

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Friday 22 July 2022.

PRESENT: Councillors B Hubbard (Chair), T Higgins, C Hobson, T Mawston, D Rooney, M Saunders (as substitute for J Platt), and C Wright

ALSO IN ATTENDANCE: Councillors C Cooke, B Cooper, D Coupe, J Rathmell and M Smiles
P Jeffrey (Internal Auditor) (Veritau), M Thomas (Internal Auditor) (Veritau), S Reid (External Auditor) (Ernst Young) and M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Bonner, C Breheny, G Cooper, A Hoy, D Johnson, A Johnstone, S Lightwing, A Pain, T Parkinson, A Wilson and I Wright

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor J Platt

22/7 **WELCOME AND EVACUATION PROCEDURE**

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

22/8 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Higgins	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund
Councillor Hubbard	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund
Councillor Rooney	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund

22/9 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 9 JUNE 2022**

The minutes of the Corporate Affairs meeting held on 9 June 2022 were submitted and approved as a correct record.

22/10 **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Annual Report of the Head of Internal Audit and the Annual Counter Fraud Report were presented to the Committee.

The purpose of the Annual Report was to provide Members with a summary of internal audit work undertaken in 2021/22 and provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. An annual report setting out counter fraud activity and performance was also included.

The annual report was attached the Appendix 1 to the submitted report. It included a summary of findings from recently finalised audit work as well as the status of agreed audit actions.

The Auditor commented that in some cases progress had not been made within agreed timescales and where appropriate the target implementation date for those actions was extended. Where targets were six months beyond the deadline, detailed reasons were provided in the submitted report.

The report also included details of Veritau's Quality Assurance and Improvement Programme (QAIP). This included ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.

Veritau also provided a counter fraud service to the Council. An annual report setting out counter fraud activity and performance was attached as Appendix 2 to the submitted report.

In relation to further audit work on a number of allegations made by former Executive Members, the Auditor was asked whether that work had been concluded. The Auditor confirmed that the audit field work was complete and the draft report was currently with management. It was possible that further work might be required. Once management had agreed the report it would be presented to the Corporate Affairs and Audit Committee, unless there was any referral to Standards Committee, which would take priority.

In light of failings in governance arrangements identified recently by the External Auditors, the Chair asked how the Internal Auditor had provided an opinion of substantial assurance in relation to a report on an audit of Governance Arrangements published in September 2021. The Internal Auditor explained that on the scope of the work undertaken for that particular audit, he was happy to provide an opinion of substantial assurance. There were areas where the Council did need to improve but there was no conflict in being able to give substantial assurance to one audit, whilst also addressing those other areas where he was not able to give substantial assurance.

AGREED as follows that the:

1. results of internal audit work and counter fraud work undertaken was received and noted.
2. opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control was noted.
3. significant control issues identified by internal audit which were considered relevant to the preparation of the Council's Annual Governance Statement were noted.
4. outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conformed with the Public Sector Internal Audit Standards was noted.

22/11

AUDIT RESULTS REPORT 2020/21

The draft Audit Results Report for the Year Ended 31 March 2021 was presented for the Committee's consideration.

The audit was designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements.

The report contained the External Auditors' findings related to the areas of audit emphasis, views on Middlesbrough Council's accounting policies and judgements and material internal control findings. The report also included conclusions on the arrangements of Middlesbrough Council to secure value for money in its use of resources.

The Audit Planning Report presented at the 23 July 2021 Corporate Affairs and Audit Committee meeting provided an overview of the audit scope and approach for the audit of the financial statements. The audit had been carried out in accordance with this plan, with the following exceptions:

- Changes in materiality: EY revisited the planning materiality assessment using the draft Statement of Accounts. Based on the materiality measure of gross expenditure on provision of services, the overall materiality assessment was updated to £8.2 million (£7.9 million in the Audit Planning Report). This resulted in updated performance materiality at 75% of overall materiality of £6.1 million (£5.9 million in the Audit Planning Report). The threshold for reporting misstatements of £0.4 million remained as reported in our Audit Planning Report.
- Value for Money: in the Audit Planning Report, one risk of significant weakness was identified in the Council's arrangements to secure value for money through economic, efficient and effective use of its resources during 2020/21 relating to the provision of Children's Services. During the course of the audit, a second risk of significant weakness in the Council's arrangements in respect of Member and senior officer relationships was identified.

