

AUDIT AND STANDARDS COMMITTEE AGENDA

Tuesday, 26 September 2023 at 4.00 pm in the Blaydon Room

From the Chief Executive, Sheena Ramsey

Item	Business
1	Apologies for Absence
2	Minutes (Pages 3 - 6) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 20 July 2023 (attached)
3	Declarations of Interest Members of the Committee are invited to declare interests in any agenda items.
4	Oversight of Management Processes 2022/23 (Pages 7 - 20) Report of the Strategic Director, Resources and Digital
5	Annual Governance Statement 2022/23 - Internal Audit Review of Managers' Assurances (Pages 21 - 22) Report of the Strategic Director, Resources and Digital
6	Mazars External Audit Progress Report (Pages 23 - 36) Report of the Strategic Director, Resources and Digital
7	Date and time of next meeting Tuesday 31 October 2023 at 4.00 pm

This page is intentionally left blank

GATESHEAD METROPOLITAN BOROUGH COUNCIL
AUDIT AND STANDARDS COMMITTEE MEETING

Thursday, 20 July 2023

PRESENT: Councillor L Kirton (Chair)
Councillor(s): R Mullen, L Green, H Kelly, J McElroy
Mr Stuart Bell (Independent Member)

APOLOGIES: Councillor(s): Mr Ian Dormer (Independent Member)
Councillor R Beadle

ASC457 MINUTES

The minutes of the last meeting held on 20 June 2023 were approved as a correct record, with the addition that Mr Ian Dormer (Independent Member) was present at the meeting.

ASC458 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC459 ANNUAL REPORT TO CABINET AND COUNCIL 2022/23

The Committee received the annual report, which is required under its terms of reference to be submitted to Cabinet and Council.

A summary of the reports presented to the Committee over the last year was given. It was noted that at the meeting on 20 June 2023 it was concluded that the Council's system of internal control and governance framework is effective following approval of the Annual Governance Statement for 2022/23 which accompanies the Statement of Accounts.

RESOLVED - That the Committee agreed the draft report be submitted to Cabinet and Council

ASC460 CORPORATE RISK MANAGEMENT 2023/24 QUARTER 1 UPDATE

The Committee received a report on Corporate Risk Management developments during the period 1 April to 30 June 2023.

It was noted that no changes have been made to the Strategic Risk Register in the first quarter period and the Business Continuity Plans continue to be reviewed.

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.

Quarterly audit and risk reports are provided to Group Management Teams to highlight the critical activities for which services have developed continuity plans.

The Committee were also advised that the Corporate Risk and Resilience Group last met on 4 July 2023 and 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

RESOLVED - That Committee noted the report and were satisfied with the effectiveness of the Council's risk management arrangements.

ASC461 EXTERNAL AUDITOR : AUDIT STRATEGY MEMORANDUM YEAR ENDING 31 MARCH 2023

The Committee received a report advising the Committee note the external Auditor's Audit Strategy Memorandum for the year ended 31 March 2023.

The Committee were advised that 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.

The report set 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

The External Auditor's report was attached to the main report at Appendix A.

The Committee acknowledged the External Auditor's Strategy Memorandum for the year ended 31 March 2023 and that delays in the concluding of other external audits were causing delays in the sign off of Gateshead Council accounts (including Pensions) and that every effort was being made to expediate this issue and look forward to receiving an update as soon as practicable.

RESOLVED – The Committee noted the contents of the report.

ASC462 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.

ASC463 INTERNAL AUDIT PLAN 2023/24 QUARTERLY MONITORING REPORT TO 30 JUNE 2023

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2023/24 and summaries the main findings arising from audit activity throughout the period 1 April 2023 to 30 June 2023.

It was reported that 24% of the audit plan has been completed so far, in terms of hours this is on track to achieve the local performance target of completing 97.25% of actual hours against the planned hours for the full year.

A summary of the main findings arising from audit activity during the period was shown at Appendix A and a total of 30 assignments were completed during the period.

