

Middlesbrough Council

**Draft Audit Results
Report**

Year ended 31 March 2021

July 2022



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July 2022

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Corporate Affairs and Audit Committee Members

We are pleased to provide our draft audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our audit conclusion in relation to the audit of Middlesbrough Council (the Council) for 2020/21.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Middlesbrough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We also include our conclusions on the arrangements of Middlesbrough Council to secure value for money in its use of resources.

This report is intended solely for the use of the Corporate Affairs and Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Corporate Affairs and Audit Committee on 22 July 2022.



Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment and further guidance (updated April 2018)' issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Affairs and Audit Committee and management of Middlesbrough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Middlesbrough Council for this report and for the opinions we have formed. It should not be provided to any third party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

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

Changes in materiality

We revisited our planning materiality assessment using the draft Statement of Accounts. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £8.2 million (£7.9 million in the Audit Planning Report). This results in updated performance materiality at 75% of overall materiality of £6.1 million (£5.9 million in the Audit Planning Report). Our threshold for reporting misstatements of £0.4 million remains as reported in our Audit Planning Report.

Value for Money

In our Audit Planning Report, we reported that we had identified one risk of significant weakness 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 our audit we identified a second risk of significant weakness in the Council's arrangements in respect of member and senior officer relationships. We provide further details of this risk, our response to it and our conclusions within section 5 of this report.

Status of the audit

Our audit work in respect of the Council is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ The Council has not yet produced an Annual Governance Statement which all signatories are comfortable signing, therefore further revisions to the Annual Governance Statement are expected. We will need to review the final Annual Governance Statement once it is agreed;
- ▶ Further guidance is awaited from CIPFA on modifications to the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is expected to introduce changes to the required presentation of infrastructure assets within the financial statements which management will need to implement;
- ▶ Management signature of the Letter of Representation at the same time as the financial statements; and
- ▶ Performance of our final audit procedures, including a review for subsequent events which may impact or require disclosure within the financial statements, up to the date of our audit report.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence our final audit opinion, a current draft of which is provided in section 3.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ **Financial sustainability**
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- ▶ **Governance**
How the Council ensures that it makes informed decisions and properly manages its risks.
- ▶ **Improving economy, efficiency and effectiveness**
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

In our Audit Planning Report, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in respect of the provision of children's services. We communicated our planned procedures which included making enquiries of management and reviewing the findings of subsequent monitoring visits by external parties. We have completed our planned procedures and are satisfied that the Council does have the arrangements in place we would expect with regards to this risk.

In addition, we identified a further risk of significant weakness in respect of member and senior officer relationships during the course of our audit. Our response to this risk included reviewing the work of internal audit and the evidence upon which it was based, reviewing correspondence received during the course of the audit, making enquiries of management and members as we deemed necessary, considering our own observations of officers and members. We have completed our planned procedures and have determined that there is a significant weakness in the Council's arrangements for how the Council ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Council ensures officers and members discharge their respective responsibilities in accordance with the Council's Constitution.

As a result of completing our planned value for money procedures we will report by exception details of the significant weakness in the auditor's report (see section 3). We plan to issue the VFM commentary at the same time as our auditor's report as part of issuing the Auditor's Annual Report. We include further details in section 5.



Executive Summary

Audit differences

Uncorrected misstatements would increase the deficit on provision of services by £2.9 million.

Management corrected identified misstatements with net nil impact on the deficit on provision of services.

Further details of identified misstatements, including misstatements within disclosures, are provided in section 4.

Control observations

During the audit, we identified significant deficiencies in internal control. Further details on these observations are provided in section 5 and our recommendations to address these deficiencies are contained within our value for money commentary in Appendix E.

In addition, during the audit we identified observations and make improvement recommendations in relation to management's financial processes and controls in relation to:

- ▶ the accurate recording of the terms of the Council's lease arrangements; and
- ▶ the recognition of provisions and allowances for irrecoverable debt.