EY's audit work in respect of the Council was substantially complete. The following items relating to the completion of audit procedures were outstanding:

- The Council had not yet produced an Annual Governance Statement that all

signatories were comfortable signing. Further revisions to the Annual Governance Statement were expected and it would need to be reviewed by EY once it was agreed.

- Further guidance was awaited from CIPFA on modifications to the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which was expected to introduce changes to the required presentation of infrastructure assets within the financial statements which management would need to implement.
- Management signature of the Letter of Representation at the same time as the financial statements.
- Performance of final audit procedures, including a review for subsequent events which might impact or require disclosure within the financial statements, up to the date of the audit report.

Given that the audit process was still ongoing, EY would continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence the final audit opinion, a current draft of which was provided in section 3 of the submitted report and confirmed that the financial statements:

- gave a true and fair view of the financial position of Middlesbrough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The key highlights in relation to the financial statements of the audit were presented and included:

- Audit differences: the total impact on the provision of services that would not be corrected was £2.9 million.
- Lease arrangements.
- Three instances of non-compliance –payments to a publicity company, response to the inspection period and a query from a member of the public.
- Audit risks.
- Misstatements due to fraud and error.
- Value of Land and Buildings.
- Disclosure in respect of the Transporter Bridge.
- Pension Fund Liability.
- Going concern.
- Exit payments.

In respect of the Council's arrangements to secure value for money, the Auditor concluded that there were significant weaknesses.

In relation to Children's Services, the audit focussed on management of progress against the improvement plan and evidence of further inspections by independent parties. EY was satisfied that satisfactory progress against the improvement plan was being made and the actions taken by the Council had been effective.

In relation to Member and senior officer relationships, the volume of correspondence had been significant. The evidence gathered led EY to conclude that governance arrangements at Middlesbrough Council were not as expected and were undermining good governance. There were multiple instances where decisions had been taken without following procedures and process and were contrary to the boundaries of Officers and Members. These included, but were not limited to:

- Significant changes to the Boho X project occurring outside the framework.
- Purchase of Covid tests outside of the required procurement process.
- Engagement of an individual to provide services that should have been provided by a Council employee.

In addition, EY's observations were that there was a pervasive lack of trust within the Council

between Officers and Elected Members, and between Elected Members, which was having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of Officers and Members not being adhered to.

In respect of the matters identified by the External Auditor, the following recommendations were made:

1. The Council should develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. It was the Auditor's view that it was the responsibility of all Elected Members and Officers to work together to address these serious matters. This would require the involvement of external specialists as the relationships within the Council had deteriorated to a point which the Council would not be able to remedy on its own.
2. Refresher training should be provided to all of the Council's Elected Members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.
3. Whilst it was recognised that the responsibility to declare actual or potential conflicts of interest sits with Members under both statute and the Council's Code of Conduct, given the observations of the External Auditor, it was recommended that management implement additional assurance checks over Elected Member Declarations of Interest, for example by cross-referencing to Companies House records or declarations made by Elected Members to other public bodies, to provide additional comfort over their completeness.
4. Management should undertake a review to establish whether there were any other arrangements at the Council which might have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they were appropriate and represented value for money for the Council.
5. Management should consider whether further assurance was required to establish whether the risks identified by the Council to date were complete and the actions taken to respond to those risks sufficient.
6. Management should work with internal audit to ensure that where future pieces of work identified evidence of wider risks which were not immediately followed-up on, those were reported, so that the Council's Officers and the Corporate Affairs and Audit Committee could decide whether further investigation was appropriate.
7. The Council should provide additional training to Members and Officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where those boundaries are not being adhered to, was understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

The External Auditor commented that the most significant recommendations in the report would be highlighted in the audit opinion and would be followed up as part of the forthcoming annual audit. Where the Auditor was not satisfied, he would consider whether to exercise any statutory powers. The Auditor also extended his thanks to management for the assistance and excellent co-operation received under the circumstances.

Members of the Committee and other Councillors present at the meeting were given the opportunity to ask questions. The External Auditor, Chief Executive and Director of Finance provided answers as appropriate.

Questions were posed in relation to the decisions highlighted in the report that were taken outside of Council processes could not be answered at this point in time due to potential conflicts of interest with other ongoing investigations.

Members also discussed the Auditor's recommendations and the Chief Executive confirmed that appropriate resources would be committed to funding the improvements required.