The Committee were advised that the year to date performance was as follows:-

- 95% of audits were completed within budgeted time against a target of 90%
- Productive or chargeable time was recorded at 64.1% of overall time against a quarter 1 target of 66.4% of overall time
- The average score of the customer satisfaction questionnaires returned is 3.83 out of 4, against a target of 3.4 (85%)
- The target for implementation of audit recommendations is 100% for high priority recommendations and 90% for medium priority recommendations. The current rate of implementation for both the high and medium priority recommendations is 100%. Further information was shown at Appendix C.

The Committee questioned whether any analysis of efficiency of staff working from home was available and were advised that work is currently ongoing within Corporate Management Team and the Ways of Working Group to develop the smart working agenda and findings of this will be made available once the workstream has concluded its findings.

RESOLVED – The Committee noted the contents of the report.

ASC464 DATE AND TIME OF NEXT MEETING

Tuesday 26 September 2023 at 4.00 pm in the Blaydon Room

Chair.....

Title of Report: Oversight of Management Processes 2022/23

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

Purpose of the Report

- 1 This report details how the Audit and Standards Committee exercises oversight of management processes in certain areas of governance in order to provide assurance to the external auditors.

Background

- 2 The external auditor is required by auditing standards to develop a good understanding of the Council's management processes. This is a requirement as part of their work in respect of auditing the Council's financial statements and value for money conclusion.

Oversight of Management Processes

- 3 The areas of governance under consideration, together with an explanation of how oversight is exercised by the Audit and Standards Committee is detailed in Appendix 1.

Recommendation

- 4 The Committee is asked to consider the evidence in Appendix 1 and any other areas that members have knowledge of arising from their Council duties and agree that on this basis an effective level of oversight is in place.

Contact name: Craig Oakes Ext 3711

This page is intentionally left blank

Year Ending 31 March 2023 – Oversight of Management Processes – Response to External Auditor

Question	Response
<p>1. How do you exercise oversight of management’s processes in relation to:</p> <ul style="list-style-type: none"> • Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)? 	<ul style="list-style-type: none"> • The effectiveness of controls and management of risks within key financial systems, such as general ledger, payroll, creditors and debtors, remains a core part of the Internal Audit Plan and are included in the plan annually. Key systems audits completed in 2022/23: <ul style="list-style-type: none"> ○ Local Council Tax Support Scheme and Housing Benefits – Operating Well ○ VAT Arrangements – Operating Well ○ Annual Governance Statement Assurances 2022/23 – Operating Well ○ Corporate Payroll and Human Resources Support – Satisfactory ○ Treasury Management – Satisfactory ○ Housing Revenue Account (HRA) – Operating Well ○ Main Accounting System – Operating Well ○ Corporate Debtors and Income – Satisfactory ○ Capital Accounting – Operating Well ○ Council Tax – Satisfactory ○ Budgetary Control – Operating Well

	<ul style="list-style-type: none"> ○ Business Rates – Operating Well ○ Corporate Creditors - Satisfactory ● The outcomes of these audits are reviewed by management and reported to the Internal Control Group and Audit and Standards Committee. Recommendations are responded to by management and followed up by Internal Audit. ● Appropriate segregation of duties controls in Agresso and other core systems. ● Manager’s Assurance Statements first line of defense. ● Revenue and Capital budget monitoring and reporting to Cabinet. ● Revenue monitoring detailed variance analysis. ● Multiple review processes within the closedown timetable and year-end working papers. ● Analytical review process. ● Senior management review of final accounts working papers and statement of accounts.
<ul style="list-style-type: none"> ● Identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist? 	<ul style="list-style-type: none"> ● Annual Audit Plan includes allocation for proactive fraud work and reactive investigations. ● Biannual update to Audit and Standards Committee on fraud and irregularity investigations. ● Internal audit of key financial systems. ● Service Directors Assurance Statements. ● National Fraud Initiative (NFI) data matching. ● Council Counter Fraud and Corruption Arrangements. ● Proactive approach e.g. Single Person Discount use of Datatank. ● Whistleblowing Policy.

