

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Tuesday, 6 February 2024

Time: 6.00pm

Place: Council Chamber, Daneshill House, Danestrete, Stevenage

Present: Councillors: Maureen McKay (Chair), Carolina Veres (Vice-Chair), Lloyd Briscoe, Rob Broom, Nazmin Chowdhury, Alex Farquharson, Graham Lawrence CC and Tom Wren.

Start / End Start Time: 6.00pm

Time: End Time: 6.32pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

The Chair welcomed Paul Grady and Rebecca Lane from Azets (the external auditors appointed to audit the Council's 2023/24 Statement of Accounts) who were attending their first meeting of the Committee.

Apologies for absence were received from Councillor Stephen Booth and Baroness Taylor.

There were no declarations of interest.

2 MINUTES - 8 NOVEMBER 2023

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 8 November 2023 be approved as a correct record and signed by the Chair.

3 EXTERNAL AUDIT PLAN 2023/24

Paul Grady (Azets) presented the Council's proposed External Audit Plan for 2023/24.

Mr Grady referred to the Audit scope and general approach would include the concept of materiality, whereby any identified errors greater than £100,000 would be recorded and discussed with SBC and, if not adjusted, confirmed as immaterial as part of the Council's letter of representation to Azets.

Mr Grady drew attention to the significant risks of material misstatement, and highlighted the identified risks of Management override of controls, prior year opinion on the financial statements, fraud in revenue recognition and expenditure (rebutted), valuation of other land and buildings and investment property, and valuation of the defined pension fund net liability/asset, as well as a risk ("Other Risk 1") regarding the Council's income strip scheme.

In respect of the prior year opinion on the financial statements, Mr Grady stated that, as at the date of the writing of the 2023/24 Audit Plan, the Council had not been able to obtain an unmodified opinion from its predecessor auditor for the 2022/23 financial year. In addition, the opinions for the financial years 2021/22 and 2020/21 had not yet been issued. There was therefore a risk that issues not yet identified in the open audit years arose in the completion of those audits which may impact the current (2023/24) audit year. There was a further risk that, in the event that an “audit backstop” is implemented for 31 March 2024, the prior year period opinions may be qualified by a “limitation in scope” or disclaimed in full.

Mr Grady explained that, in the above eventuality, there may be limited assurances available over the Council’s opening balances which would involve higher levels of management judgement and more complex estimation techniques (e.g. defined benefit pensions valuations and property, plant and equipment valuations, amongst others). Furthermore, significant transactions, accounting treatment and management judgements may not have been subject to audit for one or more years or at all. This may include management judgements and accounting treatment in respect of significant new schemes (such as major capital initiatives), changes to group structures or other significant accounting treatments which came into effect during the qualified or disclaimed period, going back to 2019/20.

It was noted that the potential absence of prior year assurance raised a significant risk of material misstatement at the financial statements level that may require additional audit procedures.

Mr Grady stated that procedures to be performed in order to mitigate the above risks of material misstatement would include:

- Considering the findings and outcomes of unfinished prior year audits and their impact of the 2023/24 audit;
- Considering the impact on Azets work of the impact of qualified or disclaimed audit opinions, particularly regarding open balances and “unaudited” transactions and management judgements made in the previous years which continued into 2023/24; and
- Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years.

Mr Grady then referred to the Value for Money (VfM) arrangements section of the Audit Plan, and commented that no risks of significant weakness had yet been identified under the three VfM specified reporting criteria of Financial Sustainability: Governance; and Improving economy, efficiency and effectiveness.

Mr Grady outlined the timetable for the 2023/24 audit set out in the Plan and referred to the audit fees, as set out by the PSAA each year, which would include work on certification of the Council’s Housing Benefits claim. He concluded by drawing attention to Appendix 1 to the report, which confirmed the overall materiality levels for the financial statements and Performance materiality.

In response to a Member’s question, Mr Grady stated that the template used by Azets for the Audit Plan document was bespoke for SBC. In reply to a further

question, he provided an assurance that the resources to be allocated by Azets for the 2023/24 audit were robust to deliver the Plan on schedule, and that preliminary work had already commenced.

In reply to a question regarding the “other risk” set out in the plan referred to as “income strip scheme”, the Assistant Director (Finance) confirmed that this referred to the audit of companies which had been set up by the Council for certain activities. These companies were audited separately, but Azets were also required to audit them as part of the Council’s overall external audit.

