the internal control and risk management environments, the opinion is that the Council's governance arrangements continue to be regarded as fit for purpose.

The Annual Governance Statement therefore reflects this opinion and gives details of the evidence obtained to achieve it, actions taken to improve governance following the previous Annual Governance Statement, and an action plan for the next year.

- RESOLVED -
- i) That the information be noted
 - ii) The Committee approved the Annual Governance Statement to accompany the Statement of Accounts 2022/23 prior to it being passed to the Leader and Chief Executive for signature.

ASC456 DATE AND TIME OF NEXT MEETING

TBA

Chair.....

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Title of Report: **Annual Report to Cabinet and Council: 2022/23**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1. The Committee's terms of reference require it to submit an annual report to the Cabinet and Council, and further reports and recommendations as it sees fit. The Committee is asked to consider the issues discussed during 2022/23 for inclusion in a report to Cabinet and Council.

Background

2. The Annual Report to Cabinet and Council 2022/23 allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:
 - Maintaining effective internal control;
 - Risk management; and
 - Reporting on financial and other performance.

Contents of the Report

3. Appendix 1 includes the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.
4. The Audit and Standards Committee has received reports in the following areas:
 - Internal Audit planning, performance and activity;
 - Corporate Risk Management and Resilience activity;
 - Counter Fraud Updates;
 - Annual Governance Statement Assurance Framework;
 - The Annual Governance Statement and supporting evidence;
 - Achievement of Going Concern Status;
 - Audit Completion Report and Council's Statement of Accounts;

- Treasury Management Policy & Strategy and mid-year update.;
 - Local Code of Governance Update;
 - Review of Internal Audit Charter;
5. Based on the evidence presented during the year and at the meeting of the Committee on 20 June 2023 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2022/23, which accompanies the Statement of Accounts.

Recommendation

6. The Committee is asked to agree the draft report to Cabinet and Council at Appendix 1.

Contact name: Craig Oakes Ext. - 3711
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Contents of the Report to Cabinet and Council – 2022/23

1. The areas of activity considered by the Audit and Standards Committee during 2022/23 are set out below.

Internal Audit planning, performance and activity

2. As at 31 March 2023 92% of the Internal Audit Plan was completed, which resulted in 88 audit reports. Of these reports 80 (91%) concluded that systems in place were operating well or satisfactory, with 8 (9%) concluding systems and procedures had significant weaknesses, of which three were in relation to schools.
3. All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.
4. Based on this evidence arising from Internal Audit activity during 2022/23, the Council's internal control systems and governance and risk management arrangements are considered to be effective.
5. The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2022/23, with quarterly updates to Audit and Standards Committee.
6. The Audit and Standards Committee also approved the Audit Strategy and Plan and agreed to continue to monitor Internal Audit's progress on a quarterly basis against the 2022/23 Audit Plan.

Corporate Risk Management and Resilience activity

7. The Committee received quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

Counter Fraud Updates

8. The Committee received a report every six months updating on activity undertaken in relation to the work of the Corporate Fraud Team summarising performance against the Counter Fraud and Corruption Strategy and the effectiveness of the Strategy. Conclusions also form part of the Annual Governance Statement.

Annual Governance Statement Assurance Framework

9. The Committee received a report providing an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2022/23 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements, the Assurance Framework.

The Annual Governance Statement and supporting evidence

10. The Annual Governance Statement for 2022/23 concluded that the Council's system of internal control, risk management and governance framework is effective.
11. The Audit and Standards Committee approved the Annual Governance Statement for 2022/23 at its meeting on 20 June 2023, following a review of the evidence detailed below in paragraphs 12-30, and evidence seen by the Committee during the year.

Cabinet Members

12. Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

Senior Managers

13. Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These statements will be examined as part of the 2023/24 Audit Plan and the outcomes reported to the Audit and Standards Committee in September 2023.

Internal Audit

14. The Internal Audit Service has undertaken audit work throughout the year based on the risk-based audit plan. In addition, the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed, as part of the Audit Plan.
15. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2022/23 was that internal control systems and risk management and governance arrangements are effective.

Risk Management

16. Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk.
17. The Strategic Director, Resources and Digital reported that risk management arrangements during the year were effective.