Further details of our observations and our recommendations are provided in section 7.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

During the course of our audit, we identified three instances where the Council has not acted in accordance with applicable laws and regulations which we wish to bring to the attention of the Corporate Affairs and Audit Committee:

- ▶ Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002.
- ▶ Under the Local Audit and Accountability Act 2014, the Council is required to provide a period of 30 working days after publication of the draft financial statements during which local electors may inspect the draft Statement of Accounts and raise any questions on them to the Council. Due to a technical issue, the Council did not identify the one question received during the inspection period and did not therefore respond to this in a timely manner. The Council did respond to the query once the failure to respond to the original request was reported through other channels.
- ▶ In most cases, the Council is required by the Freedom of Information Act 2000 to respond to requests for information within 20 days and by the Data Protection Act 2018 to respond to Subject Access Requests (SARs) within one month. For the 2020 calendar year, the Council reported compliance with these targets for 73% of information requests and 58% of SARs. Response times to such requests are specified in legislation therefore the Council's failure to respond consistently within these timescales is non-compliant with these pieces of legislation. Management has previously reported on this matter to the Corporate Affairs and Audit Committee.

We include recommendations in respect of each of these observations within section 7.

The deadline for local government bodies to submit their Whole of Government Accounts (WGA) submission for 2020/21 has been extended to 31 July 2022, and the National Audit Office (NAO) have not yet issued their instructions to auditors specifying the procedures we are required to perform over this submission. Until this work is concluded, we are unable to issue our audit certificate.

We have no other matters to report.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

Fraud Risk: Risk of Fraud in Revenue and Expenditure Recognition

We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of fraud in revenue and expenditure recognition.

Fraud Risk: Misstatements due to Fraud or Error

We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of misstatements due to fraud or error.

Significant Risk: Valuation of Land and Buildings

We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of inappropriate valuations of land and buildings.

We ask you to review these and any other matters in this report to ensure:

- ▶ there are no other considerations or matters that could have an impact on these issues;
- ▶ you agree with the resolution of the issue; and
- ▶ there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Corporate Affairs and Audit Committee.

Independence

Please refer to section 8 for our update on Independence.



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Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

What judgements are we focused on?

We identified this risk as most likely to manifest within the recognition of Covid-related grant funding, the recognition of capital grants, the capitalisation of expenditure or the omission of expenditure from the financial statements.

What did we do?

- ▶ Reviewed the accounting treatment of new Covid-related grants for 2020/21 to confirm that they have been correctly accounted for as either a principle or agent arrangement;
- ▶ Tested a sample of new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income;
- ▶ Tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions;
- ▶ Tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards;
- ▶ Tested samples of invoice postings and cash disbursements made after 1 April 2021 to confirm the expenditure to which they relate was recorded in the correct reporting period; and
- ▶ Reviewed minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

Note: In our Audit Planning Report we reported that we would also test a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it met the criteria set down in governing regulations. We performed this testing, but due to the immaterial balance we have not done so specifically as part of our response to this significant risk.

What are our conclusions?

Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000.

Management corrected the financial statements for this matter, however within the correction we identified one grant for £549,000 where the income had already been recorded but the expenditure had not. This income should not therefore have been included in management's adjustment, resulting in an uncorrected overstatement of income of £549,000.

We have no other matters to report in relation to this risk.

We are therefore satisfied, following management's adjustment, that the financial statements are not materially misstated as a result of fraud in revenue and expenditure recognition.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focus on manual adjustments made to the financial statements, such as through manual journal entries, and on any significant or unusual transactions which are outside of the Council's normal business practices.

What did we do?

- ▶ Identified fraud risks during the planning stages of our audit (see previous risk);
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements.

What are our conclusions?

Within our commentary on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources, set out in Appendix E, we note several instances where the Council entered into transactions without following its normal procurement processes. In one case, the Council has subsequently assessed these transactions as being unlawful. We are however satisfied that the value of these transactions is not material to the financial statements.

We have not identified any other significant or unusual transactions, including from our review of manual journal entries, which we consider give rise to a misstatement of the financial statements or should be brought to the attention of the Corporate Affairs and Audit Committee.

We are therefore satisfied that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

Land and buildings are the most significant assets on the Council's balance sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

Our assessment is that the risk of misstatement is greatest in those assets whose value is dependent to a large extent on the existence and terms of commercial tenancies.

What judgements are we focused on?