	<ul style="list-style-type: none"> • Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group.
<ul style="list-style-type: none"> • Communicating to employees the Council's views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council's codes of conduct) 	<ul style="list-style-type: none"> • Employee induction. • Regular employee and team briefings. • Regular Management and Supervision meetings. • Employee Appraisal and Development including corporate values. • Employees' Code of Conduct (incorporated into employees' contracts of employment). • Protocol on Councillor / Officer Relations. • Intranet. • Learning Hub (source of training and development materials). • Corporate bulletins to raise awareness. • Intranet content.
<ul style="list-style-type: none"> • Communicating to those charged with governance the processes for identifying and responding to fraud or error? 	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations. • Biannual Counter Fraud Update reported to Audit and Standards Committee, October and April, including National Fraud Initiative and fraud and irregularity investigations. • Internal audit of key financial systems. • Service Directors Assurance Statements. • National Fraud Initiative (NFI) data matching. • Attendance at North East Fraud Forum.
2. How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal	<ul style="list-style-type: none"> • Annual Audit Plan includes allocation for proactive fraud work and reactive investigations.

<p>control? Are you aware of any breaches of internal control during 2022/23?</p>	<ul style="list-style-type: none"> • Biannual update to Audit and Standards Committee on fraud and irregularity investigations. • Internal audit of key financial systems. • Counter fraud is a standing agenda item at the quarterly internal control group chaired by the Strategic Director, Resources and Digital. • Service Directors Assurance Statements. • National Fraud Initiative (NFI) data matching. • Council Counter Fraud and Corruption Arrangements. • Proactive approach e.g. Single Person Discount use of Datatank. • Whistleblowing Policy. • Member of North East Fraud Forum and North East Tenancy Fraud Forum and North East Regional Investigator Officers Group. <p>Not aware of any breaches of internal control during 2022/23.</p>
<p>3. How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2022/23?</p>	<ul style="list-style-type: none"> • Contribution to and compliance with internal assurance processes i.e. <ul style="list-style-type: none"> ○ Service assurance assessment. ○ Local Code of Governance. ○ Monitoring Officer’s Assurance on the Effectiveness of Internal Control Statement 2022/23. No significant internal control issues during the financial year 2022/23 that have resulted in: <ul style="list-style-type: none"> ▪ A need to take formal reporting action; ▪ A need for a full investigation relating to a member’s conduct; ▪ Significant damage to the reputation of the Council; or ▪ An inability by the Council to meet its lawful objectives.

- Annual Governance Statement.
- Officers are required, when preparing reports, to consult the Strategic Directors of Corporate Services and Governance and Resources and Digital on the legal and financial implications of reports (Gateshead Council – Local Code of Governance – “develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based”. - Protocol 3 – Report Formats and Preparing Reports).
- Annual (at least) review of the Constitution which takes into account legislative changes.
- The Council’s Financial Regulations and Contract Procedure Rules, which are part of the Council’s Constitution, provide the framework for managing the Council’s financial affairs and procurement activity, respectively.

13.03 Functions of the Monitoring Officer

By law, the Strategic Director, Corporate Services and Governance as Monitoring Officer, will have the following responsibilities:

(a) Ensuring lawfulness and fairness of decision making

After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council or the Cabinet in relation to an executive function if he or she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to unlawfulness. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

13.04 Functions of the Chief Finance Officer

By law, the Strategic Director, Resources and Digital as Chief Finance Officer, will have the following responsibilities:

(a) Ensuring lawfulness and financial prudence of decision-making

After consulting with the Head of Paid Service and the Monitoring Officer, the Chief Finance Officer will report to the council or the executive in relation to an executive function, and the Council's external auditor, if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully.

- Legal officers fully trained in accordance with continuing professional development principles, and able to 'horizon scan' through:
 - Legal section subscribe to Westlaw UK and Practical Law, an on-line legislation and research resource including updates.
 - Legal section membership of Lawyers in Local Government, a national group (with links to the Law Society) which provides training and special interest groups along with a topical discussion forum.
 - Regular training is provided through the North East legal services framework arrangements.
 - All solicitors receive Solicitors' Gazette weekly.
- Legal officer in attendance at main meetings of the Council including Full Council, Cabinet, OSCs and statutory committees eg Planning, Licensing and Regulatory.

