

## **AUDIT PANEL**

**14 March 2023**

**Commenced:** 14:00

**Terminated:** 14:50

**Present:** Councillors Naylor (Chair), M Smith (Deputy Chair), Bray and Billington

**In Attendance:**

Sandra Stewart	Chief Executive
Stuart Fair	Interim Director of Finance
Caroline Barlow	Assistant Director of Finance
Martin Nixon	Risk, Insurance and Information Governance Manager

**Apologies for Absence:** Councillors L Boyle, Kitchen and Ryan

### **20. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **21. MINUTES**

The minutes of the Audit Panel meeting on the 22 November 2022 were approved as a correct record.

### **22. STAR PROCUREMENT UPDATE**

Consideration was given to a report of the Director of STAR Procurement. The report provided an update on the work of STAR Procurement.

The Panel were advised that in 21/22 STAR undertook 109 procurements for Tameside Council. These consisted of:

- 21 Above Threshold Tenders (Above the Public Procurement Regulation Value Thresholds for Goods and Services £213,477K and for Works £5,336,937)
- 22 Call off from a Framework/direct award (These are compliant routes to market)
- 12 Exemptions/Modifications, this was where a Tameside officer wished to utilise the Council's Constitution rules (CPRs - Contract Procedure Rules) to directly award/extend a contract without competition, exemptions must be approved by Tameside legal team 54 Below Threshold Tenders/Risk based sourcing (RBS)

It was reported that utilising spend data from Tameside's finance system, STAR reviewed all spends against the STAR contract register; if the spend/supplier was on the contract register, the spend was marked as compliant spend. The spend 'off contract' was audited to work with budget holders/commissioners to ensure compliance was secured. This was a rolling programme and the position wasn't ever static. In regards to Tameside's Performance on Compliance the Panel were advised that:

- 21/22 Tameside Council had 91.6% of 3<sup>rd</sup> party spend on the contract register, which was deemed as high compliance.
- Average over 4 years 89%
- Compliance in 18/19 stated at 81% when Tameside joined STAR.
- Compliance was robust at 91.6% and following the reporting of this position STAR do review the non-compliance activity to seek a complaint solution. This was a 'moving picture' as we are continually cleansing this position.
- STAR had zero legal challenges for any of the four STAR partners.

The Panel were advised that as part of working as a shared service STAR strived to collaborate where possible. The performance on collaboration was recorded where one or more of the STAR partners participates in a collaborative procurement led by STAR or where they participate in a GM regional collaborative procurement. The report detailed examples of where this was a challenge and possible solutions/actions.

STAR had a Continuous Improvement (CI) group which had representatives from each of the four STAR partners. This helped STAR to drive improvement and challenge process and practice. This was reported quarterly to STAR Board and Joint Committee. STAR were reviewing performance measures on Efficiencies and ROI with STAR Board and STAR Joint Committee. The Continuous Improvement (CI) group had been involved in developing new performance measures. Current projects within STAR and the CI Group:

- National Procurement Policy Strategy (NPPS) and how STAR and its partners work towards the requirements
- New Public Contract Regulations/Procurement Bill preparation for implementation
- Intend system development

In regards to continuous improvement for STAR and Tameside, STAR had a working group with representatives from Tameside Assistant Directors' Delivery Group to review and develop areas of concern – Areas under discussion were roles and responsibilities between STAR, Tameside and STAR Legal, timelines management to ensure procurement was efficient, Social Value improvement in terms of contract management and capturing impact from delivery. The report detailed examples of processes and procedure reviews and training sessions across Tameside Council.

It was explained that STAR regularly attended Assistant Director Delivery Group (ADDG) to share pipeline planning and collaborative opportunities (contracts due to expire), discuss any changes to STAR and National Procurement updates from the Local Government Association (LGA) and Regionally from GM Heads of Procurement. For example, preparing for the new Procurement Bill, National Procurement Policy Statement, market pressures/Global Crisis, supplier risks and general updates.

