

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday, 5 December 2024.

PRESENT: Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young.

ALSO IN ATTENDANCE: C Andrew (External Auditor) (Forvis Mazars)
M Rutter (External Auditor) (Ernst Young)

S Reid (External Auditor) (Ernst Young) - Virtual Attendance.

OFFICERS: C Benjamin, B Carr, A Johnstone, C Lunn, D Middleton, N Orton, E Scollay and J Weston.

APOLOGIES FOR ABSENCE: None.

24/37 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/38 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor D Coupe	Non-Pecuniary	Member on Board of Directors of Border to Coast
Councillor J Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor B Hubbard	Non-Pecuniary	Member of Teesside Pension Fund

24/39 **MINUTES - AUDIT COMMITTEE - 3 OCTOBER 2024**

The minutes of the Audit Committee meeting held on 3 October 2024 were submitted and approved as a correct record.

24/40 **MIDDLESBROUGH COUNCIL AUDIT COMPLETION REPORT - 2021/22 AND 2022/23**

The external auditors from EY presented a report, the purpose of which was to provide the Audit Committee with a detailed completion report covering their approach and outcomes of the 2021/22 and 2022/23 audits.

The report indicated that, given that Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposed a backstop date of 13 December 2024, by which date EY were required to issue their opinions on the financial statements, the auditors had considered whether the time constraints imposed by the backstop date meant that they could not complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion, and fulfil all the objectives of all relevant ISAs (UK). This decision was in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) could not be achieved, the auditor should have evaluated whether this prevented them from achieving their overall objectives and thereby required them, in accordance with the ISAs (UK), to modify their opinion or withdraw from the engagement (where withdrawal was possible under applicable law or regulation). Failure to achieve an objective represented a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77 and A78).

It was highlighted to the Committee that, taking the above into account for the years ended 31 March 2022 and 31 March 2023, the auditors had determined that they could not meet the objectives of the ISAs (UK) and therefore anticipated issuing disclaimed audit reports.

Details regarding the legislation, guidance, codes of practice and other professional requirements taken into account whilst completing the audit work were outlined to the Committee. Members' and officers' attention was drawn to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28), which set out what was expected of audited bodies in preparing their financial statements.

As the Audit Committee was the Authority's body charged with governance, it had an essential role in ensuring that it had assurance over both the quality of the draft financial statements prepared by management, and the Council's wider arrangements to support the delivery of a timely and efficient audit.

EY's auditors considered and reported on the adequacy of the Council's external financial reporting arrangements, and the effectiveness of the Audit Committee in fulfilling its role in those arrangements, as part of their assessment of value for money arrangements. They also considered the use of other statutory reporting powers to draw attention to weaknesses in those arrangements, where they considered it necessary to do so.

The report was intended solely for the information and use of the Audit Committee and management and was not intended to be, and should not have been, used by anyone other than these specified parties.

The report was divided into the following sections: 1 - Executive Summary; 2 - Work Plan; 3 - Results and Findings; 4 - Value for Money; and 5 - Appendices.

During the presentation, matters regarding the following, as identified in the report, were highlighted:

- Context, both local and national, in respect of Local Government audits. Middlesbrough was not alone in terms of the timeliness of accounts and completion of audit work.
- Issues specific to Middlesbrough, which included: the valuation of infrastructure assets; the valuation of the pension liability and related balances; bad debt provisions in relation to the Collection Fund; changes to opening balances; and post pandemic timelines and the availability of resources.
- The work that had been completed, as set out in sections 1-5 of the audit report.
- Matters of interest going forward.
- Presumed levels of risk, which were identified on every audit undertaken.
- Results and findings: differences in financial statements between 2021/22 closing balance and 2022/23 opening balance; further details were provided on page 21 of the report.
- No objections had been received in relation to the Council's Statement of Accounts for 2021/22. One objection had been received in respect of 2022/23, which related to the Council's joint application to the Levelling-Up Fund with Redcar and Cleveland Borough Council for funding to improve accessibility in South Middlesbrough, and whether the application for funding had been approved within the Council in accordance with the Council's Financial Procedure Rules. This objection had not been accepted; further details were provided on page 22 of the report.
- Reference was made to page 23 of the report and instances of potential non-compliance. It was explained that these were not significant to the review; matters were being brought to the Committee's attention for information only.