AGREED as follows that the:

1. information provided was received and noted.
2. unadjusted audit differences were approved.
3. Auditor's recommendations at 1-7 above in relation to addressing the significant weaknesses in the Council's arrangements to secure value for money were approved.

22/12

ANNUAL GOVERNANCE STATEMENT 2020/21

The Chief Executive presented a report that summarised the impact of the serious and pervasive governance and cultural concerns that had been articulated by EY, the External Auditors, on the finalisation of the 2020/21 Annual Governance Statement (AGS) and the planned way forward.

In presenting their Value for Money judgement to the Council, EY had identified serious and pervasive governance and culture concerns with the operation of the Council. It was clear that the improvement required would demand widespread political acceptance of the issues raised and a fundamental change to the way that Elected Members behaved from across the political spectrum.

It was also clear that at times Officers had been complicit in the delivery of poor governance arrangements. Management action had been taken to address this and would continue to be taken.

Having considered the evidence base, the statutory Chief Officers were in agreement with the EY judgement and were also in agreement with the actions that were required to deal with those concerns.

As part of steps to ensure full understanding of the issues identified and the change required, significant correspondence and discussion had taken place between the three statutory Chief Officers, the Elected Mayor and Deputy Mayor, the Chair of Corporate Affairs and Audit Committee and Ernst Young.

The improvement required would only be achieved through a very rapid and widespread change in the political culture of the Council and a fundamental change in the way that Elected Members behaved. Following careful consideration of discussions that had taken place and other evidence available to them outside of the audit period, it was the view of the Head of Paid Service and the Section 151 Officer that there were significant risks that must be acknowledged and addressed fully, in order to afford the best opportunity for improvement.

In summary these related to:

- The sheer size and scale of cultural change required. Wholescale understanding of the concerns raised; full acceptance of them; an acknowledgement of the individual and collective contribution to failings and a demonstrable willingness to change behaviour was not yet evident.
- a belief that since April 2021 relationships between Elected Members and officers had deteriorated further and that as a result there now existed a more pervasive culture than that evidenced in 2020/21.

The Head of Paid Service and the Section 151 Officer were unable sign the AGS as was required, until such time that these risks were fully acknowledged and reflected within the document.

The Head of Paid Service and Section 151 Officer were intent on securing the required revisions and having the Statement agreed and signed by the relevant parties, as soon as these points could be properly documented and agreed by all signatories.

Members were advised that the 2021/22 Annual Governance Statement (AGS), due to be published in draft form once the 2020/21 AGS had been finalised, would confirm that these issues continued to exist. The report at Agenda Item 11 entitled 'Commencing a Corporate Governance Improvement Journey' set out in more detail the planned actions to engage all stakeholders further, develop a consensus of opinion on the fundamental issues and development of a way forward.

Committee Members and other Councillors present at the meeting were given the opportunity to ask questions, to which the Head of Paid Service and Section 151 Officer responded.

AGREED that the current position was noted and the planned approach to address the issues outlined was supported by the Corporate Affairs and Audit Committee.

In accordance with Council Procedure Rule No 61 – Motions without Notice – and with the Committee’s agreement, the meeting was adjourned for five minutes for the purpose of a comfort break.

22/13 **EXTERNAL AUDITORS LETTER OF REPRESENTATION**

A copy of the External Auditors’ Letter of Representation was presented in relation to the Statement of Accounts for the Year Ending 31 March 2022.

AGREED that the letter was approved and signed by the Chair of the Corporate Affairs and Audit Committee and the Director of Finance.

22/14 **APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS 2020/21**

A report of the Director of Finance (Section 151 Officer) was presented, the purpose of which was for Members to approve the Council’s Statement of Accounts for the 2020/21 financial year following completion of the external audit process and in line with statutory requirements.

Given the various issues on Governance presented in the External Auditors’ Audit Results Report as part of their value for money assessment, and that an update from CIPFA (Chartered Institute of Public Finance & Accountancy) on their consultation on highways infrastructure assets was awaited, the approval would be in principle at this stage. A number of subsequent actions would be required to close the approval/external audit process around the accounts.

The draft Statement of Accounts for 2020/21 was presented to the Corporate Affairs and Audit Committee on 5 August 2021 to provide Members with an understanding of the Council’s financial position, performance and cash flows at 31 March 2021 and how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information at that stage.