Counter Fraud

18. The Council has a zero-tolerance approach to fraud and corruption. A counter fraud communications and awareness plan is in place to enable and evidence communication requirements to promote and raise awareness of the Council's counter fraud arrangements, including the publicising of any proven fraud cases and media handling. The plan details the key stakeholders and the methods and frequency of any communications during the year. The plan also details how the outcomes of any successful prosecutions would be handled.
19. The Strategic Director, Resources and Digital reported that counter fraud arrangements during the year were effective.

Performance Management and Data Quality

20. The Council has a corporate suite of strategic performance indicator to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
21. In addition, performance is also monitored, measured, challenged and scrutinised on a six-monthly basis at Cabinet and respective Overview and Scrutiny Committees.
22. The Corporate Data Management Group is overseeing the development of an approach to improving how the performance information is presented so that this is accessible to all stakeholders. Performance reports to Overview and Scrutiny are published on the Council's website
23. Based on evidence arising from the performance management framework process for 2022/23, effective controls are in place.

Views of the External Auditor and other External Inspectors

24. At the time of the most recent report dated October 2022 from Mazars, the Council's external auditor, covering the financial year 2021/22, and subject to satisfactory conclusion of the remaining audit work, the Auditor anticipated issuing an unqualified opinion, without modification, on the financial statements. Issues leading to the delay in sign off are not as a result of ineffectiveness on the part of the Council. The Auditor also anticipated having no significant weaknesses to report in relation to the arrangements the Council has in place for securing economy, efficiency and effectiveness in its use of resources.
25. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

The Legal and Regulatory Framework

26. Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

Financial Controls

27. Assurance has been obtained from the Strategic Director, Resources and Digital, who is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit.
28. In addition, the Council undertook a self-assessment of compliance with the CIPFA Financial Management Code during 2022/23. The assessment considered seventeen financial management standards grouped into seven sections underpinning the six principles. Following the self-assessment, the Council is considered to be compliant with the Financial Management Code.

Partnership Arrangements & Governance

29. Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. The consensus amongst Service Directors was that all Partnership Arrangements have been established in compliance with the

Council's Guide to Partnership Working. In addition, the most recent review of this area by the Internal Audit Service found to be operating satisfactorily.

30. Based on evidence arising from partnerships for 2022/23, effective controls are in place.

Other Reports

Achievement of Going Concern Status 2021/22

31. The Committee received a report considering the Council's status as a going concern.
32. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that there continues to be a risk that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the council's monitoring officer, to all authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.
33. The report outlined the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.
34. Based on the assessment undertaken, the Council's Chief Finance Officer (Section 151 officer) view was that the Council is fully aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Council's Statement of Accounts should be prepared on that basis.

Audit Completion Report and Council's Statement of Accounts

35. The outcome and findings of the audit of the Council's Statement of Accounts 2021/221 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 25 October 2022. The key messages were:
 - At the time of issuing the report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipated issuing an unqualified opinion, without modification, on the financial statements. However, this was subject to the conclusion of matters in relation to infrastructure.
 - The auditor's work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements was set out in the report, with further work ongoing in

relation to the audit of revised actuarial disclosures, and the accounting treatment following the decision to bring the Gateshead Housing Company back within the Council.

- Value for Money – at the time of issuing the report, the auditor anticipated having no significant weaknesses to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.
- Whole of Government Accounts (WGA) – the timetable for the Council's submission for 2021/22 had not yet been published. Audit work would commence once such instructions had been received.
- Wider powers – the Local Audit and Accountability Act 2014 requires the auditor to give an elector, or any other representative of the elector, the opportunity to question them about the accounting record of the Council and to consider any objection to the accounts. No question or objections had been received.

Treasury Management Policy & Strategy and Six-Monthly Update

36. In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six-monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

Local Code of Governance Update

37. The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly, and the Audit and Standards Committee were asked to consider and approve an updated version on 7 February 2023, based on the CIPFA Delivering Good Governance in Local Government: Framework. The Code defines how the Council complies with the principles of good governance laid down by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.

