

## AUDIT PANEL

1 August 2023

**Commenced:** 14:00

**Terminated:** 15:50hrs

**Present:**

Councillors Naylor (Chair), M Smith (Deputy Chair) and W Bray

Ian Duncan and Stuart Fair (Independent Members)

**In Attendance:**

Sandra Stewart	Chief Executive
Ashley Hughes	Director of Resources
Gemma McNamara	Interim Assistant Director of Finance
Paddy Dowdall	Assistant Director, Local Investment and Property
Rebecca Neill	Interim Head of Audit
Stuart Munro	Finance Manager
Karen Murray	Mazars
Daniel Watson	Mazars

**Apologies for Absence:** Councillors Billington, Boyle, Kitchen, Fitzpatrick and McLaren

### 1. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 2. MINUTES

The minutes of the Audit Panel meeting on the 14 March 2023 were approved as a correct record.

### 3. AUDIT COMPLETION REPORT 2020-21

Consideration was given to a report of the external auditors Mazars, which summarised the approach, planning and findings relating to the audit of the 2020-21 Statement of Accounts for both Tameside MBC and the Greater Manchester Pension Fund (GMPF).

It was reported that Mazars had substantially completed their audit in respect of the financial statements for the year ended 31 March 2021 and it was advised that Mazars would complete their review of the financial statements upon receipt of the signed version of the accounts and letter of representation.

It was explained that draft accounts were received from the Council on 19 July 2021. Mazars advised that the initial review of the Statement of Accounts identified a number of technical and disclosure changes needed to ensure compliance with the 2020/21 Code of Practice. Mazars had reviewed the Council's accounting policies and disclosures in the revised Statement of Accounts and concluded that they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances. Mazars thanked the Finance team at Tameside for their co-operation in their response to audit queries and actions taken with findings.

Mazars explained that the Council's accounts contained material balances and disclosures relating to its holding of property, plant and equipment ("PPE") including investment properties, with the majority of property assets required to be carried at valuation. Mazars identified errors in the inputs used in the valuer's calculations. The finance team had worked with estates and the valuer to resolve the discrepancies. In addition, the work carried out by Mazars' valuations team identified differences between the land values used by the valuer and available comparable data. The Council obtained revised valuations from the valuer to rectify these issues. The Panel questioned whether the Estates

team had the resources to conduct their business and the Director of Resources assured Members that they had worked with Estates on the quality of valuations going forward.

In regards to the 2020/21 Value for Money work arrangements, Mazars' 2020/21 audit highlighted the poor quality of the draft Statement of Accounts submitted for audit with significant difficulties being encountered during the audit process which lead to delays. It was advised that Mazars had reviewed the Council's arrangements to produce its financial statements and further discussed with management. The Panel were surprised to acknowledge that the financial reporting had become a significant weakness in arrangements and questioned why this matter was not brought to the Panel's attention earlier particularly given how many sets of accounts were still open and not yet signed off. The Chair was clear that the external auditors had a duty of candour to the Panel and there was an expectation that Mazars would be explicit in highlighting weaknesses such as this going forward in order for the Panel to gain assurance or importantly, which would not be possible in relation to the further two sets of accounts still to be audited. The Panel stressed the importance in regular dialogue and updates with the Council's Finance team from Mazars to prevent delays.

An Audit Completion Report for the Greater Manchester Pension Fund for year ended 31 March 2021 was attached at Appendix 2. Mazars reported that they had substantially completed their audit and there were no matters which Mazars were aware of, that would require modification of their audit opinion.

It was reported that Mazars had reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, which were appropriately tailored to the Fund's circumstances. Draft accounts were received from the Fund on 21 June 2021 and were of a good quality. Good quality supporting working papers had been made available in a timely manner and these had assisted their audit progress.

Mazars explained that GMPF's statement of accounts formed part of the financial statements for Tameside Council, as the administering authority of the Fund. This meant they were unable to provide their opinion on the Fund's accounts until Mazars had completed their audit for the administering authority. There had been some delays in completing the audit of the administering authority which had impacted on the completion of work on the Fund.

## **RESOLVED**

**That the content of report be noted**

### **4. AUDIT STRATEGY MEMORANDUM 2021/22**

Consideration was given to a report of the Director of Resources which detailed the high level planning document by the Council's external auditors. The report set out work processes and timetables to complete the audit of the 2021-22 accounts.

Members were advised that the 2022-23 Audit Strategy Memorandum would be issued by the Council's external auditors, once they have completed the 2021-22 audit.