	<ul style="list-style-type: none"> • Government correspondence on new legislation automatically passed from Chief Executive's office to Monitoring Officer and Deputy Monitoring Officer. • Guidance issued to all Directors when new legislation requires changes to Council procedures. • Monitoring Officer and Deputy Monitoring Officer are both qualified and experienced solicitors.
3. Are you aware of any actual or potential litigation or claims that would affect the financial statements?	Legal staff provide annual (and where required ongoing) updates on litigation and claims which impact on the Contingent Liabilities statement in any given year. These are currently up to date.
4. Have you carried out a preliminary assessment of the going concern assumption and if so, have you identified any events which may cast doubt on the Council's ability to continue as a going concern?	<ul style="list-style-type: none"> • A detailed assessment of future financial risks, including the likely ongoing impact of COVID-19 on the financial position, is carried out when setting the budget and MTFS. • Included in the budget for 2023/24 is £13.521m funding from the Pandemic Reserve created in 2021/22 to manage the ongoing effect of COVID-19. • The Council have developed a three-year approach to the budget including a planned use of Budget Sustainability reserves as a consequence of the pressures identified in the longer-term approach to its strategic and financial planning in the Medium Term Financial Strategy (MTFS). The approach to the budget is a high priority and is being closely scrutinised by the Council's Corporate Management Team. • The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For this reason and the reasons set out above, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future. In addition, management are not currently aware of any significant information that is available for

	the period beyond 2026/27 that would indicate a contrary conclusion.
Appendix 1 Questions in relation to fraud:	Response
1. Are you aware of any instances of actual, suspected or alleged fraud within the Council during the period 1 April 2022 – 31 March 2023?	<p>Yes, 126 external fraud referrals were received by the Corporate Fraud Team during 2022/23. Of the 126 allegations, 43 were closed and for the most part they were of a trivial nature or unproven. A further 36 referrals were rejected because either the allegation could be disregarded following internal checks or due to inadequate information provided. Seven cases are ongoing and still under investigation. The remaining cases were unallocated at the year end.</p> <p>In addition, 16 internal referrals were received. Three investigations resulted in dismissal for misuse of procurement cards, with recovery action ongoing. One further action confirmed the reported irregularity however the employees concerned had left employment before the investigation had concluded. The remaining 12 referrals concluded no fraud.</p> <p>Further details are provided in biannual reports to the Audit and Standards Committee.</p>
2. Do you suspect fraud may be occurring within the Council?	<p>Whilst we cannot provide 100% assurance that fraud is not occurring within the Council or within the group entity all reasonable steps and controls are in place, reviewed and any suspicions investigated to reduce the risk of any fraudulent activity.</p>
<ul style="list-style-type: none"> Have you identified any specific fraud risks within the Council? 	<p>The counter fraud and corruption strategy for local government 'Fighting Fraud and Corruption Locally' identifies nationally those areas that are at a high risk of fraud and this has formed the basis of the proactive fraud work allocated within the audit plan. These areas</p>

<ul style="list-style-type: none"> Do you have any concerns that there are areas within the Council that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur? 	<p>include council tax discounts and exemptions; council tax benefits; non-domestic rates relief; social housing Right to Buy (RTB), blue badge scheme misuse; procurement fraud; tenancy fraud (domestic and commercial); employee corporate fraud; direct payments and insurance fraud. At this point no specific fraud risks have been identified.</p> <p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance as well as segregation of duties controls. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan. At this time there are no concerns about specific areas.</p> <p>At this time there are no particular locations where fraud is more likely to occur.</p>
<p>3. Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> What other controls are in place to help prevent, deter or detect fraud? 	<p>Yes, controls in place include e.g.</p> <ul style="list-style-type: none"> Internal Audit assurance, in particular annual key systems audits. Service Directors Assurance Statement. Functionality of systems, including Agresso and online banking. <p>Counter Fraud Arrangements, including the Counter Fraud and Corruption Strategy and Policy, and Fraud Response Plan, Council's Whistleblowing Policy, Financial Regulations and Financial Procedures, prosecution and sanction of offenders.</p>