It was further explained that STAR recognised that their processes were somewhat onerous for low-risk activity, and were undertaking an end-to-end review to assess their processes, practices, forms, and approaches in order to reduce the process further to allow a more efficient service to our clients. This also linked to changes in Public Procurement ahead of the new Procurement Bill. This also played into process automation where they hoped to have a more automated case management system and documents to be online/live to reduce email exchanges etc.

It was reported that STAR worked closely with the four Chief Auditors across the four STAR partner organisations, this relationship was strong. STAR planned a procurement joint audit programme annually to not duplicate effort and to share findings, so they all learned from their own organisation and shared with each other. Examples of planned audits were contract extensions; risk-based sourcing; delivery of social value and fees and charges (income activity).

The Contract Procedure Rules clearly set out the circumstances in which an exemption or modification could apply. Exemptions and modifications were monitored and recorded by STAR and procurement comments were provided as part of the process. The approvals for exemptions and modifications are the responsibility of each Council. Exemptions could be a useful tool for procurement, particularly when needing to align contracts for collaborative procurement.

In regards to performance, STAR reported to STAR Board and STAR Joint Committee quarterly on the collective performance for STAR as a shared service. This performance was also broken down into each individual STAR organisation and this was now being shared with the STAR Board representative from each organisation. The report also included a summary of 21/22 performance for Tameside Council attached at Appendix 1.

It was reported that STAR collated efficiencies quarterly which were ratified by the Council finance teams. This was calculated in general from the budget against the new contract price. This was

consistent with most other methods of calculation of savings/efficiencies such as AGMA/GM Procurement Hub and other GM Authorities. Any decision to remove such efficiencies from budgets remains with the Authority that owned the contract. STAR did split this into capital, revenue, cost avoidance when reporting to STAR Board and Joint Committee to allow clarity that not all efficiencies could be removed from budgets.

The Panel were advised that Social value had always featured in procurement but from April 2019 STAR launched the use of the Social Value Portal (SVP) to capture and report on social value secured. STAR had also identified that on average per annum STAR do have 20% (15% over threshold) weighting in all procurement above contract value £25K. To date STAR had captured social value from the winning bidder at the point of contract award. STAR do intend moving to reporting on 'delivered' social value, this would be in place from April 2023. This would be part of a rollout programme to identify and support areas for improvement in social value contract management within Council departments and would also allow STAR to identify any non-delivery risk. STAR did have some examples of contractors/suppliers over performing and delivering even more than secured at contract award stage. The report set out key performance statistics:

- In 21/22 it was reported that there was a social value of 25% had been accumulated as a % of contract value over 3 years, this met STARs target.
- Social value was at 19.5% in 19/20 after joining STAR and the first year that this measurement was captured for Tameside.
- Social value was embedded into all procurement above £25K and recorded via the Social Value Portal for activity over £50K for Tameside.

Members discussed the statistics on the report on compliance, a compliance of 91.6% in 2021/22 and an average of 89% over the last 4 years and expressed the importance that the Council continued to increase their compliance level. It was noted that the compliance was robust at 91.6%

#### **RESOLEVED**

**That the report be noted.**

### **23. CIPFA AUDIT COMMITTEE GUIDANCE**

Consideration was given to a report of the Interim Director of Finance / Interim Head of Risk Management and Audit Services. The report advised members of the publication produced by CIPFA outlined their practical guidance for the operation of Audit Committees.

The Panel were advised that the Audit committees provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. This gave greater confidence to all those charged with governance that those arrangements were effective. The Chartered Institute of Public Finance and Accountancy (CIPFA) expected that the Audit Panel should make their best efforts to adopt the principles laid out in the their guidance attached at Appendix 1 - 5. This would enable the panel to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The report detailed the responsibilities of the Audit Panel as outlined by CIPFA. The Chief Executive reported that as recommended by CIPA that the Panel include at least two co-opted independent members, that two independent members had been appointed to the Audit Panel for the 2023/24 Municipal year.

#### **RESOLVED**

**That the contents of the report be noted.**

### **24. EXTERNAL AUDIT PROGRESS REPORT**

Consideration was given to a report which updated the Panel on the work undertaken by the External Auditors Mazars.