The Audit Partner for Mazars stated that Overall Materiality for TMBC was set at £12m. It was explained that Materiality was an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements were considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. However, the Audit Partner for Mazars highlighted after setting initial materiality, Mazars would continue to monitor materiality throughout the audit to ensure that it was set at the appropriate level.

With regard to significant risks and judgement areas, it was reported that the Council's accounts contained material balances and disclosures, which related to its holding of surplus assets and investment properties, which were required to be carried at fair value. Due to the high degree of

estimation uncertainty associated with these valuations, Mazars had determined that there was a significant risk in the valuations of these property assets. Mazars would therefore assess the skill, competence and experience of the Council's external valuer and review the instructions issued to the external valuer by management to ensure that they complied with the Code requirements. Mazars would further test a sample of items of capital expenditure which would confirm that the additions were appropriately valued in the financial statements. The Panel were assured by the Director of Resources that work had taken place with the Estates team on the valuation process for surplus and investment properties.

It was reported that management override of controls presented a risk. It was explained that management at various levels within an organisation were 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 appeared 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. Audit work over accounting estimates and journal entries and significant transactions outside of the normal course of business would mitigate this risk.

It was explained that the valuation of property, plant and equipment posed a significant risk. In the 2021-22 year, the Council had not revalued Land and Buildings on the basis that a full revaluation was carried out in 2020- 21. There was a risk that material movements in valuations since the last valuation date have not been taken account of. Mazars evaluated the design and implementation of any controls which mitigated the risk which included assessing the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time.

It was stated that there were two areas of management judgement and enhanced risks these were the valuation of shareholding in Manchester Airport Holdings Ltd. The Council used an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2022. The valuation was determined according to a methodology and applying assumptions. Council officers challenged the valuation assumptions and reached judgements on the valuation to include in the financial statements. The Mazars in-house valuation team would review the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.

## **RESOLVED**

**That the content of the 2021-22 Audit Strategy Memorandum be noted.**

## **5. UNAUDITED STATEMENT OF ACCOUNTS 2022/23**

Consideration was given to a report of the Director of Resources. The report detailed the unaudited 2022/23 Statement of Accounts (SOA) that would be audited by the Council's external auditors, Mazars. The report further summarised the salient financial points arising.

It was explained that in accordance with the 2015 Accounts & Audit Regulations, the Council prepared an unaudited SOA for 31 May 2023 and this was reviewed by the Director of Resources. The SOA was not published on 31 May 2023. This was in order to await the resolution of a nationwide technical accounting issue. This technical issue was on the valuation of the Council's Local Government Pension Fund. Subsequently, the SOA was updated with a revised actuarial report, which addressed the nationwide technical issue and was published on 17 July 2023. The Chair thanked the Director of Resources for regular updates during this period. The SOA was available for the statutory public inspection period. The Council's external auditors were due to begin their audit of the SOA. The unaudited SOA were attached at Appendix 1.

The Director of Resources summarised the key points arising from the unaudited statement of accounts. It was explained that at 31 March 2023, the Council held £38.765m of capital grants which were committed for use against the current Capital Programme. Working capital was positive with

short-debtors and cash (£88.114m) higher than short-term creditors.

The unaudited Statement of Accounts included an estimate of the net balance on the Council's Local Government Pension Fund. The investments set aside to pay pension promises were currently valued in excess of the promises to pay future pensions. This meant that the carrying value of the Council's Local Government Pension Fund was shown as £0. It was reported that the Council maintained a separate fund to collect Business Rates and Council Tax, which is then redistributed to Greater Manchester Combined Authority and Tameside Council. The fund ended the 2022/23 financial year in surplus.

## **RESOLVED**

**That the completion of the unaudited 2022/23 Statement of Accounts be noted.**

## **6. EXTERNAL AUDITOR APPOINTMENT 2023/24**

Consideration was given to a report of the Director of Resources. The report updated the Panel on the outcome from the decision taken by Council in December 2022 to participate in the Public Sector Audit Appointments (PSAA) tender exercise for external audit services.

It was explained that following agreement from Council on the 7 December 2022, Tameside Council chose once more to opt in to participate in arrangements with the PSAA, for the period covering the accounts 2023/24 to 2028/29.

The PSAA competitive tender process was undertaken in Q3 of 2022/23 and following the appointment of 6 firms, a portfolio of proposed appointments was compiled, giving due consideration to a list of key criteria amongst any other relevant factors, with the principal consideration being any threat to independence/conflict of interest between the supplier and audited body. Consultation with audited bodies began on the 17 October, allowing 4 weeks for consultation, with the approval of proposed appointments confirmed at the PSAA Board meeting on the 16 December 2022.