Review of Internal Audit Charter

38. The Internal Audit Charter is reviewed annually, and the outcome is reported to the Audit and Standards Committee to seek comments and approval in line with Best Practice. The Chief Internal Auditor carried out the annual review and confirmed that it continues to reflect best practice and no amendments were required.

Title of Report: Corporate Risk Management 2023/24 - Quarter 1 Update

Report of: Darren Collins, Strategic Director, Resources & Digital

Purpose of the Report

1. This report updates the Committee on Corporate Risk Management developments during the period 1 April to 30 June 2023.

Background

2. Quarterly reporting to those with the responsibility for the oversight of risk management issues complies with the principles of good corporate governance. It is also embodied in the Corporate Risk Management Policy. This was last approved by Council on 21 May 2013 and is kept under review. Whilst it has been amended to reflect minor structural changes and roles in that time, it remains relevant and fit for purpose.
3. The report covers progress against the Corporate Risk Management Developmental Objectives for 2023/24, as cited in the Corporate Risk Management Annual Report 2022/23, and any other risk management issues emerging within the quarter under consideration.

Strategic Risk Management

4. In November 2018, Cabinet and Council approved a revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018. The Corporate Management Team has continued to ensure strategic risks are responded to in accordance with the Risk Management Policy, with risks and controls being recorded for inclusion within the Strategic Risk Register.
5. There have been no changes to the Strategic Risk Register in the first quarter 2023/24. The current Strategic Risk Register is attached for information at Appendix 1.

Operational Risk Management

6. Operational risks identified within the Council are recorded on the operational risk register. Work continues to ensure operational risk management activity within services continues to align with service objectives.
7. Service Risk Coordinators, whose role it is to support and champion risk management activity within their Services, are working with the Corporate Risk Officer to support risk owners with evaluating existing operational risk assessments. The focus of this work is on

ensuring the assessments contain the required and correct information to inform the management response.

8. To further strengthen mitigation of the risks of a successful cyber-attack, several IT related policies have been drafted by the Cyber Security Group. Further updates will be provided on this work as it progresses.

Business Continuity Management

9. In accordance with the Council's Business Continuity Policy all Services are required to continuously assess the risk of their activities being disrupted and to develop cost effective business continuity plans.
10. All Business Impact Assessments have been reviewed bi-annually since the start of the Pandemic in March 2020 with the most recent review in May 2023, with the next review planned for action by Services during November 2023. This exercise uses the agreed corporate Business Continuity Framework to allow Services to assess which activities might require additional support to strengthen resilience and estimate the officer numbers and skills that might be needed as we moved between the spring and summer months and the autumn and winter period.
11. Business Continuity Plans are revised accordingly to mitigate and, as far as possible, shape the response to any threats to the delivery of key activities with a focus on activity that could not be interrupted for more than 48 hours without critical impact.
12. Quarterly audit and risk reports are provided to Group Management Teams to highlight the critical activities for which services have developed continuity plans.

Corporate Risk and Resilience Group

13. The Corporate Risk and Resilience Group last met on 4 July 2023. The following items were considered:
 - Review of Business Impact Assessment and Business Continuity Plan seasonal refresh
 - Service resilience to a loss of IT services for an extended period
 - Updates from Groups and Services.

Recommendation

14. It is recommended that the Committee note the report and consider the effectiveness of the Council's risk management arrangements.

Appendix 1

SR Ref	Risk	Risk owner	Gross Risk Rating Pre-mitigation	Current risk post mitigation		
				Likelihood	Impact	Risk Rating
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT	Red 16	Moderate 3	High 4	Amber 12
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT	Red 16	Moderate 3	Medium 3	Amber 9
3	Failure to safeguard vulnerable children and adults	CMT	Red 16	Unlikely 2	High 4	Amber 8
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT	Amber 12	Moderate 3	Medium 3	Amber 9
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT	Amber 12	Moderate 3	Medium 3	Amber 9
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT	Red 16	Moderate 3	Low 2	Green 6
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT	Amber 8	Moderate 3	Low 2	Green6
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	CMT	Red 16	Likely 4	Medium 3	Amber 12
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT	Red 16	Moderate 3	High 4	Amber 12
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director, Housing Compliance	Red 20	Moderate 3	Medium 3	Amber 9