The audit of the 2020/21 financial statements was substantially complete. Finalisation of the audit was subject to the resolution of a small number of queries in relation to infrastructure assets and pension liabilities. As reported at previous meetings.

The Panel were provided an update as to the national, technical accounting issue in relation to the accounting for infrastructure assets as reported at previous meetings. It was reported that since the last meeting of the Audit Panel the Department for Levelling Up, Housing and Communities (DLUHC) issued a statutory override, which provided a temporary solution up to the 2024/25 financial year. CIPFA released updated guidance based on the statutory override on 11 January 2023. The Council's finance team had reviewed the updated guidance and had updated the financial statements for the new guidance. Mazars were in the process of completing the audit procedures on this area.

It was explained that the auditor of GMPF had given notice of a potential issue in respect of the valuation of level 3 investments. Until this area is finalised Mazars were unable to determine the impact on the Council's accounts.

In regards to national publications, the FRC Major Local Audit Inspection Report was published in October 2022. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. Overall, the FRC found that the number of audits categorised as good or limited improvements required had remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable. For Mazars, the FRC found that all 3 2021.22 files reviewed met the expected standards.

The guide Insourcing in the Public Sector: A Practical Guide (2022 edition), published in December 2022 was an information source for public bodies to help widen their understanding of insourcing and support internal discussion on whether services should be brought back in-house and, if so, how they should be brought back in.

The report detailed the CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution published in January 2023. The CIPFA Bulletin 12 –Accounting for Infrastructure Assets – Temporary Solution covered the issues to be considered regarding the temporary solution for the accounting and reporting issued relating to infrastructure assets.

## **RESOLVED**

**That the report be noted.**

## **25. GMPF EXTERNAL AUDIT STRATEGY MEMORANDUM**

Consideration was given to a report of the external auditors Mazars which summarised the planned audit approach of the external audit for the Greater Manchester Pension Fund (GMPF), highlighting significant audit risks and areas of key judgements for the accounts. The document also set out the key communications during the course of the audit.

Karen Murray, Audit Partner of Mazars highlighted the significant risks and other key judgements. It was explained that following the risk assessment approach detailed in the report, that Mazars had identified relevant risks to the audit of financial statements.

Management override of controls, this was a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation were in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepared 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 was a risk of material misstatement due to fraud on all audits. The planned response to address this risk was by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Valuation of investments within level 3 of the fair value hierarchy. As at 31 March 2022, the fair value of investments within level 3 of the fair value hierarchy was £7.6bn, which accounted for approximately 25 per cent of net investment assets. Level 3 assets were those assets whose value was based on unobservable inputs, and consequently the estimation uncertainty for these assets was more significant than for assets valued at level 1 and 2. It was explained that in response Mazars audit procedures would include

- Obtaining an understanding of the skills, experience and qualifications of any external valuers used by the Pension Fund, and considering the appropriateness of the Pension Fund's instructions to those valuers.
- Obtaining an understanding of the basis of valuation applied in the year.
- Agreeing the valuation of a sample of investments to supporting documentation including investment manager valuation statements and cash flow adjustments; and
- Agreeing the valuation of a sample of investments to audited financial statements or other independent supporting documentation.
- Obtaining assurance from our Mazars property valuation expert on the appropriateness of the methodology and assumptions adopted by the Pension Fund's investment property valuer.
- Sample testing the completeness and accuracy of underlying investment property data used by the valuer as part of their valuations.

## **RESOLVED**

**That the contents of the External Audit Strategy memorandum for GMPF be noted**

## **26. TREASURY MANAGEMENT STRATEGY 2023/24**

Consideration was given to a report of the Interim Director of Finance. The report detailed the Treasury Management Strategy as agreed by Council on the 28 February 2023.

The Panel were advised that the Treasury Management service was an important part of the overall financial management of the Council's affairs. At 31 March 2022 the Council had £144m of investments which needed to be safeguarded and £140m of long term debt, which had been accrued over the years to help to fund the Council's capital investment programmes. The significant size of these amounts required careful management to ensure that the Council met its balanced budget requirement under the Local Government Finance Act 1992. Generating good value for money was therefore essential, in terms of both minimising the cost of borrowing and maximising the return on investments.

