

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 30 July 2020.

PRESENT: Councillors Rathmell, (Chair), Higgins, J Hobson, Hubbard, Mawston, D Rooney and Wright

PRESENT BY INVITATION: Councillors Coupe and C Hobson

ALSO IN ATTENDANCE: M Rutter, S Reid, External Auditors, Ernst Young
R Smith, M Thomas, Internal Auditors, Veritau

OFFICERS: C Benjamin, S Bonner, B Carr, A Glover, A Humble, S Lightwing, P Stephens, J Weston

APOLOGIES FOR ABSENCE There were no apologies for absence.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor D Rooney	Non pecuniary	Agenda Item 7 - previous Member of the Board of Middlesbrough Development Company

20/14 **SUSPENSION OF COUNCIL PROCEDURE RULE 61**

A request was tabled by Councillor Wright to suspend Council Procedure Rules 62 and 63 on Urgent Motions, under Council Procedure Rule 61(m) of Middlesbrough Council's Constitution, on Motions Without Notice.

The advice of Monitoring Officer was sought and provided. The Monitoring Officer asked Councillor Wright to outline the rationale for his request to suspend Procedure Rules 62 and 63. Councillor Wright explained that he was proposing to table an urgent motion to request Councillor Rathmell to stand down as Chair of the Committee.

The request to suspend Council Procedure Rules 62 and 63 was denied by the Chair of the Committee, on the basis that there had been sufficient time in advance of the meeting to table a motion.

NOTED

20/15 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 11 JUNE 2020**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 11 June 2020 were taken as read and approved as a correct record.

In response to a query, it was confirmed that the letter the Committee had requested to Simon Clarke, MP, regarding Government funding in response to the Covid-19 pandemic had not yet been sent. Members expressed their disappointment and asked for urgent action on this issue. The Democratic Services Officer agreed to follow this up and ensure a draft letter was circulated to Committee Members within seven working days, as proposed by the Chair.

NOTED

20/16 **CURRENT PROTOCOL AND PROCESS FOR PRESS RELEASES RELATING TO WARD MATTERS AND THE INCLUSION OF WARD MEMBERS**

The Head of Marketing and Communications gave a presentation outlining the Council's current marketing and communications structure.

The team included marketing, media relations and digital specialists. The work of the two media relations officers was both pro-active and reactive and in the period from January to July 2020, 227 press releases had been handled and 720 media queries. The largest number of queries was in relation to public health and largely in response to the Covid-19 pandemic.

The team received and sought information from services areas on core Council issues to promote and the detail was then presented in a newsworthy fashion and included a quote from either the relevant Executive Member or the Mayor. Officers were also occasionally quoted. All press releases were approved by the relevant officer and Executive Member or the Mayor.

A Marketing and Communications Delivery Plan would be developed in 2020-2021 linking the team's work closer to the Council's corporate priorities and paying increased attention to social media. Unfortunately work on the Plan's development had been impacted by the pandemic. The medium term aim for the team was to become more responsive and work with partners to promote Middlesbrough more generally, rather than just being a Council service. It was anticipated this would provide a good opportunity to highlight positive community stories that Ward Councillors were often among the first to be aware of.

The team could also promote ward activity via press releases, website news stories or using social media. It was noted that there had to be a level of expectation management as not every suggestion would warrant a full story. However, there would usually be an audience for positive community activity. It was also suggested that the profiles of individual Councillors on the Council's website could include quarterly updates detailing ward activity. The team was also happy to provide training on issues such as media interviews and social media use, as required by Councillors.

Finally, it was suggested that following discussion at the meeting and input from other Councillors, a set of guidelines or a policy could be developed as part of the overall Marketing and Communications delivery plan, subject to Executive approval.

Several Committee Members raised individual examples of recent press coverage which caused them concern as they felt issues had been dealt with inconsistently and appeared to depart from past protocol. It was agreed that these examples highlighted the need for a formal policy or guidelines to be in place.