<p>4. How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>Employees are made aware of their roles and responsibilities in relation to Counter Fraud and Corruption by way of directed communications to emphasise both their role in preventing fraud and their responsibilities for reporting suspected fraud, along with options available to report concerns. The Council's Counter Fraud Arrangements, including Counter Fraud and Corruption Strategy and Policy and the Fraud Response Plan are available to all employees via the intranet. Link to documents referred to in these are also on the Council website and Intranet, including the Council's Whistleblowing Policy, reference to the fraud reporting email address fraudreporting@gateshead.gov.uk, the online fraud referral form and telephone hotline.</p> <p>Employees are expected to report any concerns regarding suspected fraud, details of which are provided in the relevant employee guidance regarding counter fraud and corruption. Specific policies include:</p> <ul style="list-style-type: none"> • Whistleblowing Policy • Code of Conduct • Counter Fraud and Corruption Policy • Statement on Prevention of Bribery
<p>5. From a fraud and corruption perspective, what are considered to be high risk posts within the Council?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>We are aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and are consequently covered by fidelity guarantee insurance. Internal audit also provides assurance from planned work around key financial systems and the counter fraud plan.</p> <p>The relative risk of each post is reflected in the audit risk assessments for the relevant activity area.</p>

<p>6. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>No, see signed declarations and Related Party Transaction note in Statement of Accounts (by exception) and working papers.</p> <p>All Members and Senior Officers complete related parties disclosures annually. Register of Interests. Internal Audit declarations of Independence.</p>
<p>7. Are you aware of any entries made in the accounting records of the Council that you believe, or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances in the accounts where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the Council or group entities? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors which are high risk of fraud? 	<p>Given the size and complexity of transactions reflected in the Council accounting records there is always the potential for error or false accounting that could escape detection. However, internal controls and assurance on their effectiveness provides reasonable, but not absolute, assurance that any such error would not be material.</p> <p>Yes, those areas highlighted in the CIPFA Counter Fraud and Corruption Tracker.</p> <p>No. Items are only excluded on the grounds of materiality. Reliance on third party data e.g. Actuarial calculations for pensions.</p> <p>All reasonable checks are put in place to prevent a false accounting entry and to aid detection of any e.g. monthly budget monitoring.</p> <p>Yes, however internal controls such as employee awareness and segregation of duties reduce the risk of a fraudulent activity succeeding. NFI data matches investigated and proactive approach in respect of Single Person Discount using Datatank.</p>

<p>8. Are you aware of any organisational or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>All Services are expected to manage their budgets and performance targets within the challenging financial environment whilst continuing to maintain high standards of service delivery with reduced resources.</p> <p>No</p>
<p>9. What arrangements has the Council put in place in response to the Bribery Act 2010?</p>	<p>Employee counter fraud and corruption guidance reflects the Bribery Act 2010, this is made available to all employees via the intranet.</p>

**Title of Report: Annual Governance Statement 2022/23 – Internal Audit
Review of Managers’ Assurances**

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

Purpose of the Report

- 1 The report informs the Committee of the outcome of the work by the Internal Audit and Risk Service in reviewing the assurances provided by Service Directors to inform the 2022/23 Annual Governance Statement.

Background

- 2 The Accounts and Audit Regulations 2015 require an Authority to produce an Annual Governance Statement setting out its governance arrangements and reviewing their effectiveness.
- 3 The Audit and Standards Committee agreed on 7 March 2023 an assurance framework which would provide evidence for the completion of the 2022/23 Annual Governance Statement. Assurances from managers on the effectiveness of controls they have in place were a fundamental part of this framework.
- 4 Service Directors were asked to build on the work carried out in previous years and complete a self-assessment assurance statement detailing the level of assurance they felt they could place on their key control and governance processes. They were required to state whether they agreed or disagreed that the processes they had in place provided an effective level of assurance. There was also a requirement to detail the evidence to support this assessment. Internal Audit undertake an annual review of the assurance statements to ensure:
 - Where key controls are not providing a sufficient level of assurance action has been taken to address these areas; and
 - Where key controls are providing a good level of assurance, evidence exists to support this assessment.
- 5 The 2022/23 Annual Governance Statement audit was carried out using a theme-based approach across the Council. All Service Directors were required to provide evidence to support their declarations made on the Assurance Statement in response to the following questions:

- A clear up to date business plan is in place which demonstrates alignment to the Council's strategic priorities; and
- Management and staffing structures are clearly defined and responsibilities including job descriptions are clearly established. There is a competent and adequately trained workforce to deliver the objectives and priorities of the Service.