Strategic Risk Map

Impact	Extreme (7)				
	High (4)	• (SR3)	• (SR1) • (SR9)		
	Medium (3)		• (SR2) • (SR4) • (SR5) • (SR10)	• (SR8)	
	Low (2)		• (SR6) • (SR7)		
		Unlikely (2)	Moderate (3)	Likely (4)	Almost Certain (5)
Likelihood					

SR	Risk description	Risk owner
1	Failure to address the financial gap in the Council's budget and achieve the target within the Medium-Term Financial Strategy resulting in non-achievement of Council strategic priority of Making Gateshead a Place Where Everyone Thrives.	CMT
2	Failure to manage demand and expectations could result in the Council not achieving its Thrive agenda.	CMT
3	Failure to safeguard vulnerable children and adults	CMT
4	Failure to attract inward investment and deliver sustainable economic growth.	CMT
5	Non-compliance with statutory requirements resulting in prosecution and subsequent penalties.	CMT
6	Failure to address workforce planning and resourcing requirements impacting on service delivery.	CMT
7	Failure to provide a response during a Major incident or business interruption affecting availability of the Council's resources and impacting on ability to deliver critical services or an impact on a community.	CMT
8	The implications of EU Exit potentially affecting the availability of Council's resources to deliver services which may impact on communities.	CMT
9	The Council is hit by a Cyber-attack that compromises the confidentiality, integrity and availability of information and systems.	CMT
10	Failure to comply with the housing regulatory standards applicable to Local Authorities.	Sandra Watson, Service Director, Housing Compliance

Title of Report: External Auditor: Audit Strategy Memorandum Year Ending 31 March 2023

Report of: Darren Collins, Strategic Director, Resources & Digital

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's Audit Strategy Memorandum for the year ended 31 March 2023.

Background

- 2 For 2022/23 there is a new engagement team at Mazars. The Director and Audit Engagement lead is James Collins who replaces Cameron Waddell. The Senior Audit Manager is Joanne Greener who replaces Diane Harold.
- 3 The report sets out:
 - Engagement and responsibilities summary
 - The audit engagement team
 - Audit scope, approach and timeline
 - Significant risks and other key judgements areas
 - Value for Money
 - Fees for audit and other services
 - Commitment to independence
 - Materiality and misstatements
- 4 The external auditor's report is attached at Appendix A.

Recommendation

- 5 The Committee is requested to note the contents of the external auditor's Audit Strategy Memorandum.

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Audit Strategy Memorandum

Gateshead Metropolitan Borough Council

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Year ending 31 March 2023



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Materiality and misstatements

A

Appendix A – Key communication points

Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Gateshead Metropolitan Borough Council. It has been prepared for the sole use of the Audit and Standards Committee and Accounts Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Standards Committee Members
Gateshead Metropolitan Borough Council
Gateshead Council, Civic Centre
Regent Street
Gateshead
NE8 1HH

12 July 2023

Dear Members

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Gateshead Metropolitan Borough Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Metropolitan Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit, and explains the implications of the introduction of the new auditing standard for identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6331.

Yours faithfully

Signed: 

James Collins

Mazars LLP

Mazars LLP – Bank Chambers, 26 Mosley Street, Newcastle upon Tyne, NE1 1DF

www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London EC4M 7AU. We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Gateshead Metropolitan Borough Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