It was suggested that as an interim measure, Ward Councillors should be notified by the press office of any issues in their wards that were going to be publicised, prior to that information being released to the media. It was further suggested that a request should be made for the Ad Hoc Scrutiny Panel to undertake an investigation on the subject of press release protocols for the Council.

The Chair thanked the Officer for his presentation.

AGREED as follows that:

1. The information provided was received and noted.
2. Ward Councillors would be notified via email by the press office of any issues they were covering within their Ward.
3. Ad Hoc Scrutiny Panel would be requested to undertake an investigation on press release protocols, work programme permitting.

20/17

MIDDLESBROUGH COUNCIL - AUDIT PLANNING REPORT – ADDENDUM - YEAR ENDED 31 MARCH 2020

An Addendum Report to the original Audit planning report issued in March was submitted to update the Committee on how Covid-19 had impacted the External Auditors' risk assessment and the additional response which would be built into the audit as a result.

The External Auditor highlighted some of the key changes to the planned work at the current time as follows:

- The increase to the significant audit risk around valuation of land and buildings, recognising the challenges that professional valuers had at 31 March 2020 of being able to provide valuations, and the guidance issued by Royal Institute of Chartered Surveyors (RICS) to all surveyors and the material uncertainty clauses that were in the valuation reports provided by valuers.
- A new risk identified as a result of covid-19, focussed on the additional work that the Auditor was required to complete under auditing standards. The risk was based on the level of disclosures within the Council's financial statements around the impact on the operation of the Council both from a governance perspective, and also from a service and financial perspective. This would apply not only in 2019/2020 but particularly in 2020/2021 and beyond, over the term of the Medium Term Financial Plan.
- IFRS 16 Leases had been deferred by CIPFA (Chartered Institute of Public Finance and Accountancy) and was no longer a relevant risk for this year's audit but would be included in the Council's Financial Statements in 2021/2022.
- In accordance with guidance from the NAO (National Audit Office) and in light of observations set out by OFSTED in the report on Children's Social Care Services provision issued in January 2020, the External Auditor had notified Council Officers that it was the intention to qualify the value for money opinion for 2019/2020. Additional narrative would be provided to give an update on the progress the Council had made to address the issues.
- Materiality for the audit had been re-assessed and deemed appropriate.
- Changes to the audit team were noted at page 14 of the submitted report.

In response to a query, the External Auditor confirmed that the narrative of the audit results report would provide a factual up-to-date position on the progress being made by the Council in relation to the OFSTED findings, post year-end.

The External Auditor was unable to provide an estimate of the cost of the additional work at this point in time but would report back to a future meeting of the Committee once the audit was complete.

In relation to a question about the valuation of land and buildings and recent acquisitions by the Council, it was clarified that transactions completed post 31 March 2020 would fall into next financial year's audit.

The Committee placed on record thanks to Nicola Wright, the former Engagement Leader from EY, for her hard work.

AGREED that the information provided was received and noted.

31 MARCH 2020

An Addendum Report to the original Teesside Pension Fund Audit planning report issued in March was submitted to update the Committee on how Covid-19 had affected the External Auditors' risk assessment and the additional response that would be built into the audit as a result.

The External Auditor highlighted some of the key changes to the planned work at the current time as follows:

- Unquoted Pooled Investment Vehicles - this had already been identified as a significant risk in the Plan but there was now additional challenge around valuing some of the investments in this category this year. Under the fair value hierarchy, there would potentially be some movements between the harder to value categories. The External Auditor was making enquiries with management and considering the extent of extra procedures which might be necessary to address that extra uncertainty.
- Valuation of Directly Held Property - due to the nature of the Pension Fund, property assets were generally more for long-term gain through rental yields or capital appreciation. This made them a bit more susceptible to fluctuations in the market price than some of the Council property, which might not be valued on the same basis. EY's experts had been engaged to look at this and consider the impact of the audit opinion on uncertainty within the valuation of all the assets.
- Going Concern and Post Balance Sheet Event Disclosures - the Auditor expected disclosures to be included as to why the Pension Fund was a Going Concern. The External Auditor was not raising any particular concerns about it. It was apparent from the draft accounts that the Pension Fund had quite a sizeable cash balance at the year-end.
- Update to materiality - the External Auditor had assessed whether materiality was still appropriate and confirmed that it was, on the basis of 1% of net assets. Given that the Pension Fund saw a reduction in net assets in the prior year due to the impact of Covid-19 on asset prices in March 2020, the figures had been recalculated based on the year-end draft accounts value as follows: £37.4 million - down from £40.8 when the original Plan was presented and Performance materiality - down to £28 million from £30.6 million.