It was **RESOLVED** that the External Audit Plan for 2023/24, as submitted by Azets, be approved.

4 INTERNAL AUDIT PLAN 2023/24 - PROGRESS REPORT

The SIAS Client Audit Manager presented a progress report with regard to the SIAS Internal Audit Plan 2023/24 (up to 19 January 2024).

The SIAS Client Audit Manager advised that 6 final audit reports had been prepared since 19 August 2023 which, together with their respective assurance levels, were set out in Paragraph 2.2 of the report. 24 audits were ongoing, 3 had recently been assigned, and 2 had been cancelled/deferred.

The SIAS Client Audit Manager stated that there was one High Priority recommendation regarding debt recovery, which was due for implementation by 31 March 2024.

The SIAS Client Audit Manager commented that Paragraphs 2.7 to 2.9 of the report provided performance management statistics. These showed that the 2023/24 Internal Audit Plan was on target, and that there was every expectation that SIAS would be delivering a robust annual assurance opinion at the end of the financial year.

In response to a question, the SIAS Client Audit Manager advised that SBC had a robust methodology for managing risks. The risks were “owned” by SBC Managers and the Strategic Leadership Team, and the role of SIAS was to provide independent assurance around the controls and risk mitigation to help the Council meet its objectives.

The Assistant Director (Finance) added that a Risk Management Group (including the Chair and Vice-Chair of the Audit Committee) met quarterly to review risks. There was also an Officer Governance Group, which also met quarterly. Quarterly financial reports were also submitted to the Executive, and Key Performance Indicators (including risk management) were regularly considered by the Strategic Leadership Team. Each Assistant Director/Senior Manager was expected to ensure that robust systems and processes were in place in advance of any internal audit, with the role of SIAS being to ensure that this was the case and, if not, to recommend appropriate action.

It was **RESOLVED**:

- 1 That the SIAS Internal Audit progress report be noted.
- 2 That the changes to the Internal Audit Plan be approved.
- 3 That the status of Critical and High Priority Recommendations be noted.

5. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2024/25

The Assistant Director (Finance) presented a report in respect of the Annual Treasury Management Strategy including Prudential Code Indicators for 2024/25.

The Assistant Director (Finance) outlined the following points:

- There had been no breaches of the 2023/24 Treasury Management Strategy;
- There were no proposed changes to the 2024/25 Strategy; and
- The figures in the report reflected those in the recently approved Housing Revenue Account/Rent Setting report for 2024/25, as well those figures contained in the 2024/25 General Fund and Capital Strategy reports to be submitted to Council on 21 February 2024.

The Assistant Director (Finance) drew attention to the Council's Capital Expenditure and Financing, the Council's Borrowing needs, liability benchmark, and Minimum Revenue Provision (MRP), as set out in Paragraphs 4.6 to 4.10 of the report.

The Assistant Director (Finance) referred to two corrections to the report, as follows:

- Paragraph 4.1.1 - the sentence should read that the returns on investments had averaged 5%, not 3.48%, and the total interest earned was £1.9Million and not £1.29Million; and
- The table in Paragraph 4.15.1 should read that the total Housing Revenue Account (HRA) loans equalled £233.231Million and not £234.231Million, and the total Public Works Loan Board (PWLB) debt at 31 December 2023 equalled £234.987Million and not £224.987Million.

In reply to a Member's question regarding Audit Committee Member training, the Assistant Director (Finance) stated that the programme for this was agreed by the Committee itself. There had been training sessions on Treasury Management, Risk Management and Anti-Fraud during the latter months of 2023/24. Following the 2024 Borough Elections in May a new Audit Committee would be appointed, and it was hoped that further training would be carried out with Members of the Committee in the early part of the 2024/25 Civic Year.

It was **RESOLVED** that the 2024/25 Treasury Management Strategy be recommended to Council for approval.

6 URGENT PART I BUSINESS

None.

7 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED** that:

1. Under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 - 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.
2. Members considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

8 PART II MINUTES - AUDIT COMMITTEE - 8 NOVEMBER 2023

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 8 November 2023 be approved as a correct record and signed by the Chair.

9 URGENT PART II BUSINESS

None.

CHAIR