The process concluded that for Tameside Council for the period of 2023/24 to 2027/28, the allocated auditors would be Mazars, who were the Council's current External Auditors. The Director of Resources explained that the continuity of the audit firm would support the Council as it continued to develop and strengthen processes around financial accounting. The decision would be taken by the Council as prescribed within the Council's constitution and as such, a report would be presented to Council for ratification, following Audit Panel review.

The Director of Resources summarised the fees for external audit and explained that the PSAA consulted each year on the scale of fees chargeable within the opted in arrangements. Latest PSAA information had indicated that nationally, external audit fees were running with increases of 150% on top of the set fees. This would be kept under close monitoring to determine the impact on Tameside.

## **RESOLVED**

**That the Audit Panel approve the appointment of Mazars as the Council's external auditors for the period 2023/24 to 2027/28 and recommends the decision to Council for formal approval as per the constitution.**

## **7. ANNUAL GOVERNANCE REPORT 2022/23**

Consideration was given to a report of the Director of Resources. The report presented the Annual Governance Report, which comprised of the draft Annual Review against the Code of Corporate Governance for 2022/23 and draft Annual Governance Statement for 2022/23.

It was explained that a review had been completed, which assessed the Council's position against

the approved Code of Corporate Governance in order to demonstrate compliance, ongoing developments/ improvement and to prepare for the compilation of this year's Annual Governance Statement which was required, by the Accounts and Audit Regulations 2015 (as amended). The document was attached at Appendix 1 and incorporated comments received from the Assistant Director Delivery Group and Senior Leadership Team.

The preparation and publication of an Annual Governance Statement was necessary to meet the requirements set out in Regulation 6 of the Accounts and Audit Regulations 2015 (as amended). It required authorities to "conduct a review at least once in a year of the effectiveness of its system of internal control" and "following the review, the body must approve an annual governance statement prepared in accordance with proper practices in relation to internal control".

The Annual Governance Statement covered both Tameside MBC and the Greater Manchester Pension Fund. The Draft Annual Governance Statement for 2022/23 which had been drawn up using the guidance contained within Delivering Good Governance in Local Government - Framework issued in 2016 was attached at Appendix 2 and incorporated comments received from the Senior Leadership Team.

The Annual Governance Statement was based on the below. It was highlighted that the list was not exhaustive but detailed the key elements of the assurance framework used to support the production of the Annual Governance Statement.

- Directorate Self-Assessment Checklists and signed Assurance Statements;
- Interim Head of Audit's Annual Report;
- Medium Team Financial Plan/Budget Report;
- Regular Budget Monitoring and Performance Reports;
- Review of System of Internal Audit;
- External Audit Completion Report and Annual Audit Letter;
- Role of the Chief Financial Officer;
- Role of the Head of Internal Audit;
- Financial Management Code;
- Corporate Plan: and
- Peer Reviews/Statutory Inspections.

It was explained that the Draft Annual Governance Statement would be presented to the Council's External Auditors, Mazars, as part of their audit of the Statement of Accounts.

Discussion ensued with regard to monitoring progress and tracking recommendations so that the Audit Panel could gain assurance that the Council's overall governance framework and control arrangements were continually monitored. Following discussion, it was therefore agreed that an interim update, which tracked the recommendations, would be provided for future meetings.

## **RESOLVED**

**That the report be noted and the following documents approved:**

- (i) Draft Annual Review against the Code of Corporate Governance for 2022/23 at Appendix 1;**
- (ii) Draft Annual Governance Statement for 2022/23 at Appendix 2; and**
- (iii) That an interim update, which tracked the recommendations, be provided for future meetings.**

## **8. INTERNAL AUDIT ANNUAL REPORT 2022/23**

Consideration was given to a report of the Interim Head of Audit which comprised Internal Audit's Annual Report for 2022/23 and included results for the quarter ending 31 March 2023.

It was reported that the Internal Audit plan for 2022/23 was approved by the Audit Panel on 15 March

2022 at 1,207 days. A revised plan was issued to the Audit Panel in November 2022, reducing the number of days to 855. This was largely due to vacant posts and induction / training of new auditors. At the year-end, 778 days had been delivered (91%). A change in focus to outcomes and close monitoring of progress against those outcomes (audits delivered) in the refreshed 2023/24 plan would enhance performance in 2023/24. In addition a 'root and branch' review of the service was underway, including embedding a model of 'assurance'.