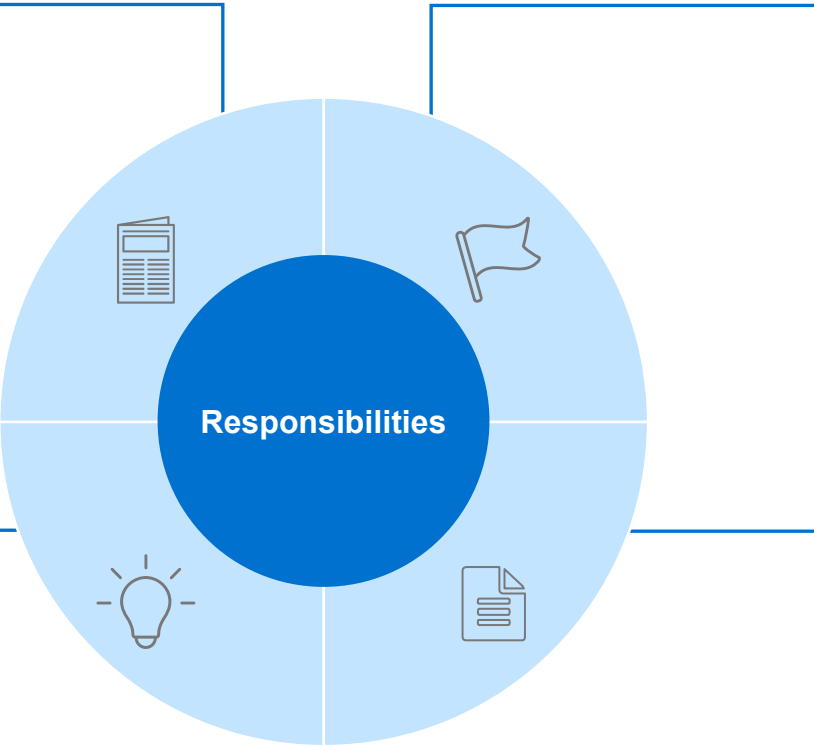
Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit and Standards Committee and Accounts Committee, as those charged with governance, of their responsibilities.

The Strategic Director, Resources and Digital is responsible for the assessment of whether it is appropriate for the Council to prepare accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Strategic Director, Resources and Digital's use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom


02

Section 02:


Your audit engagement team

2. Your audit engagement team


Below is your audit engagement team and their contact details.



James Collins
Director and Audit Engagement Lead
james.collins@mazars.co.uk
07881 283 527

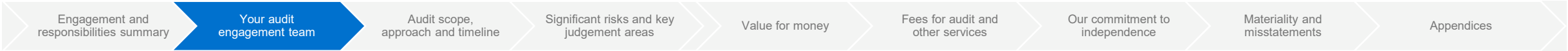


Joanne Greener
Senior Audit Manager
joanne.greener@mazars.co.uk
07881 252 444



David Hasnip
Assistant Manager and Team Leader
david.hasnip@mazars.co.uk
07387 242 038

In addition, an engagement quality control reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

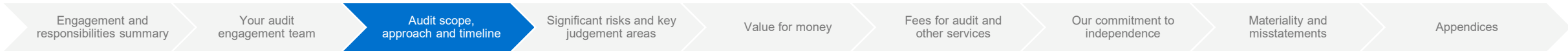
Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

Page 34

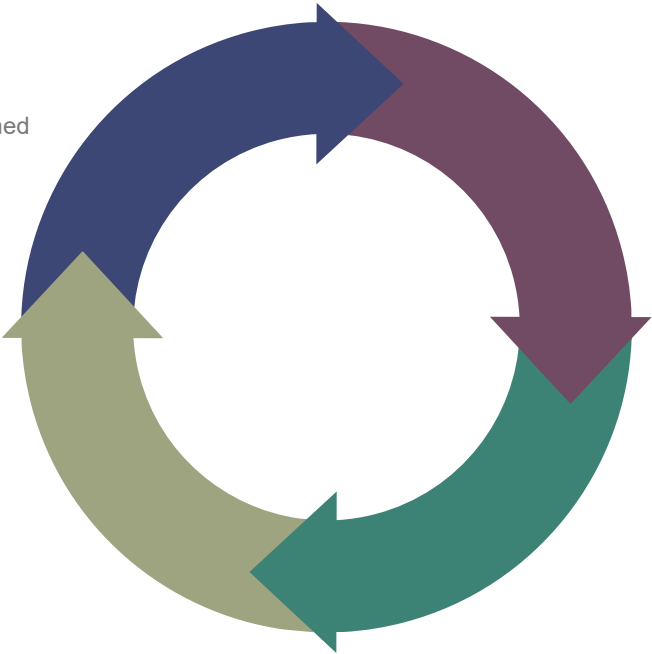
Planning and Risk Assessment February 2023