We consider this risk to apply to the Council's investment properties, including assets held as assets under construction which will be classified as investment properties upon completion. We recognise an inherent risk over the valuation of other land and buildings.

What did we do?

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. rental terms to support valuations based on rental income);
- ▶ Considered the annual cycle of valuations to ensure that assets were valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that occurred and whether these were communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries were correctly processed in the financial statements.

What are our conclusions?

Our testing identified a transposition error in the recording of the floor area of Centre Square 2 used by the Council's external valuer to inform their valuation of the asset. As a result, the valuation of this asset was overstated by £693,000.

Our review of disclosures relating to land and buildings also identified a few presentational errors, including misclassification of a £3,880,000 impairment of the Transporter Bridge as depreciation and an erroneous negative £1,190,000 disposal. These matters had no impact on the valuation of land and buildings recorded on the balance sheet.

We have no other matters to report in relation to this risk.

We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of land and buildings.

Whilst having no impact on the Council's 2020/21 financial statements, we would also highlight that the Council has acquired a number of commercial properties since 31 March 2021 the valuation of which will require careful consideration for the purposes of the 2021/22 financial statements.



Areas of Audit Focus

Higher inherent risk

Valuation of defined benefit pension liability

What is the risk?

The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The defined benefit pension liability is the most significant liability on the Council's balance sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for the calculations can have a significant impact upon the financial statements.

What judgements are we focused on?

We focus on the appropriateness of assumptions used by the Council's actuary in valuing pension liabilities and the accuracy of pension asset valuations.

What did we do?

- ▶ Liaised with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. Note that the audit of the Pension Fund is also performed by EY;
- ▶ Assessed the work of the Pension Fund actuary (Aon Hewitt), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by our own EY actuarial specialists; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

What are our conclusions?

The Pension Fund auditor identified misstatements within the valuation of the Pension Fund's assets provided to the Council's actuary to inform the valuation of the Council's net pension liabilities. Further details of these misstatements are provided in the separate report of the Pension Fund auditor.

We have quantified the impact on the Council's financial statements as an understatement of the Council's pension assets of £5,947,000, and hence an overstatement by the same amount of the Council's net pension liabilities. The financial statements have been amended to correct this impact.

In addition, we noted that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct. The financial statements have also been amended to correct this matter.

We have no other matters to report in relation to this risk.

We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of defined benefit pension liabilities.



Areas of Audit Focus

Higher inherent risk

Going concern and associated disclosures

What is the risk?

The Covid-19 pandemic has had a significant impact on local authority finances, with new expenditure streams being incurred, loss or reduction to existing income streams and new grant income streams arising. The Council has also seen significant cashflows passing through it where it acts as an agent.

Management will need to undertake their going concern assessment against the backdrop of ongoing uncertainty over the financial impact of the pandemic. They will also need to ensure that going concern disclosures within the financial statements appropriately present management's assessment.

What judgements are we focused on?

We focus on the completeness and accuracy of the going concern disclosures within the financial statements.

What did we do?

- ▶ Challenged management's identification of events or conditions impacting going concern;
- ▶ Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- ▶ Reviewed the Council's assessment that it is appropriate for the financial statements to be prepared on a going concern basis;
- ▶ Reviewed the Council's cashflow forecast covering a period of at least 12 months from the reporting date, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- ▶ Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ Challenged the disclosure made in the financial statements in respect of going concern and any material uncertainty.

What are our conclusions?

The Council has seen a significant increase in its level of usable reserves between 31 March 2020 and 31 March 2021, primarily due to the impact of the business rates reliefs given to businesses during the pandemic and the government decision to allow local authorities to spread the impact of these over a number of years. These amounts will naturally unwind over the next few years.

Management estimated the impact of the pandemic to have been a net cost to the Council of £0.4 million during 2020/21, and that this will increase for 2021/22, however the Council has sufficient reserves set aside within the Covid-19 Recovery Reserve to cover this anticipated impact.

We are satisfied that management's going concern assessment is appropriate.

We made some minor suggestions to improve the clarity of the going concern disclosures, but have no matters we wish to bring to the attention of the Corporate Affairs and Audit Committee.



