CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 9 June 2022.

PRESENT:	Councillors B Hubbard (Chair), J Platt (Vice-Chair), T Higgins, C Hobson, T Mawston and D Rooney
ALSO IN ATTENDANCE:	P Jeffrey (Internal Auditor) (Veritau) and M Rutter (External Auditor) (Ernst Young)
OFFICERS:	S Lightwing, C Benjamin, G Cooper, A Johnstone, A Pain, C Walker, J Weston and I Wright
APOLOGIES FOR ABSENCE:	were submitted on behalf of Councillor C Wright

22/1 **WELCOME AND EVACUATION PROCEDURE**

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

22/2 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

22/3 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 28 APRIL 2022**

The minutes of the Corporate Affairs meeting held on 28 April 2022 were submitted and approved as a correct record.

In relation to outstanding actions from the meeting held on 6 April 2022, it was confirmed that a draft of the final Audit Report on Boho X would be circulated after this meeting and the Monitoring Officer's formal response to Members and the Leadership and Management Team, reiterating guidance on the Constitution and PPMF had been emailed to all Councillors.

22/4 **EXEMPTION FROM STANDING ORDERS OVERVIEW 2021/22**

A joint report of the Executive Member for Finance and Governance and Director of Finance was presented to provide the Corporate Affairs and Audit Committee with an overview of the Standing Order Exemptions received during 2021/22 following on from the Procurement Overview Report 2020/21. The report included details of the exemptions, the reasons why they had been approved, and the type of services commissioned.

There were occasions where an exemption from Standing Orders could be obtained through a fully transparent approval process, as detailed in the Contract Procedures Rules (CPR) which formed part of the Councils Constitution. Reasons for an exemption were listed at paragraph 3 of the submitted report.

During 2021/22, 71 exemption requests received. 67 requests were approved and four were not. The number approved was an increase on previous years, with 48 approvals in 2020/21 and 60 in 2019/20. It was highlighted that the significant decrease in the 2020/21 approvals figure was due to the Covid-19 pandemic. Whilst currently there was no comparative data available in relation to neighbouring Local Authorities' exemption requests, the Specialist Commissioning Manager commented that this was something that could be explored.

A summary of the departments that had submitted exemption and a graph showing the months the requests were approved were included in the submitted report. The four requests that were not approved were from Environment and Community Services/Regeneration and Culture (3) and Finance (1). The Commissioning and Procurement Team were able to work with these service areas in order to support them and get contracts awarded through formal tendering routes.

The total contractual value of the 67 contracts awarded through exemption process was £6m, which equated to 11% of the total contractual value awarded during 2021/22 which was £58m. Exemptions could only be applied for where the contract value did not exceed the Public Contract Regulations threshold.

The Commissioning and Procurement team had been considering ways to improve the Council's approach to procurement in order to support the Director of Finance's desire to minimise exemption requests and were currently piloting a 'Best Value Decision' process to evidence if this would work. The pilot would be reviewed after 6 months and if successful the process would become a formal procurement route and all necessary guidance and policies would be updated.

In response to Members' questions, the Specialist Commissioning Manager provided further details in relation to the application and approvals process for exemptions, the Public Contract Regulations thresholds and the information recorded for the audit trail.

AGREED as follows that:
1. the information provided was received and noted.
2. copies of the templates for Exemption requests and the Best Value Decision process would be circulated to Committee Members for information.

22/5 **STATEMENT OF ACCOUNTS 2020/21 AND INFRASTRUCTURE ASSETS**

A report of the Director of Finance was presented to inform the Corporate Affairs and Audit Committee of the current infrastructure assets (Highways) accounting issue, which had delayed the audit opinion on the Council's Financial Statements and Statement of Accounts for 2020/21. Details of this important issue for both the Chartered Institute of Public Finance and Accountancy (CIPFA) and external auditors nationally, and a proposed temporary solution for any ongoing local authority audits for 2020/21, that CIPFA was currently consulting on were provided.

Based on information available at present, a timeline was set out for when Members could expect to approve the Audited Statement of Accounts. This should be before the draft accounts were presented to Committee for the 2021/22 financial year on 21 July 2022.

On 31 March 2022, the Corporate Affairs and Audit Committee received a report outlining the progress on the audit of the statement of accounts for 2020/21. The statutory date for publishing the audited accounts for the financial year was 30 September 2021. However only 9% of local authorities in England had achieved that date for a variety of reasons.