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Completion September 2023*

- Final review and disclosure checklist of financial statements
- Final Director and Engagement Quality Control Reviewer review
- Agreeing content of letter of representation
- Reporting to the Audit and Standards Committee and Accounts Committee
- Reviewing subsequent events
- Signing the independent auditor's report

*depending on timing of receipt of the Pension Fund auditor assurance



Interim February – March 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Reassessment of audit plan and revision if necessary

Fieldwork July – September 2023

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Financial statements review by our technical team
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

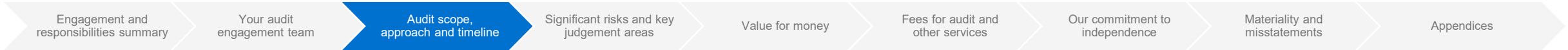
Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit net liability	AON Hewitt (Actuary)	We use the National Audit Office’s (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	Jones Lang La Salle	We will take into account relevant information which is available from third parties. If required, we can engage our own internal valuation expert; this would be dependent on any specific valuation issues arising during the audit.
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert’s financial instrument valuation estimates. Where this is required we will engage our own internal experts.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no material service organisations to consider for this Council.



04

Section 04:

Significant risks and other key judgement areas

Page 36

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

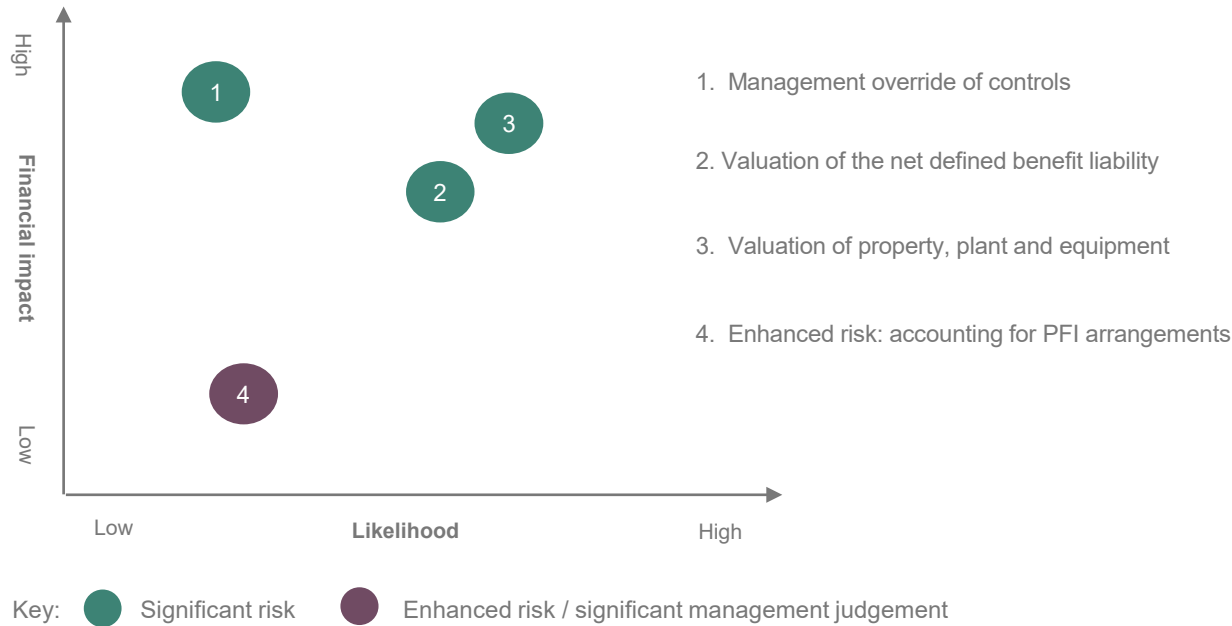
- Key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- Other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

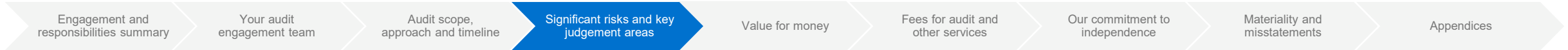
We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit and Standards Committee and Accounts Committee.