Under the Local Government Act 2003, the Department for Communities and Local Government issued in March 2010 revised "Guidance on Local Government Investments". The 2003 Act requires an authority "to have regard" to this guidance. Part of this guidance was that "A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which could vary at any time. The strategy and any variations were to be approved by the full Council and were to be made available to the public." This strategy was set out in attached Appendix 1.

A revised edition of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice was produced in December 2021. The guidance arising from this Code had been incorporated within this report.

The Treasury Management Strategy also set out the estimated borrowing requirement for the Council together with the strategy to be employed in managing the debt position.

## **RESOLVED**

**That Treasury Management Strategy for 2022/23 be noted.**

### **27. AUDIT PANEL FORWARD PLAN**

Consideration was given to a report of the Interim Director of Finance / Assistant Director of Finance. The report set out the updated forward plan and training programme for the Audit Panel for 2023/24.

To assist the Audit Panel with delivering its terms of reference, officers had prepared the updated work plan for 2023/24, which set out the areas that should be considered by the Audit Panel. The work plan outlined in Appendix 2 had been updated. The dates for 2023 were provisional and could need to be amended.

## **RESOLVED**

**That the Audit Panel:**

- (i) Approve the updated work programme and training set out in Appendix 2**
- (ii) Note the core functions outlined in Section 2 of the report and the updated CIPFA Position Statement: Audit Committees in Local Authorities an Police 2022.**

### **28. RISK MANAGEMENT AND AUDIT SERVICES PROGRESS REPORT TO DECEMBER 2022**

Consideration was given to a report of the Interim Head of Risk Management and Audit Services. The report advised members of the work undertaken by the Risk Management and Audit Service from October 2022 to December 2022.

The report provided a summary of the Audit Plan 2022/23 and the details of the Approved Plan Days and the Revised Plan and the Actual Days delivered to December 2022. The attached Appendix 1 provided a detailed breakdown for each service area and also the status of the audits and the level of assurance given for each Audit report issued.

In the period October to December 2022, 9 Final Reports were issued, of which one of the reports was a control report and one was a consultancy report. Of the 7 reports given a level assurance, one received a high level of assurance, 4 received medium and 2 low.

In addition to the Final Reports issued above, 5 Draft Reports had been issued for management review and responses and these would be reported to the Panel in due course.

In regards to irregularities/counter fraud work, There were no new investigation case in the period October to December 2022, but there were 4 new assistance cases. The team received the latest NFI matches back from the Cabinet Office at the end of January 2023. Details would be reported to the next meeting of the Audit Panel.

## **RESOLVED**

**That members note the report and the performance of the Service Unit from October 2022 to December 2022.**

### **29. INTERNAL AUDIT PLAN 2023/24**

Consideration was given to a report of the Interim Head of Risk Management and Audit Services. The report presented the planned work for the Risk Management and Audit Service for 2023/24. The report summarised the Annual Audit Plan for 2023/24 and totalled 1,489 days, 1,075 on planned work and 414 days on counter fraud work/investigations. The Annual Audit Plan of 1,489 Days had been balanced to resources available. However, productive days were estimated and any

changes to the assumptions used would be reflected during the year and reported to the Audit Panel and the Greater Manchester Pension Fund Local Board. The service currently had a Senior Auditor vacancy and an assumption had been made that there would be someone in post by August. Also one of the new Auditors had a Term Time only contract which reduced the number of productive days available.

When the resources available were compared to the list of audits produced from Galileo, the plan was produced and comprises Mandatory and High Risk Audits as defined below:-

- Mandatory – Audits/Audit Processes that need to be included this year e.g. grant certification work.
- High/Medium/Low – Each audit in the 'Audit Universe' is risk assessed within the Audit Management System 'Galileo' and allocated a numerical score. Those with the highest scores are included in the plan until all available resources have been accounted for.

The detailed Annual Audit Plan for 2023/24 is included at Appendix 1

It was explained that in order to comply with the Public Sector Internal Audit Standards it was necessary for the Audit Panel to approve the Internal Audit Strategy attached at Appendix 2 and the Internal Audit Charter attached at Appendix 3 annually.