03 Audit Report



Audit report

We include below a copy of the auditor's report we propose to issue.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 1 to 46, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give 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
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard

and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for the period to 30 September 2023.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit report

Our opinion on the financial statements (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2021.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not limited to:

- ▶ Significant changes to the design of the Authority's largest capital project, Boho X, occurring outside of the Authority's Programme and Project Management Framework;
- ▶ Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Authority's normal procurement processes; and
- ▶ Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.



Audit report

Our opinion on the financial statements (continued)

In addition, where management commissioned work by the Authority's internal audit to investigate these matters the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Authority as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- ▶ Reviewed the work of internal audit, including in respect of changes to the design of Boho X, the purchase of Covid-19 tests and the delivery of mayoral assistance activities;
- ▶ Reviewed the evidence upon which the reports of internal audit were based;
- ▶ Reviewed correspondence received during the course of our audit, including from members of the Authority;
- ▶ Made enquiries of management as to their understanding of the culture at the Authority; and
- ▶ Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee.

The impact on Middlesbrough Council

There is an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora.

In addition, there is a risk that the Authority has not identified all such instances where decisions may have been taken outside of the Authority's formal policies and procedures or the routes by which such decisions are being taken, and will therefore be unable to satisfy itself that such instances will not continue to occur.

The actions the Authority needs to take to address the weaknesses

We recommend that:

- ▶ the Authority develops a comprehensive Improvement Plan to address the cultural and governance issues which exist within the Authority. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This should include the involvement of external specialists;
- ▶ the Authority provides additional training to members and officers on the boundaries of respective responsibilities under the Authority's Constitution. The Authority should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan; and
- ▶ the Authority considers whether further assurance is required to establish whether the risks identified by the Authority to date are complete and the actions taken to respond to those risks sufficient.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution; and
- ▶ how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources.



Audit report

Our opinion on the financial statements (continued)

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 26, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:
 - The Local Government Act 1992,
 - The Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - The Local Government Finance Act 2012,
 - The Local Government Act 2003,
 - The Localism Act 2011,
 - The Local Government Pension Scheme Regulations 2013,
 - The LGPS (Administration) Regulations 2008,
 - The Local Audit and Accountability Act 2014,
 - The Accounts and Audit Regulations 2015 (as amended by The Accounts and Audit (Amendment) Regulations 2021),

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.



Audit report

Our opinion on the financial statements (continued)

- ▶ We understood how Middlesbrough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes, through enquiry of employees to confirm Authority policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- ▶ We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue and expenditure) and management override of controls to be our fraud risks.
- ▶ To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue and expenditure, we reviewed the accounting treatment of Covid-related grant schemes to ensure they had been correctly accounted for as either principal or agent, tested a sample of capital grants to confirm that they have been recognised in accordance with agreed terms and conditions, tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards and tested a sample of invoice postings and cash disbursements made after 31 March 2021 to confirm whether the expenditure to which they relate had been recorded in the correct reporting period.
- ▶ To address our fraud risk of management override of control, we tested specific journal entries by applying risk criteria to the entire population of journals. For each journal selected, we tested back to source documentation to confirm that journals were authorised and accounted for appropriately.

- ▶ We engaged forensics specialists to support our assessment of whether the significant weaknesses in arrangements, including specific instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures, gave rise to additional fraud risks.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



Audit report

Our opinion on the financial statements (continued)

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Middlesbrough Council and Middlesbrough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Edinburgh

[Date]



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted differences

We highlight the following misstatements to the financial statements which management have indicated will remain unadjusted. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Corporate Affairs and Audit Committee and provided within the Letter of Representation:

Misstatements impacting the deficit on provision of services

- ▶ Our testing of the Council's trade receivables identified an invoice for £1,492,000 relating to Section 106 income which had been raised in error, and the Council had issued credit notes to clear this balance after the year end. As a result, the Council's income and trade receivables were overstated by £1,492,000.
- ▶ Our testing of the valuation of Centre Square 2 identified a transposition error in the floor area recorded by the Council's external valuer and used to inform their valuation of the asset. As a result, the valuation of this asset and the gain on revaluation recorded in the CIES were overstated by £693,000.
- ▶ As detailed in section 2 and on the next page, management made an adjustment to the pre-audit financial statements to correct for the incorrect classification of Covid-related grants as agency rather than principle. Within this correction, management double-counted one grant resulting in an overstatement of income, and earmarked reserves, of £549,000.
- ▶ Our testing of the Council's expenditure identified an amount of £159,000 which related to services to be received after 31 March 2021, and should therefore have been recognised as a prepayment rather than expenditure. Our extrapolation of this observation, and two other minor differences totalling £6,000, over the expenditure population estimated an overstatement of expenditure in the current year, and understatement of prepayments, of £2,704,000.
- ▶ Our testing of the Council's income from trading activities identified an amount of £25,000 which related to car parking income which should have been recorded in the prior period. Our extrapolation of this observation over the rest of the trading income population estimated an overstatement of income in the current period, and understatement of income in the prior period, of £2,897,000. We do however note that due to the limited scale of the Council's trading activities, the true misstatement is likely smaller than this.

The net impact of these audit differences, if corrected, would be to increase the deficit on provision of services by £2,927,000.



Audit Differences

Summary of adjusted differences

We highlight the following misstatements to the financial statements which management corrected in the final financial statements:

Misstatements impacting gross income and expenditure, but not the deficit on provision of services

- ▶ Our testing of pension disclosures identified that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct; and
- ▶ Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000.

Misstatements impacting total comprehensive income and expenditure

- ▶ The auditor of the Teesside Pension Fund reported to us misstatements in the valuation of the pension fund's assets provided to the Council's actuary to inform their valuation of the Council's net pension liabilities. Based on this, we determined that the Council's net pension liability, and the actuarial loss for the period, was overstated by £5,947,000.

Misstatements within notes to the balance sheet

- ▶ Our testing of property, plant and equipment disclosures identified that the Council had incorrectly recorded an in-year impairment of the Transporter Bridge as accelerated depreciation rather than an impairment. As a result, depreciation for the year was overstated and impairments understated by £3,880,000;
- ▶ Our testing of property, plant and equipment disclosures also identified an erroneous amount which had been recorded as a reduction to disposals and an increase on revaluation (net nil impact) within the movements in accumulated depreciation. As a result, the impact of disposals on accumulated depreciation incorrectly increased the accumulated depreciation balance by £1,190,000 with an offsetting overstatement of the depreciation written out on revaluation; and
- ▶ Our testing of creditor balances identified that amounts due to individuals in relation to Housing Benefit had been incorrectly classified as owed to local authorities, resulting in an overstatement of amounts owed to other local authorities and understatement of amounts owed to other entities and individuals of £3,252,000.



Audit Differences

Comments on Disclosures

During the course of the audit we identified a number of disclosure errors and made a number of recommendations to management to improve the presentation of financial statements disclosures. The following are the most significant which we consider warrant the attention of the Corporate Affairs and Audit Committee:

- ▶ Our testing of the disclosure of future amounts receivable by the Council under operating leases found that the amounts disclosed were overstated by £10,804,000 due to inaccurate lease information being recorded in the Council's leases register. This disclosure was also overstated by £10,282,000 in the prior year. We make a recommendation in relation to this matter within section 7 of this report.
- ▶ Within the disclosure of senior officer remuneration, an amount of £66,454 paid to the former Executive Director of Growth and Places was incorrectly reported as strain on the pension fund rather than compensation for loss of office. In addition, the total cost of this departure of £292,555 was incorrectly reported within the exit packages note as a voluntary departure when it was in fact a compulsory redundancy. Had this been a voluntary redundancy, approval by full council would have been required under the Council's Pay Policy Statement however this is not required for compulsory redundancies.
- ▶ The accounting treatment of the Dedicated Schools Grant was changed with effect from 1 April 2020, requiring the Council to treat the accumulated balance at this date of £2,783,000 as an unusable reserve rather than a usable reserve as had previously been the case. The draft financial statements omitted disclosure of this as an adjustment to opening balances, meaning that opening balances were inconsistent with the balances reported in the prior period.
- ▶ Within the disclosures relating to property, plant and equipment, the valuation of assets transferred to Sport & Leisure Management under a service concession arrangement had not been updated from the prior year. The valuation in the updated disclosure was higher than the prior year's disclosure by £2,591,000.