	Description	Fraud	Error	Judgement	Planned response
1 Page 38	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation £8.8m (2022/23 draft accounts)</p> <p>The financial statements contain material pension entries in respect of the retirement benefits.</p> <p>The calculation of the net pensions liability, made up of the gross pension assets (£1,517.3m) and gross pension liabilities (£1,526.1m) can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically evaluate the Council’s arrangements for making estimates in relation to pension entries within the financial statements; challenge the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; critically assess the competency, objectivity and independence of the Actuary; liaise with the auditors of the Pension Fund to gain assurance that the overall procedures in place at the Pension Fund are operating effectively; review summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets and evaluating whether the outcome of their work would affect our consideration of the Council’s share of Pension Fund assets; review the actuarial allocation of Pension Fund assets to the Council by the Actuary, including comparing the Council’s share of the assets to other corroborative information; and agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.



4. Significant risks and other key judgement areas

Significant risks

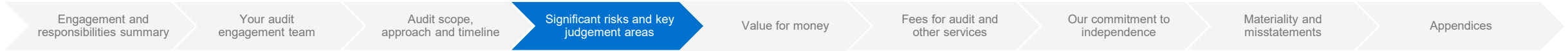
	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment £1,644m (2022/23 draft accounts)</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (including the Council's PFI shared waste facility).</p> <p>The Council employs valuation experts to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none">critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated;critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility;consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers;substantively test a sample of revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated;liaise with the Council's external valuation expert, Jones Lang La Salle, to understand their approach;where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	<p>Enhanced risk: accounting for PFI arrangements</p> <p>The Council has two PFI arrangements, covering:</p> <ul style="list-style-type: none">• schools; and• a shared waste facility. <p>The method of accounting for PFI assets/liabilities is complex, therefore, this increases the risk of misstatement.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none">• review the Council's adopted approach for accounting for its PFI arrangements;• review any changes from prior years to the long term financial models used;• critically review the assumptions made by management; and• assess the completeness and accuracy of disclosures.

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05

Section 05: **Value for money**

Page 42

5. Value for money

The framework for Value for Money work

We are required to form a view as to 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 in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

- Page 48
- risks
1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue deliver its services
 2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its
 3. **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 approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment

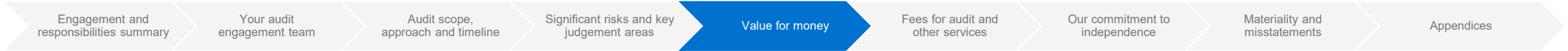
- Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:
- NAO guidance and supporting information
 - Information from internal and external sources including regulators
 - Knowledge from previous audits and other audit work undertaken in the year
 - Interviews and discussions with staff and members

Additional risk based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

- We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.
- Our commentary will also highlight:
- Significant weaknesses identified and our recommendations for improvement
 - Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.



5. Value for money

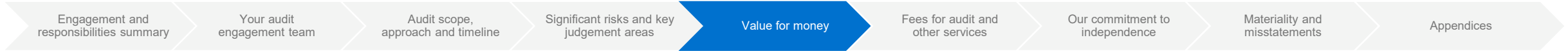
Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, work completed to-date has not identified any risks of significant weaknesses in arrangements.

We will report any identified risks to the Audit and Standards Committee and Accounts Committee, if any arise, as part of our continuous risk assessment.

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06

Section 06:

Fees for audit and other services

Page 45

6. Fees for audit and other services

Fees for work as the Council’s appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments (PSAA).

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Code Audit Work	£122,325*	£110,053**

* The fee above does not include £6,361 inflation adjustment which PSAA is contributing from it’s surplus.

** The fee shown for 2021/22 represents the scale fee as set by PSAA but does not include any variations for additional work carried out. The final fee for the 2021/22 audit has not yet been agreed as work to complete the audit remains ongoing.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we anticipate being separately engaged by the Council to carry out additional work as set out in the table below.

Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Assurance services: Housing Benefit Subsidy return	£12,000*	£10,850
Assurance services: Teachers’ Pension return	£5,000*	£4,500
Assurance services: Pooling of Housing Capital Receipts	£3,500*	£4,000

*estimated fees, subject to agreement

07

Section 07:

Our commitment to independence

Page 47

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

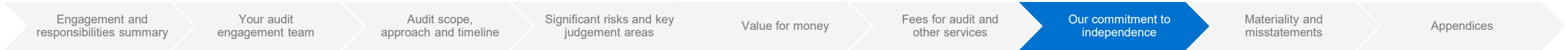
- all partners and staff are required to complete an annual independence declaration;
- new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with James Collins in the first instance.