Review Outcomes

- 6 The audit concluded that systems and controls were operating well and no recommendations have been made.
- 7 The overall conclusion of this work is that the systems and processes for the completion of the Managers' Assurance Statements are effective and that they provided a good level of assurance for the 2022/23 Annual Governance Statement.

Recommendation

- 8 The Committee is asked to note the report.

Title of Report: Audit Progress Report Year Ended 31 March 2023

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

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the progress and current findings of the audit of Gateshead's Statement of Accounts 2022/23 by the Council's external auditor Mazars.

Background

- 2 This report outlines:
 - Audit Progress
 - Areas outstanding.
- 3 The report is attached in Appendix A.

Recommendation

- 4 The Committee is requested to note the contents of the external auditor's progress report.

Contact name: Darren Collins Ext - 3582
--

This page is intentionally left blank

Audit Progress Report

Gateshead Metropolitan Borough Council

Audit and Standards Committee
September 2023

Page 25



1. Audit Progress
2. Status of the audit
3. Value for Money

Page 26

01

Section 01: **Audit Progress**

1. Audit progress

Purpose of this report

This report provides the Audit and Standards Committee with an update on progress in delivering our responsibilities as your external auditors. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2021/22 Audit

This progress report provides an update to the position set out in our April progress report.

We have previously updated the Audit and Standards Committee that following the resolution of the issues that had arisen in relation infrastructure (the Council adopted the statutory override and updated the disclosures in its 2021/22 financial statements in relation to infrastructure, and we completed our audit testing of that), a further national issue had arisen.

The issue related to the impact of the delay in 2021/22 audit work, initially caused by the infrastructure issue, and then exacerbated in the Council's case by a delay in receiving the Pension Fund Auditor Assurance letter. This meant that the triennial revaluation of the Tyne and Wear Pension Fund as at 31 March 2022 was available with more up-to-date information for management to reflect in the 2021/22 draft financial statements. The way forward was agreed that:

- Authorities (including the Council) would obtain updated IAS19 valuation reports and, where material, amend the 2021/22 financial statements for the new figures; and
- Pension Fund auditors were requested to complete testing on the reliability and accuracy of the updated pension fund membership data.

The Pension Fund auditor indicated they would be able to provide us with the results of their testing in September 2023. However, the results of their testing has produced some additional follow up questions that we have raised with the Pension Fund auditor. We are liaising with them to resolve these queries as quickly as possible to ensure we can issue our audit opinion for the 21/22 accounts. We will report our formal findings, as in previous years, in a follow-up letter to our Audit Completion Report.

It is important to note that in relation to the 2021/22 audit of the financial statements we still anticipate issuing an unqualified audit opinion.

1. Audit progress

Whole of government accounts (WGA)

When we have issued the 2021/22 audit opinion, we will also be able to report to NAO on the WGA. However, we anticipate a delay in issuing the 2021/22 audit certificate, as we wait for confirmation if the Council has been selected by the NAO as a sampled component. If it is selected it will require additional work in relation to WGA.

2022/23 Audit

Our Audit Strategy Memorandum for the 2022/23 audit was presented to the Audit and Standards Committee on 20 July 2023.

Audit work on the 2022/23 financial statements is currently underway. Following receipt of the draft 2022/23 financial statements and from the work carried out on the audit so far, there are no new significant risks to highlight to the Committee for 2022/23 and no new independence issues we are required to report to you, noting that our risk assessment is continuous, right up until when the auditor's opinion is given.

We are aiming to substantially complete our audit work in relation to the 2022/23 audit by the end of September 2023. However, as for the 2021/22 audit, we are anticipating delays in receiving the Pension Fund assurance. We anticipate bringing our Audit Completion Report to the October 2023 Audit and Standards Committee meeting.

The following section of this report provides an update on the status of our audit work on the 2022/23 financial statements.








02

Section 02:

Status of the audit






2. Status of the audit


Our work on 2022/23 is currently ongoing, however we note that there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below. Note some areas are still subject to final quality review.