Details of the changes to the Statement of Accounts, including the unadjusted items, and further information in relation to Highways Assets were contained in the submitted report.

Further updates had been provided to the Committee on progress during the audit, principally on the 31 March and 9 June 2022. The various delays experienced on the audit of the accounts and why statutory date had not been met had been clarified. In order to complete the process an audit opinion was required from the External Auditor (EY) in relation to both a true and fair view on the financial statements presented and the value for money arrangements put in place by the Council.

The 2020/21 audit had been a significant undertaking for many local authorities. CIPFA reported that at the statutory date for these accounts of 30 September 2021 only 9% of English Local Authorities had completed their external audit. Although this had improved to 40% by 31 January 2022, it illustrated the scale of challenge for Councils given the impact of the Covid pandemic on their financial positions and transactions.

In addition, new regulations had been introduced on local audit firms following a number of high profile corporate failures in 2018/19 which were influenced by inaccurate financial reporting. This had resulted in more emphasis on the concept of a Local Authority as a going concern and additional assurances and evidence being sought by auditors as part of their review of the Statement of Accounts.

AGREED that the Audited Statement of Accounts for 2020/21, as attached at Appendix A to the submitted report, was approved on the following basis:

1. the audit was substantially complete for both the financial statements and value for money

assessment;

2. all relevant and appropriate adjustments had been made in the accounts as a result of the external audit process;
3. the list of unadjusted misstatements set out at paragraph 10 were not made within the accounts;
4. responsibility was delegated to the Interim Director of Finance (S151 Officer) to make any final adjustments to the Statement of Accounts for 2020/21 in respect of the CIPFA guidance on highways infrastructure assets;
5. any final changes to the Annual Governance Statement were incorporated into the Statement of Accounts before it was published on the Council's website.

22/15

LESSONS LEARNED - BEST VALUE AND EXTERNAL ASSURANCE WITHIN OTHER COUNCILS

A joint report of the Director of Legal and Governance Services and Director of Finance (Section 151 Officer) was presented to set out the outcome of an exercise to ensure the Council took the opportunity to learn lessons from corporate governance issues that had occurred in other local authorities.

The report identified actions to strengthen Middlesbrough Council's corporate governance arrangements and set them out within the body of the report.

The findings in the report were reflective of the governance concerns identified within the draft Annual Governance Statement 2020/21 and the External Auditor's Value for Money judgement for the same period.

AGREED that the following items were noted:

1. the outcome of lessons to be learned from other organisations and the planned responses.
2. progress made in relation to planned actions that were identified in response to the previous lessons learned report on government intervention at Liverpool City Council.
3. crossover between issues identified in this report and the draft Annual Governance Statement 2020/21, the External Auditors Value for Money judgement 2020/21 and the report to commence the Corporate Governance improvement journey.

22/16

COMMENCING A CORPORATE GOVERNANCE IMPROVEMENT JOURNEY

A joint report of the Chief Executive, Director of Legal and Governance Services and the Director of Finance was presented that set out how the Council intended to respond to the various corporate governance concerns that had been presented to the Corporate Affairs and Audit Committee.

The report summarised the ongoing work that had been undertaken to identify weaknesses within the Council's Corporate Governance framework, outlined the consequences of those ongoing weaknesses as well as the planned next steps.

The Council would commission the Chartered Institute of Public Finance and Accountancy (CIPFA) to complete an independent assessment of the issues identified to date, as well as undertaking a detailed engagement exercise with all stakeholders to consider whether there were other issues still to be identified and make recommendations on the proposed way forward.

In order to ensure that there was a broad consensus around the steps that need to be taken, CIPFA would complete a short piece of work to engage with Members from across the political spectrum, officers and other stakeholders. This work would be completed over six weeks and look to identify:

- A consensus on the issues that exist.
- Where there continue to be differing views on issues.
- Make recommendations on how weaknesses in the Council's processes could be addressed.
- Consider steps that could be taken to begin to address some of the underlying cultural issues which had existed for some time.

CIPFA would be uniquely placed to provide rapid, expert views on the effectiveness of current systems, policies and processes. The organisation was also currently providing support in a number of Councils that had been subject to government intervention and would therefore bring significant expertise to the table on what effective improvement and cultural change looked like.

The Council's proposed response had not been developed in isolation. The Chair and Vice-Chair of the Corporate Affairs and Audit Committee, the Mayor, Executive Member for Finance and Governance, Chief Executive, Monitoring Officer and the Section 151 Officer had all been engaged on this matter. The three Statutory Chief Officers had jointly led the development of the proposed approach.