AGREED that the report was received and noted.

20/19

ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT

The Head of Internal Audit presented a report which summarised the delivery of the agreed internal audit plan and other information required as set out in the Public Sector Internal Audit Standards (PSIAS).

Based on the audit work completed, the overall opinion of the Head of Internal Audit on the framework of governance, risk management and controls operating within the Council was that it provided Reasonable Assurance.

A summary of the audit work completed and the reports issued in the year was attached as Annex 1 to the submitted report.

The opinion was qualified for a number of reasons as follows:

- The majority of the work was completed by the previous internal auditor: Tees Valley Audit and Assurance Service (TVAAS). The current Internal Auditor, Veritau, had no direct involvement in most of TVAAS' work and it was not subject to normal quality assurance processes. Veritau was not making any statement about the work, highlighting only that the opinion provided was based on another Auditor's work.
- The level of work completed was less than normally expected. This was partly because TVAAS were behind with their work at the date of handover on 1 January 2020 but also due to the fact that most audit work had to be paused in mid-March due to the outbreak of the Covid-19 pandemic.
- It included a qualification that would be given to all Veritau's member Councils to recognise the fact that Covid-19 had had a significant impact on the Council's operations since March. The Internal Auditor had not assessed the potential or additional risks on the Council's control environment that had naturally resulted. It was a recognition that the majority of the audit work was undertaken before the pandemic and the opinion was based on the situation at the point when it started. No reliance had been placed on other sources of assurance in forming the opinion and there were no significant control weaknesses that the Auditor had asked the Council to consider for inclusion in the Annual Governance Statement.
- Details of Veritau's quality assurance processes were included at Annex 2 to the submitted report for information.

In response to a question regarding potential weaknesses in the control environment identified in relation to the completed audits, the Internal Auditor confirmed that there were a number of audits listed in Annex 1 which had moderate assurance. These audits had been reported to the Corporate Affairs and Audit Committee and TVAAS had identified a number of weaknesses. With all audits, Veritau would undertake follow up work to ensure that where weaknesses were identified they were being addressed by management. Any issues would be reported to the Corporate Affairs and Audit Committee.

AGREED that the information provided was received and noted.

20/20

INTERNAL AUDIT PROGRESS REPORT

The Head of Internal Audit presented a report to provide Members with an update on audit reports and other work completed since the last update report to this Committee. The Council's internal audit plan was approved by the Committee in March 2020.

Annex 1 to the submitted report summarised the progress made against 2020/21 Audit Plan. There had been less progress made with scheduled audits than would usually be expected, as a result of Covid-19. There were a number of audits where planning had commenced with others scheduled for later in the year and indicative timings were included.

Annex 2 to the submitted report was a revised Internal Audit Plan, with those audits that had been agreed with Officers that would take place during the year highlighted in bold. The Internal Auditor stressed this was not an exhaustive list and not all audits would be completed. The Audit Plan was designed to be flexible in order to respond to the Council's changing priorities and risks.

This would be the first year that Veritau had delivered the Internal Audit Service for Middlesbrough Council and Annexes 3 and 4 to the submitted report provided information in relation to Veritau's internal audit processes and opinions.

In relation to the revised Internal Audit Plan, it was noted that Investment Strategy was not highlighted as a priority audit. The Internal Auditor indicated that consideration could be given to including this in the programme of work for this year.

AGREED that the information provided was received and noted.