The report highlighted three main areas where work was still outstanding to achieve this at the end of March as follows:

- Some final amendments were required on the financial statements and notes to the accounts as a result of the audit. These needed review and ratification by Ernst & Young (EY) once made by the Council's finance team.
- The review of the arrangements for achieving value for money had identified a major issue in relation to the Council's approach to Governance. Additional work was required by EY to assess the risks associated with this.
- A technical accounting issue had been identified as part of a local government audit for 2020/21 relating to highways infrastructure assets. This could potentially result in material errors being included in local authority accounts. CIPFA agreed to consider this issue further in the context of on-going audits for 2020/21 and in the interim external auditors stopped issuing audit opinions on these accounts until this had been resolved.

The first two items were progressing well and were close to completion. It was clarified that none of the issues would restrict Council spending in the interim.

In relation to the third item, accounting for infrastructure in local government had not historically been an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns raised by a local government auditor that some authorities were not applying component accounting requirements appropriately had recently come to light, via audit network discussions convened by the National Audit Office. The underlying issues appeared to be more prevalent than anticipated and this was now an area of focus for all local audit firms.

The auditor confirmed that those Local Authorities whose accounts had been signed off before the issue arose would need to deal with it in their next set of accounts.

Infrastructure assets were one of the few categories of property, plant and equipment measured at historical cost rather than at an asset measurement described as 'current value'. The valuation process for these assets at current value was deemed to be too costly when reviewed around five years ago by CIPFA, and therefore infrastructure assets continued to be held in local authority balance sheets at depreciated historical cost.

Normal custom and practice for (highways) infrastructure assets was that de-recognition (or removal of these assets from the accounts) did not affect asset balances included in the accounts because the assets were expected to have been fully used up before the replacement expenditure took place. This required that assets were properly depreciated in line with the requirements of the Accounting Code.

This issue arose in part because of limitations on historical information relating to when the highways assets were first recorded on local authority balance sheets in the early 1990s, and where there had been transfers of assets because of local authority reorganisations. It was also extremely difficult to clearly identify the parts of the assets which were being replaced.

CIPFA had offered to assist resolution by providing additional guidance and by pursuing whether any augmentations to the Accounting Code would assist with the situation. The CIPFA LASAAC Local Authority Accounting Code Board (CIPFA LASAAC) had agreed to consider such proposals.

In terms of Middlesbrough's accounts for 2020/21, the net book value of infrastructure assets in the Balance Sheet was £134.6m and this balance mainly consists of highways assets. Given the Council's materiality level for this audit was £5m and with the issue set out above, the probability of a material error being included was relatively high.

CIPFA convened an urgent task and finish group to consider the issue and the impact on 2020/21 audits. Following the advice of the Task and Finish Group, CIPFA LASAAC proposed a temporary solution, with changes to the Code for the reporting, including proposals to:

- confirm the accounting consequences of de-recognition, i.e. that the effect on the carrying amount is nil (on the presumption that replaced parts are fully depreciated).

- temporarily adapt the code to remove the reporting requirements for gross historical cost and accumulated depreciation.

- provide extra guidance on how depreciation may be applied for infrastructure assets.

This temporary solution was under consultation with local authorities and other stakeholders. The consultation period was for four weeks in total and closed on the 14 June 2022. CIPFA would evaluate responses, clarify its stance on the position formally and then seek approval from the Financial Reporting Advisory Board. Once agreed, the relevant changes to the current Accounting Code of Practice would be made and the issue could move forward.

Middlesbrough Council's response to the consultation would be to agree to temporary solution put forward by CIPFA.

It was expected that local authorities would be required to confirm their position on the accounting consequences of de-recognition and to make appropriate adjustments to the current property, plant and equipment note in the accounts to remove the gross carrying values and accumulated depreciation. These changes would have no impact on the figures in the financial statements previously presented to the Committee, but were important to comply with the CIPFA recommendations.

Auditors would then need to consider whether to do any further testing around this assumption on de-recognition and associated depreciation balances within the Council's asset register.

Since the FRAB approval was not due until 28 June and then CIPFA needed to confirm their advice to local authorities and external auditors, the earliest the audited accounts might be available for approval was mid-July.

Given that the Council's draft accounts for 2021/22 were expected to be presented to the Committee on 21 July, it was felt beneficial that the audited accounts should be considered via a special committee meeting prior to that date. It was also agreed that Members would receive an additional training session in relation to the accounts.

AGREED as follows that:

1. the report and the timescales for submitting the 2020/2021 audited Statement of Accounts were received and noted.
2. an additional meeting of the Corporate Affairs and Audit Committee would be arranged in July 2022 for consideration of the 2020/2021 audited Statement of Accounts.
3. training on the Statement of Accounts would be provided to Members before the July Committee meetings.

22/6 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.