A summary of the reports issued, assurance opinion and recommendations by priority issued during the period were detailed at Appendix 1. This audits which were not achieved due to capacity issues were also included at Appendix 1 for information ('greyed out').

Members were advised that on the basis of audit work completed, the opinion on the Council's framework of governance, risk management and internal control was reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by audit work. Those matters had been discussed with management and recommendations made. The recommendations had been implemented or were in the process of being addressed.

It was explained that no specific issues had been highlighted through the work undertaken by Internal Audit during the year. Internal Audit conducted Post Audit Reviews (PAR's) following each audit. A summary of PAR's undertaken in 2022/23 were detailed at Appendix 1. The process for follow up as well as reporting was being reviewed as part of the root and branch review. At the end of March 2023, from the PAR's undertaken a 90% implementation rate was noted against the target of 90%.

Discussion ensued with regards to staffing levels and it was reported that interviews had taken place for vacant posts within the service and Members highlighted the importance of development of staff to ensure stability going forward.

## **RESOLVED**

**That the report be noted.**

## **9. REFRESHED AUDIT PLAN 2023/24**

Consideration was given a report of the Interim Head of Audit 2023/24 which set out a refreshed Internal Audit Plan for 2023/24 which included both the Council and Greater Manchester Pension Fund (GMPF) Plans.

It was explained that the original 2023/24 audit plan was approved by the Audit Panel on 14 March 2023. Since then, the service had been exposed to capacity issues within its management. This therefore provided an opportunity to review the audit plans as well as arrangements within internal audit to bring them in line with the current / best practise, with measures in place to mitigate any future risk of lack of capacity within the service.

The Interim Head of Audit explained the Institute of Internal Audit's '3 Lines' model which was being introduced as the corporate and directorate risk management template. A review of all operational processes across the functions was undertaken to bring practise in line with the assurance model and best practice. The Panel were advised that the Council delivered a co-sourced arrangement comprising of a primarily in-house Internal Audit team supported by an external delivery partner for IT audit (currently delivered by Salford City Council). Extending co-sourced arrangements to a delivery partner for non ICT audit would ensure audit capacity could be brought in if necessary / as required.

It was explained that in order to deliver a plan in line with the preferred delivery model, a refreshed plan linked directly to strategic risk was required to target audit resources to the areas of most materiality and significance. The detailed audit coverage was detailed in the refreshed audit plan at Appendix 1.

It was reported that total annual audit resources available under the refreshed structure were 1,624

days (adding back the GMPF allocation). These days had been adjusted to provide for 10 months audit coverage (1 June 2023 – 31 March 2024) to accommodate the refreshed plan. Assumptions in terms of on-boarding a new Audit Manager with effect from November 2023 and that the new Head of Assurance on-boards as the Interim leaves had also been accounted for. This gave an adjusted available resource of 1,274 days which were reflected in the 10 month plan at Appendix 1.

Work had already commenced against the plan and audits were being delivered in core financial systems and schools. It was explained that moving forward, the approach to the refreshed plan should be an agile one, where Internal Audit would respond to the changing assurance need. Any changes to the plan during the year going forward would be notified for approval by the Panel in the Internal Audit progress reports.

The plan had been endorsed by senior management and would be delivered in accordance with the Council's Internal Audit Charter which was previously reported to the Audit Panel on 14 March 2023. The Interim Head of Audit summarised the audits not carried forward from the original plan approved on 14 March 2023, which were detailed in Appendix 1.

## **RESOLVED**

**That the refreshed Internal Audit Plan 2023/24, be approved.**

### **10. RISK UPDATE REPORT JULY 2023**

Consideration was given to a report of the Interim Head of Audit which presented the refreshed approach to the Council's risk management arrangements.

It was explained that in terms of risk management, it was proposed that the '3 lines model' was introduced to the strategic and directorate risk management templates, as well as other suggested enhancements, to enable the assurance model to become fully embedded.

The updated strategic risk updates was provided in Appendix 1. The strategic risk register, formerly known as the corporate risk register, had been updated to include the '3 lines of assurance'. The 3 lines of assurance against each risk are then considered as follows:

- 1st line – the day to day operations of the internal control systems to mitigate the risk
- 2nd line - management oversight and monitoring of controls in place to mitigate the risk
- 3rd line - independent assurance from internal / external audit and other assurance sources (e.g. OFSTED, CQC) on the internal controls in place to manage the risk. This source of assurance is often seen as the most valuable due to its independence.