20/21

DRAFT STATEMENT OF ACCOUNTS 2019/20

A joint report of the Director of Finance and Executive Member for Finance and Governance was presented for Members of the Corporate Affairs and Audit Committee to note and review the draft Statement of Accounts for 2019/20 and request any further training that was required prior to the approval of the final accounts in September 2020. A draft Summary of Accounts 2019/2020 had also been produced.

The draft Statement of Accounts provided an overview of the Council's financial position at 31 March 2020 and a summary of its income and expenditure during 2019/2020. The draft Statement of Accounts was a technical publication containing accounting statements and notes prepared in accordance with requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA), as prescribed by annually by the Code of Practice on Local Authority Accounting in the United Kingdom. The required 30-day public inspection period opened on 27 July 2020 with the publication of the draft Statement of Accounts on the Council's website and would close on 4 September 2020.

As at 31 March 2020, the United Kingdom was in the early stages of an unprecedented health pandemic due to Covid-19. Although the long-term effects of the virus and a return to normal were currently unknown, they would affect predominantly future financial years and the narrative report and the Statement of Accounts aimed to give some context as to its early stages and impact on the Council's financial position.

The draft Statement of Accounts 2019/2020 accorded with the Quarter 4 results report to Executive on 16 June 2020 which showed a £6.6 million overspend and an equal use of usable reserves to cover it. The general fund balance was £9.4 million as at 31 March 2020, which was the minimum level recommended by the Chief Finance Officer within the Council's Medium Term Financial Plan.

The Chief Accountant provided a detailed presentation of the Draft Statement of Accounts 2019/2020 covering the following elements:

- Narrative Report and Written Statements.
- Core Financial Statements.
- Notes to the Accounts.
- Collection Fund.
- Group Accounts.
- Teesside Pension Fund.
- Annual Governance Statement.

There had been a number of significant changes in the Council's Balance Sheet, mainly increases in pension liabilities and borrowing arrangements to support the Investment Strategy. Although the Balance Sheet now had more liabilities in total than assets, it was expected that the asset positions would recover in the medium to longer term and there would be no immediate financial pressures on the Council's financial plans.

Responding to a question in relation to the reduction in value of the Teesside Pension Fund from £4 billion to £3.7 billion approximately as at 31 March 2020, mainly due to the impact of Covid-19. The Chief Accountant confirmed that this position had been temporary and the

Fund's assets had recovered quite significantly over the last few months as the economy balanced out. The Officer agreed to provide a valuation figure for 28 February 2020 so that a comparison could be made with the valuation on 31 March 2020.

In relation to the collection rates for Council Tax and Business Rates and also exit packages for senior officers, the Chief Accountant agreed to circulate details to Committee Members.

Questions were also asked in relation to the impact of the overspend on Children's Service on in-year performance, the potential impact of Brexit, the current debt portfolio and the investment strategy and the Chief Accountant responded accordingly.

The final Statement of Accounts 2019/2020 was expected to be approved by the Corporate Affairs and Audit Committee on 24 September and the Independent Auditor's Report would confirm whether the accounts provided a true and fair view of the Council's financial position at that time. A revised timetable for the approval of the accounts was set out in the submitted report. The statutory timetable had been revised via the Coronavirus Regulations 2020, to reflect the impact on local authorities and their finance teams due to the Covid-19 pandemic.

On behalf of the Committee, the Chair thanked the Chief Accountant and his staff for preparing the draft Statement of Accounts and presenting them to the Committee.

AGREED as follows that:

1. the draft Statement of Accounts 2019/2020 was received, reviewed and noted.
2. the Chief Accountant would circulate further information to the Committee in relation to: the Pension Fund valuation as at 28 February 2020, the annual collection rate for council tax and business rates and exit packages for senior staff during the financial year 2019/2020.

20/22

CHIEF FINANCE OFFICER

An item in relation to the Secondment to post of Director of Finance - Section 151 Officer had been deferred from the Agenda of two previous meetings of the Corporate Affairs and Audit Committee. The Committee had requested that further information was provided before making a decision, using its delegated powers of Council.

AGREED that the item in relation to the Secondment to post of Director of Finance - Section 151 Officer was referred back to the Chief Officers Appointments Committee for action.