In addition, we note that the final financial statements contained a number of casting errors and internal inconsistencies (due to rounding) which management have opted not to seek to correct.



05

Value for Money



Value for Money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

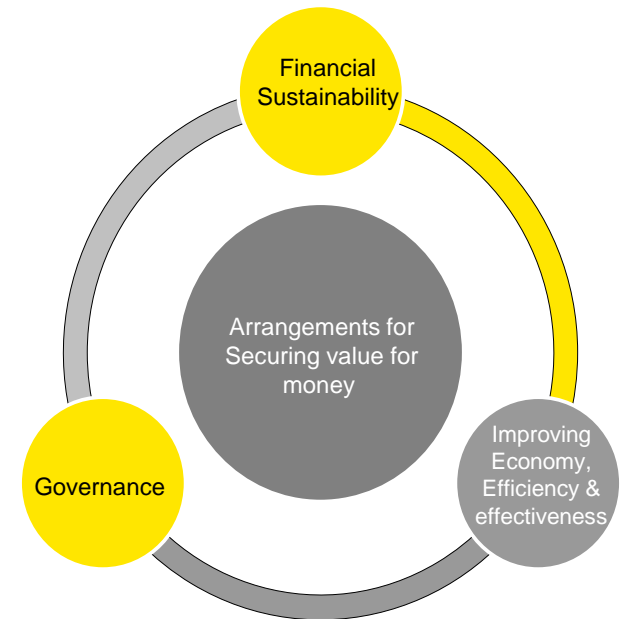
We have previously reported to the Corporate Affairs and Audit Committee the outcome of our risk assessment of the risk of significant weakness in the Council's value for money arrangements - that we had identified one significant risk in relation to the provision of children's services.

In addition, we identified a further risk of significant weakness in respect of member and senior officer relationships during the course of our audit. Our response to this risk included reviewing the work of internal audit and the evidence upon which it was based, reviewing correspondence received during the course of the audit, making enquiries of management and members as we considered necessary and considering our own observations of officers and members.

Status of our VFM work

We completed our planned procedures and determined that there are significant weaknesses in the Council's arrangements to secure value for money. As a result, we have reported by exception details of the significant weaknesses in our auditor's report (see section 3).

A copy of our auditor's commentary on the Council's value for money arrangements is included at Appendix E. We will also issue this commentary as part of our Auditor's Annual Report, which we intend to issue at the same time as our audit report.





Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Provision of Children’s Services</p> <p>We qualified our value for money opinion for 2019/20 with regards to the provision of children’s social care services following the highly critical Ofsted inspection report published in January 2020.</p> <p>During 2020/21, the Council has been implementing an improvement plan developed to address the Ofsted inspection findings. Nevertheless, there remains a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children’s social care services during 2020/21.</p>	<p>Improving economy, efficiency and effectiveness</p>	<ul style="list-style-type: none"> ▶ Made enquiries of management to understand the progress being made against the Council’s Improvement Plan; ▶ Reviewed the findings of subsequent monitoring inspections of the Council’s children’s services as third party evidence of the progress being made by the Council; and ▶ Evaluated whether the above indicates that a material weakness in arrangements was present during 2020/21, and considered the implications for our auditor reporting.

Findings

In response to the Ofsted findings, the Council implemented a Children’s Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.

The appointed Commissioner for Children’s Services in Middlesbrough issued a 12-month review of the Council’s progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that “considerable progress has been made and there is evidence of real impact” and recommended that the Council be allowed to retain control of its Children’s Services. The report did however note that the Council’s Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children’s Services can be considered as adequate in all regards.

Whilst we note that the Council’s Children’s Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council’s actions during the year to 31 March 2021, as assessed by the Commissioner for Children’s Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council’s arrangements during the year ended 31 March 2021 in respect of the provision of Children’s Services, however we will continue to monitor the Council’s progress against the Improvement Plan.



Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Member and senior officer relationships</p> <p>During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to.</p> <p>We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes.</p> <p>Based on identification and initial assessment of these matters, we recognised a risk of significant weakness in respect of member and senior officer relationships.</p>	<p>Governance</p>	<ul style="list-style-type: none"> ▶ Reviewed the work of internal audit, including in respect of changes to the design of Boho X, the purchase of Covid-19 tests and the delivery of mayoral assistance activities; ▶ Reviewed the evidence upon which the reports of internal audit were based; ▶ Involved our EY Forensics specialists in the above procedures and the assessment of whether there were wider risks we needed to consider; ▶ Reviewed correspondence received during the course of our audit, including from Council members; ▶ Made enquiries of management and members, as we deemed necessary, as to their understanding of the culture at the Council; and ▶ Considered our own observations from direct interactions with officers and members, and from attendance at meetings of the Corporate Affairs and Audit Committee.

Findings

We have observed evidence which leads us to conclude that the culture and governance arrangements at the Council have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Council without following the Council's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not limited to:

- ▶ Significant changes to the design of the Council's largest capital project, Boho X, occurring outside of the Council's Programme and Project Management Framework;
- ▶ Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Council's normal procurement processes; and
- ▶ Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.

In addition, our observations are that there is a pervasive lack of trust within the Council between officers and elected members, and between elected members, which is 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.



Value for Money

Findings (continued)

Where management commissioned work by internal audit to investigate these matters, the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

Further details of our observations are set out in our auditor's commentary on the Council's value for money arrangements included at Appendix E. In our view, these are serious matters indicative of deep rooted cultural and relationship issues at the Council which require urgent action. We consider that the Council needs to take immediate action and we will be following up on the Council's response over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations.

Recommendations

In respect of the matters we have identified, we make the following recommendations to the Council:

1. We recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.
2. We recommend that refresher training 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 we recognise 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 our observations we recommend 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. We recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council;
5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient;
6. We recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate; and
7. We recommend that the Council provides 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 these boundaries are not being adhered to, is 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.

Further details behind our recommendations are set out within our auditor's commentary on the Council's value for money arrangements included at Appendix E.

Management's responses to our recommendations are set out at Appendix F.



06 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the draft Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. We do however note that further changes to the Annual Governance Statement are expected.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

The deadline for local government bodies to submit their Whole of Government Accounts (WGA) submission for 2020/21 has been extended to 31 July 2022, and the National Audit Office (NAO) have not yet issued their instructions to auditors specifying the procedures we are required to perform over this submission. Until this work is concluded, we are unable to issue our audit certificate.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We do however note that we expect to see the Council take immediate action to respond to the recommendations we have raised within section 5 of this report and we will be following up on the Council's response to our recommendations over the next 6 months. If we are unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;

- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have included every significant matter we wish to bring to the attention of the Corporate Affairs and Audit Committee within this report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have no significant deficiencies in internal control to bring to the attention of the Corporate Affairs and Audit Committee, other than those highlighted in section 5 of this report.

On the following pages, we make recommendations to address other internal control matters identified during the course of the audit or to improve the Council's processes.

Assessment of Control Environment

Area Application of procurement processes **Rating**

Observation

Our audit procedures identified a number of instances where goods or services were procured outside of the Council's normal policies and procedures, including the provision of mayoral support activities and the purchase of unusable Covid-19 tests.

The Council's policies allow for formal exemptions to full procurement processes to be applied, as may have been appropriate during the pandemic response, however the fact an exemption was applied and the reason for doing so should be clearly documented.

The Council has been unable to evidence documentation of an exemption in the cases noted.

Recommendation

We recommend the Council review its procurement processes to ensure that policies and procedures are either applied in full, or clear documentation is made of the reasons why exemptions have been applied.

Management response

Procurement policies and procedures are in place, however updated e-learning training guides on procurement practice will be developed along with improved links through business partner relations with service directorates. Enhanced detail will be recorded on exemption forms following approvals. Procurement will also introduce a Best Value process to facilitate a smarter procurement process for lower value procurement of goods and services.

Area Inspection of the accounts **Rating**

Observation

Under the Local Audit and Accountability Act 2014, the Council is required to provide a period of 30 working days after publication of the draft financial statements during which local electors may inspect the draft statements and raise any questions on them to the Council. Due to a technical issue, the Council did not identify the one query received during the inspection period and did not therefore respond to the query in a timely manner. The Council did respond to the query once the failure to respond to the original request was reported through other channels.