The Interim Head of Audit summarised a number of other enhancements to the register which had been made and advised that that a refresh of risks had been undertaken via Assistant Director Delivery Group and a risk workshop held at Single Leadership Team.

The 24 'corporate risks' had been rationalised down to 12, to focus on the most material / significant risks which affect the Council's ability to achieve its corporate plan to be included. Discussion ensued in relation to the risks and scoring included within Appendix 1. The Interim Head of Audit advised that the 12 risks listed was a developing piece of work and a future workshop with SLT could be arranged to identify future risks.

Other process improvements to enable a sound system of risk management were planned for Quarters 2 and 3 which were detailed within the report. These actions would be tracked and progress would be reported in the next risk update.

## **RESOLVED**

**That the report be noted.**

### **11. ANNUAL REPORT OF THE AUDIT PANEL**

Consideration was given to a report of the Chair of the Audit Panel which presented the details of the Annual Report of the Audit Panel for 2022/23.

The Chair of the Audit Panel explained that the 2022/23 municipal year had been a year of challenge for local government in terms of the unprecedented demand on services and an extremely challenging economic environment. It was explained that the Audit Panel had been able to demonstrate that it had delivered against its terms of reference, maintained effectiveness and added value to the Council through its oversight of the systems of governance, risk management and internal control.

Members of the Panel were advised that throughout the 2023/24 municipal year, the Panel would have oversight of the embedding of a new 'assurance model' which would be best practice in integrating the disciplines of audit and risk. A new Audit Panel work plan was being introduced for 2023/24 and the Panel would also seek to further improve its own effectiveness by benchmarking itself against the latest CIPFA 2022 Position Statement for Audit Committees.

The Panel looked forward to working with two independent members in 2023/24, Ian Duncan and Stuart Fair, who were experienced within the finance sector. The Chair advised that the Audit Panel had taken significant steps this year to deliver the oversight necessary to strengthen the Council's governance and control arrangements. There would be continuing challenges facing the Council and the Panel, but the Chair explained that Panel had solid foundations on which to meet those challenges and ensure the Council's overall governance framework remained fit for purpose.

Panel members received relevant Audit Committee training during the year. In July 2022, the Panel received Audit Committee training and in September 2022, a session on the statement of account was held. For 2023/24, CIPFA would deliver a training seminar to all Panel Members scheduled for summer 2023

A table was provided to Members which summarised how the Panel addressed its terms of reference in terms of the sources of assurance received during 2022/23.

#### **RESOLVED**

**That the report be approved for submission to Council.**

### **12. AUDIT PANEL WORK PLAN 2023/24**

Consideration was given to a report of the Interim Head of Audit which detailed the Audit Panel's Work Programme 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 provided at Appendix 1 listed the items that Audit Panel would discuss for 2023/24.

#### **RESOLVED**

**That the report be noted.**

### **13. 2022/23 ANNUAL TREASURY REPORT & PRUDENTIAL INDICATORS**

Consideration was given to a report of the Director of Resources which presented the Treasury Management activity for the 2022/23 financial year and the Prudential Indicators at Outturn for the 2022/23 financial year.

The Director of Resources explained that Treasury Management was a critical activity to ensure Value for Money in the use of public funds. It was concerned with safely managing the working capital of an organisation, managing its cash flows, investments, money markets and banking.



The report provided an overview of the Treasury Management activities of the organisation over the last 12 months. At year end, the total investment portfolio was £124.610m and total long term borrowing was £139m.

While the Council had taken a cautious approach to investing, it was also fully appreciative of the changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. Investment balances had been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates.

Members were advised that Tameside achieved an average investment rate of 1.7% on the average weekly investment of £139.6m. In the rapidly increasing interest rate environment, it had not been possible to achieve the SONIA benchmark, as SONIA instantly increased with the market whereas the Council's portfolio included a number of older investments at fixed rates. It was expected that as the market plateaued and the deals matured, returns would begin to exceed SONIA.

It was explained that since the start of 2022/23 financial year, no new rescheduling opportunities had been identified. The portfolio loans held by the Council were reviewed on a regular basis by both the Treasury Management Section and by the Council's treasury management advisors.

#### **RESOLVED**

- (i) That the Treasury Management activity for the 2022/23 financial year, be noted; and**
- (ii) That the Prudential Indicators at Outturn for the 2022/23 financial year, be noted.**

#### **14. URGENT ITEMS**

There were no urgent items for consideration.

**CHAIR**