It was required that the Chief Internal Auditor develop and maintain a quality assurance and improvement programme that covered all aspects of internal audit activity under Standard 1300 of the Public Sector Internal Audit Standards. The Quality Assurance and Improvement Programme was attached at Appendix 4.

## **RESOLVED**

**That the Audit Panel:**

- Approve the Draft Internal Audit Plan for 2023/24 shown at Appendix 1**
- Approve the Audit Strategy for 2023/24 shown at Appendix 2.**
- Approve the Audit Charter for 2023/24 shown at Appendix 3.**
- Approve the Quality Assurance and Improvement Programme for 2023/24 shown at Appendix 4.**

## **30. NFI ANNUAL REPORT 2022**

Consideration was given to a report of the Interim Director of Finance / Interim Head of Risk Management and Audit Services. The report advised members of the report produced by the National Fraud Initiative and summarised the findings from the 2020/22 exercise.

The NFI report 2022, was attached at Appendix 1 and stated that fraud was a long-standing threat to public services estimated to account for 40% of all crime committed across the UK. In addition, fraudsters took advantage of the emergency funding during the coronavirus (COVID-19) pandemic, attacking schemes designed to deliver support to many taxpayers and businesses who needed it.

The NFI had enabled participating organisations within the UK to prevent and detected £443 million fraud and error in the period April 2020 to March 2022. This brought cumulative outcomes for NFI participants to £2.4 billion.

The total amount of detected fraud, overpayments and errors in England was shown in the report, for both the 2018-2020 exercise and the 2020-2022 exercise. There had been an increase between the two periods of 93%, notably Pension Fraud increased by 350%, mainly in respect of mortality screening matches. The top four categories of detected fraud being Pensions, Council Tax, Housing Benefit and Blue Badges.

The report provided key messages in relation to each of the risk areas and features case studies demonstrating how Councils had used the data matches successfully. The NFI introduced new data

sets and matches and these were usually piloted first to understand the data and the outcomes. One of these pilots taking place in Tameside received a match showing that a business had been claiming Small Business Grant Funds from multiple councils despite not being entitled to them. Over £40,000 would be reclaimed from the business as a result of this.

**RESOLVED**

**That the report be noted.**

**31. CORPORATE RISK REGISTER UPDATE MARCH 2023**

Consideration was given to a report of the Interim Director of Finance / Risk, Insurance and Information Governance Manager. The report presented the revised and updated Corporate Risk Register for comment, challenge and approval. The report was presented to the Senior Leadership Team on 28 February 2023.

The Corporate Risk Register was attached at Appendix 1. It detailed the risk scores evaluated both in November 2022 and February 2023. Risk owners (responsible Assistant Directors or Service Unit Managers) had assisted the Risk, Insurance and Information Governance Manager to review the Corporate Risks they had responsibility for. Review comments had been added to the risk register under Appendix 1 alongside each risk.

The Panel were advised that risk scores across the whole register had remained consistent with the position in November 2022. There were still Red risks in respect of Risk 1 (Medium Term Financial Plan) where Finance were working with Services to mitigate a forecast budget overspend, Risk 5 (Protection to Vulnerable Children) where a recent Ofsted review had checked on progress with improvement plans, and Risk 26 (Cost of Living Crisis) where the multiple impacts of rising budget costs and increasing public service demand must be managed.

It was explained that Risks 25 (Recruitment issues) and 26 (Cost of Living Crisis) were considered as having effect on all Council services. Therefore review comments had been prepared following consultation with all Service areas

The residual score for Risk 8 (Negative impact of Coronavirus on health and wellbeing objectives) had reduced, this now regarded as an Amber category risk. A reduced prevalence of infection had reduced the risk likelihood. There remained indirect impact due to the disruption caused by previous lockdowns and there had been an infection surge over the autumn/winter period.

**RESOLVED**

**That the Corporate Risk Register attached at Appendix 1 be approved.**

**32. URGENT ITEMS**

There were no urgent items.

**CHAIR**