Audit area	Status	Description of the outstanding matters and findings so far	
Income and Expenditure, including payroll		Our work is substantially complete in this area, subject to a few minor follow up queries that are outstanding with Council Officers.	 Likely to result in material adjustment or significant change to disclosures within the financial statements.
Property, plant and equipment		Our work is substantially complete in this area, subject to some further queries regarding PPE Valuations, specifically with regards to council dwellings. With regards to the Council's shared waste PFI facility, our audit work has highlighted that the Council has not had the asset revalued in year. Per discussion with Council officers, they liaised with their Valuers (Hilco) who confirmed that there has been no significant movements in asset values between the previous valuation date of 31 March 2022 and the year-end date of 31 March 2023 and therefore no revaluation was necessary. To assess the accuracy and reasonableness of the assumption made by the Council's valuer, we engaged our own internal valuation expert to provide high level commentary. No issues were identified from their review, and we have concluded that the judgement not to revalue the asset does not indicate a material misstatement.	 Potential to result in material adjustment or significant change to disclosures within the financial statements.
Investments		Work is currently ongoing with relation to the valuation of airport shares.	 Not considered likely to result in material adjustment or change to disclosures within the financial statements.
Debtors and Creditors		Our sample testing of debtors and creditors is ongoing, and we are liaising with officers to obtain the required supporting evidence to complete our work. As in previous years, we are anticipating reporting an issue regarding a non-material debtor balance with a partner that is no longer a valid debtor (raised in both 2020/21 and 2021/22 audits). Per discussion with officers, a resolution to this issue was not achieved during 2022/23 however work is ongoing and is expected to be resolved during 2023/24.	


Page 31

2. Status of the audit

Audit area	JG22	Status	Description of the outstanding matters and findings so far
Pensions			Due to an ongoing pensions issue in the prior year, we have not yet completed our work on pensions. A further update will be provided once the 21/22 audit has been completed and assurance has been obtained from the Pension Fund auditor for the 22/23 audit.
PFI			Review and consideration of the accounting for PFI assets, including review of the model and the accounting entries made in the accounts.
Provisions and Contingencies			We have outstanding queries with officers relating to the inclusion of provisions. We note that a number of errors were identified as a result of our audit testing in the prior year, and our initial review has indicated that similar judgements have been made by management relating to the inclusion of some provisions in 22/23. Therefore, we anticipate that there may be findings to report once we have completed our testing.
Other			Completion of various other work including but not limited to: <ul style="list-style-type: none"> - Testing of heritage assets; - Completion of substantive testing of leases; and - Completion of work on Collection Fund.
Financial Statements – closing procedures			Review and closure processes, including checking the amended version of the financial statements, obtaining a final journals report and consideration of any post balance sheet events. Review procedures also remain on-going, namely: <ul style="list-style-type: none"> – engagement Quality Review: required due to the size of the Council; and – review of the final revised accounts by our central technical team.

 Likely to result in material adjustment or significant change to disclosures within the financial statements.

 Potential to result in material adjustment or significant change to disclosures within the financial statements.

 Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:
Value for Money

3. 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.

We undertake our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility is 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:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
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: <ul style="list-style-type: none">• 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; and• 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: <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

3. Value for money

Value for Money arrangements

We are not able to report on value for money until we have issued our audit opinion.

Although work remains ongoing on value for money up until the point of reporting, our work completed to-date has not identified any significant risk of a weaknesses or recommendations in relation to our reporting criteria of financial sustainability, governance and improving economy, efficiency and effectiveness.

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 procedures.

We plan to report on value for money through our Auditor's Annual Report as soon as possible after our audit opinions for both 2021/22 and 2022/23 have been issued.

Mazars

Director: James Collins

Email: james.collins@mazars.co.uk

Manager: Joanne Greener

Email: joanne.greener@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

www.mazars.com

Follow us:

LinkedIn:

www.linkedin.com/company/Mazars

Twitter:

www.twitter.com/MazarsGroup

Facebook:

www.facebook.com/MazarsGroup

Instagram:

www.instagram.com/MazarsGroup

WeChat:

ID: Mazars