A timetable had been put in place to ensure a rapid conclusion to this exercise so that the Full Council could collectively input into the process to identify the issues, while also enabling it to quickly move into delivery, in order to demonstrate a good pace of progress. Findings from the CIPFA work and a proposed action plan would be presented to Full Council for consideration. This would also set out the planned governance and reporting arrangements for the subsequent improvement plan to ensure all Members had the opportunity to comment and contribute.

A Member voiced concern about the timetable in light of the forthcoming local elections in May 2023. The Chief Executive commented that the first six weeks' work would be critical to understand where there was, and was not, agreement on the issues. Irrespective of the political or officer make-up of the Council, the tone and plan for improvements needed to be set. It was envisaged that the culture would not change in the next six months but with an open process and plan it was hoped that there would be some change in behaviour.

AGREED as follows that the Corporate Affairs and Audit Committee:

1. noted the information set out in the submitted report.
2. endorsed the commissioning of CIPFA to complete this diagnostic work.
3. recognised and took up the opportunities to act as champions of the process to proactively ensure that the recommendations of the External Auditor were effectively addressed.

22/17

COMMUNITY GOVERNANCE REVIEW

A report of the Returning Officer and Electoral Registration Officer was presented to seek the Committee's views and approval for the initial recommendations, following the first stage of the public consultation exercise and approve an amendment to the Community Governance Review timetable.

The Corporate Affairs and Audit Committee had delegated authority to agree the Community Governance Review Terms of Reference; to consider representations made; and to approve initial recommendations from the first stage of the public consultation.

Full Council would consider and approve the final recommendations after both consultations had taken place.

The report provided the Committee with the details of the processes undertaken and results of the first consultation, which included a Town-wide survey, a letter to a number of interested parties, a social media campaign and posters in community buildings.

Since agreeing the review timetable, the Local Government Boundary Commission for England had advised (April 2022) that any local authorities seeking change should submit their requests by 1 October 2022, to allow sufficient time for administrative and financial purposes (such as setting up the parish council and arranging its first precept).

The order should take effect on the 1 April following the date on which it is made. Electoral arrangements for a new or existing parish council would come into force at the first elections to the parish council following the reorganisation order. If the order was submitted by 1 October 2022, it would allow preparations for the conduct of those elections to be made. Therefore the Committee was asked to agree to a revised time-table for final approval.

Following a request, the Committee agreed to amend recommendation III (c), to propose that

the public were consulted on the number of Nunthorpe Parish Councillors being reduced to either 9 or 7 Councillors, rather than solely 9 as stated in the report.

AGREED that the Committee agree the draft recommendations for further public consultation as follows that:

I. The Stainton and Thornton Parish Council boundary was retained and unaltered.

II. The number of Parish Councillors to be elected for Stainton increased to 9 to cater for the large increase in the electorate.

III. Nunthorpe Parish Council was retained with the following proposed changes:

a) the Parish Council boundary for Nunthorpe Parish Council was extended to be co terminus with the Nunthorpe Electoral Ward Boundary to include: 1-29 Yew Tree Grove, TS7 8QX, 1-16 Milan Grove, TS7 0DQ (subject to a further consultation with those residents).

b) That the Principal Council electoral ward boundaries for Nunthorpe Ward were amended to include 12-16 Milan Grove and the Brethrens area.

c) That the number of Nunthorpe Parish Councillors be reduced to 9 OR 7 to mirror that of Stainton & Thornton Parish Council to ensure that electors had an equal voice within both communities.

IV. A further detailed review of community councils by the Stronger Communities Team was undertaken, to consider how the Council engaged with community groups and assessed what support was required/available.

V. Delegated authority was granted to the Chief Executive (in consultation with the Executive Member for Finance and Governance Portfolio Holder), to review the existing polling districts relating to the specific areas identified for Nunthorpe & Marton East and make such changes as they considered appropriate in the light of the final recommendations.

VI. A revised time-table for final approval which would result in a reduced period for the second consultation, from 6 weeks to 4 weeks was approved.

22/18

ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

Panel Members paid tribute to Ian Wright, Director of Finance, who would be leaving the Authority in July 2022. The Chair thanked Ian on behalf of the Panel for all his hard work and wished him well for the future.