The auditor advised that the information contained in the report had been finalised and would be issued as presented, although some final wording was currently being drafted to ensure consistency between value for money factors.

The Chair thanked the auditors for the information provided and invited the Committee to ask any questions.

In response to a query regarding the objection raised around the joint application to the Levelling-Up Fund, the auditor explained that this did not feature in the respective financial statements. The objection had not been accepted and was therefore not pursued.

A Member referred to government intervention in relation to the value for money report. It was queried whether government departments were looking more closely at Middlesbrough's finances as a consequence of the report. In response, it was commented that the government had issued a best value notice; no further information could be provided.

A discussion ensued in relation to the issues that had been encountered nationally in terms of completing audit reviews, which had been driven by a statutory reset. It was indicated that, nationally, up to 1000 opinions were being disclaimed. A Member commented on the impact of this upon public perception and the potential knock-on effect for the next couple of years. In response, the auditor advised that the purpose of the reset was to drive reviews back onto a timely track; the government was keen to emphasise that Councils should not have been disadvantaged because of the reset, and the number of disclaimers being made. The national issues that contributed to the audit completion delay were outlined in the report; in essence, the resources required to complete were not available. The Head of Finance and Investment and the Director of Finance advised that the accounts had been prepared professionally with the best intentions based on the information and resources available. Although the audit had not been completed, significant effort had been made towards the 2021/22 and 2022/23 financial years. The information had been prepared for the Committee to make judgement on, and for Forvis Mazars to utilise/ consider when concluding on future years. The Section 151 Officer had a professional responsibility to sign off the accounts with a fair and accurate view, and work had been carried out accordingly to ensure that this had been upheld.

A Member referred to internal audit work undertaken in respect of the Teesside Pension Fund and queried whether any administrative costs for that work were charged back to the Fund. In response, the Director of Finance explained that resource allocation to the team responsible for this work had recently been increased, and that work undertaken would be charged back to the Teesside Pension Fund.

A Member commented upon public perception in relation to signing off the accounts. It was felt unfortunate that the current position may not have been seen favourably by the public, though it was accepted that this could not be avoided.

A Member queried whether there was anything further that the Council could have done to have changed the outcome of the audit report. In response, reference was made to resource limitations and the impact that this had in terms of commencing the audit work, together with wider contextual issues, including the change in backstop date.

A Member thanked the auditors and officers for the work undertaken. It was commented that although lessons learned were important, there had to be a greater accountability over those findings identified.

The Chair thanked the auditors and officers for their reports and contributions to the meeting.

NOTED

****At this point in the meeting, the Monitoring Officer clarified that the interests declared at the start of the meeting were non-pecuniary.****

24/41

TEESSIDE PENSION FUND AUDIT COMPLETION REPORT - 2021/22

****Owing to overlap in the reports for agenda items 6 and 7, the Committee agreed to consider those items simultaneously.****

The Auditor from EY noted several points, which included the following:

- It was anticipated that the signed accounts would be received tomorrow, 6 December 2024.
- The Teesside Pension Fund did not have up-to-date information for all its Members, though non-compliance was not always the fault of the Fund's administrators. For example, Members could have changed address and failed to notify of this.

- The investment in the local start-up bank of £26.5m in 2021/22 showed a reduction value of £30m in the 2022/23 accounts. This reflected a value overstatement made in 2021/22.
- There was a red rating around control values.
- Reference was made to 2021/22 classifications; pool investment vehicles and associated risk was highlighted.
- Commercial assets were more difficult to value.
- Reference was made to dividends, in-year movement and market forces in relation to figure derivation.
- Reference was made to disclosures; geographical location of investments and how these were held. Mention was made of underlying investments and associated share prices.