Prior to the provision of any non-audit services James Collins will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. Principal threats to our independence and identified associated safeguards in relation to the non-audit work listed in section 6 are summarised below.

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance, Housing Capital Receipts return and Teachers' Pension return (if engaged)	Self Review	No threat identified. Neither engagement result in the auditor providing accounting services to the Council.
	Self interest	No threat identified. The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as neither engagement require the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as neither engagement require the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on previous page.
	Intimidation	No threat identified.



08

Section 08:

Materiality and misstatements

Page 49

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	14,742
Performance materiality	11,057
Specific materiality: Senior Officer remuneration (bandings table)	5
Specific materiality: Senior Officers' remuneration (10% of total)	113
Specific materiality: Exit packages (individual packages above £50k)	50
Trivial threshold for errors to be reported to the Audit and Standards Committee and the Accounts Committee	442

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

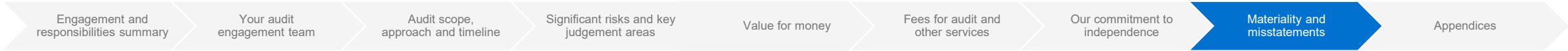
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Standards Committee and Accounts Committee.

We consider that the gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of gross expenditure. Based on the draft year end financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £14.742m (£16.771m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

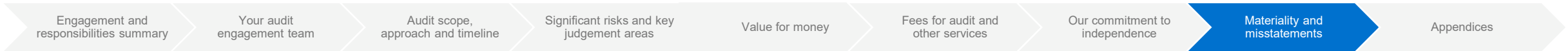
Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting toto the Audit and Standards Committee and Accounts Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.442m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with James Collins.

Reporting to the Audit and Standards Committee and Accounts Committee

The following three types of audit differences above the trivial threshold will be presented toto the Audit and Standards Committee and Accounts Committee

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

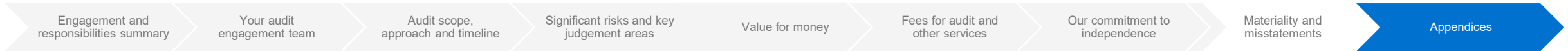
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;

- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



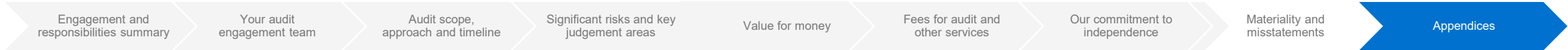
Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
<div> <div>Page 54</div> <div>With respect to misstatements:</div> <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. </div>	Audit Completion Report
<div> <div>With respect to fraud communications:</div> <ul style="list-style-type: none"> • enquiries of the Audit and Standards Committee and Accounts Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. </div>	Audit Completion Report and discussion at to the Audit and Standards Committee and Accounts Committee, Audit planning and clearance meetings

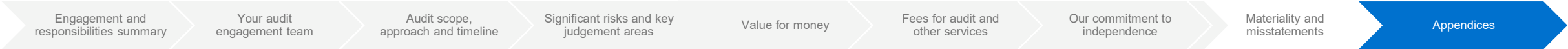
Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Standards Committee and Accounts Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Standards Committee and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit and Standards Committee and Accounts Committee may be aware of.	Audit Completion Report and Audit and Standards Committee and Accounts Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> whether the events or conditions constitute a material uncertainty; whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and the adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor’s risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council’s 2022/23 audit.

The most significant changes relevant to the Council’s audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

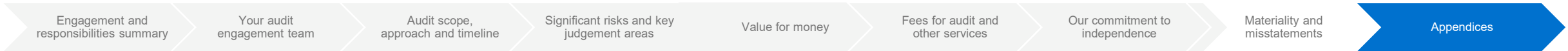
Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity’s IT environment to better understand the possible risks within an entity’s information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.



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By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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