The Head of Finance and Investment referred to page 27-29 of the agenda pack and the red ratings. It was indicated that the Audit Committee would receive progress reports accordingly. Reference was made to value for money and the costs associated with undertaking audit work. A Member queried whether a recharge amount, noted on page 35 of the agenda pack, had been received. In response, it was explained that this would be pursued as recharges were made as required.

A Member referred to the investment made in the local start-up bank and queried the value of the investment versus the amount of money invested. In response, the Head of Pensions, Governance and Investments explained that exact financial data was considered exempt information, however, the bank had shown profitability for the first month last month, which was a positive sign. The valuation was made on a book basis, which considered assets, liabilities and the difference, though it was felt it would be worth more due to its potential. More investors were expected shortly, which would provide a better indication of value based on price. The bank had a business plan in place and progress was being tracked against it. It was anticipated that within the next three-to-four years, a profit will have been made.

NOTED

24/42 TEESSIDE PENSION FUND AUDIT COMPLETION REPORT - 2022/23

As per Minute Number 24/41.

24/43 MIDDLESBROUGH COUNCIL LETTERS OF REPRESENTATION - 2021/22 AND 2022/23

****Owing to similarities in the reports for agenda items 8 and 9, the Committee agreed to consider those items simultaneously.****

The Head of Finance and Investment noted several points, which included the following:

- As part of the process for closing audits down, management views/ Letters of Representation needed to be provided to the external auditors.
- Various matters had to be considered as part of submitting views/ representations, which included: the accuracy of records, including ensuring that all liabilities had been disclosed; professional standards and the work of specialists, such as considering the auditors' work and their compliance with codes of practice; ensuring that all information had been passed to auditors; the appropriateness of the systems in place for dealing with matters such as fraud, risk and misstatements; and the availability of all information.
- Audit opinions were still being worked on; minor tweaks to the draft Teesside Pension Fund letters accompanying the agenda pack may have been required. It was indicated that, at the point of finalisation, the Chair of the Audit Committee and the Director of Finance would provide signatures and the representations forwarded to EY.

A Member referred to the issues experienced in audit years 2021/22 and 2022/23 and queried the current position in terms of the 2023/24 audit. In response, the Committee heard that work was taking place with Forvis Mazars as the new auditors in terms of preparing for the 2023/24 audit. The next backstop date, in respect of the 2023/24 audit, was 28 February 2025.

NOTED

24/44 **TEESSIDE PENSION FUND LETTERS OF REPRESENTATION - 2021/22 AND 2022/23**

As per Minute Number 24/43.

24/45 **APPROVAL OF THE STATEMENT OF ACCOUNTS FOR 2021/22 AND 2022/23**

The Head of Finance and Investment presented a report, the purpose of which was to seek approval from the Committee for the Statement of Accounts for the Council for the 2021/22 and 2022/23 financial years, prior to the statutory date of 13 December 2024, following external audit.

Members were also asked to note the disclaimed audit opinions given by EY on those two sets of financial statements for Middlesbrough, as well as the work of EY in relation to the value for money commentary and the completion of the audit of the Teesside Pension Fund accounts for those two years. In particular, the audit opinion on the pension fund accounts for both years was unqualified, and the accounts provided a true and fair view of the financial position.

The latest versions of the audited Statement of Accounts for the financial years 2021/22 and 2022/23 were attached at Appendices 1 and 2 of the submitted report.

Subject to the Committee's approval, details regarding the next steps in terms of the sign off process were outlined.

AGREED that:

1. The Statement of Accounts for the financial years 2021/22 and 2022/23 set out at Appendices 1 and 2, taking into the external auditor's report on the audit process and management representations on the financial statements presented, were approved.
2. It was noted that this was the end of the accounting and financial processes for these two financial years and these accounts were now closed. The latest open audit would now be on the 2023/24 accounts for the Council; progress on this audit had already been discussed with Members. The back stop date for this audit was 28 February 2025.

24/46 **WORK PROGRAMME (STANDARD ITEM)**

A copy of the current work programme for the Audit Committee had been circulated for information. This was a live document that was updated after each meeting.

NOTED

24/47 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.