Recommendation

We recommend that management review the process by which electors may raise queries during the accounts inspection period to ensure that any requests received during the inspection period for the 2021/22 Statement of Accounts are identified and responded to in a timely manner.

Management response

The process has been reviewed and a number of compensating controls have been added for the inspection of accounts process for the 2021/22 accounts. These will avoid this issue re-occurring and will mean any inspection requests are dealt with in a timely manner.

Assessment of Control Environment

Area	Accuracy of leases register	Rating
Observation	<p>Our testing of lease-related disclosures found a number of issues with inaccurate information being recorded in the Council's leases register. In addition to causing a misstatement of disclosures, inaccurate information on the Council's lease arrangements may have a negative impact on the accuracy of financial forecasting and expose the council to operational risks, such as being unaware a lease has expired.</p> <p>In 2024/25, the Council will adopt IFRS 16, a new accounting standard for leases which will increase the balances recognised on the balance sheet. Accurate information on the terms of the Council's leases will be key to successful adoption of this new standard.</p>	
Recommendation	<p>We recommend management review the process by which lease information is updated and reviewed within the Council's leases register to ensure that information recorded in the register is complete and accurate.</p>	
Management response	<p>All leasehold interests are now recorded on the TF system with quarterly reviews matched against Delegated Approvals (DA) for any changes. A revised DA notification system is currently in development and will go live by end August 2022.</p>	

Assessment of Control Environment

Area	Response to freedom of information and subject access requests	Rating
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Observation	<p>In most cases, the Council is required by the Freedom of Information Act 2000 to respond to requests for information within 20 days and by the Data Protection Act 2018 to respond to Subject Access Requests (SARs) within one month. For the 2020 calendar year, the Council has reported compliance with these targets for 73% of information requests and 58% of SARs. Response times to such requests are specified in legislation therefore the Council's failure to respond consistently within these timescales is non-compliant with these pieces of legislation.</p> <p>Management have recognised the need to address a backlog of cases and have implemented a recovery plan to facilitate this.</p>
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Recommendation	<p>We recommend the Council continues to review progress against the recovery plan and take further steps if the Council's compliance rate with statutory timescales does not sufficiently improve.</p>
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Management response	<p>The Council has increased resources to deal with both SARs and FOIs to improve compliance with statutory timescales. Records show a significant improvement in compliance with SARs. Currently there are 7 overdue SARs remaining and we anticipate this backlog will be fully addressed by the autumn. This is a much improved position from 31/3/20 where there were 19 overdue, many significantly delayed. A further report on performance on SARs will be considered by Leadership Management team in August 2022.</p> <p>FOI compliance is much improved, with the number of FOIs answered outside of statutory timescales continuing to reduce and the average number of days to respond is also improving.</p>
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Assessment of Control Environment

Area	Allowances for bad and doubtful debt	Rating
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Observation	<p>Our testing of the Council's allowances for bad and doubtful debt noted that key assumptions within the calculations, in particular around the recoverability of aged debt, have not changed for a number of years. Whilst management did include manual adjustments to account for the impact of the pandemic in specific circumstances, there was a limited evidence base for the size of these adjustments.</p> <p>There have been significant changes to the economic environment at both the macro and local level since many of the assumptions used were set, therefore there is a risk that these are no longer appropriate and the Council is not accurately calculating its exposure to irrecoverable balances.</p>
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Recommendation	<p>We recommend that management review the assumptions used to inform the calculation of allowances for bad and doubtful debt to ensure they remain appropriate. Management should also ensure their calculations comply with the requirements of accounting standards, including the 'expected loss' model of IFRS 9 for non-statutory balances.</p>
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Management response	<p>This item referred mainly to the bad debt provisions around council tax and business rates. In previous years, an element of professional judgement had been used, as opposed to collection data, which needs to be evidenced better to comply with IFRS9. As part of the 2021/22 closure process, collection rate data from the revenues and benefits team over the last 20 years has been used on both provisions to inform a new approach to the aged bad debt provisions. This has been evidenced as part of the collection fund closure working papers. These have been reviewed by the three relevant heads of Service for Finance and then discussed and approved with the Director of Finance. This new approach has been used to prepare the collection fund outturn position and is included within the Balance Sheet amounts for 2021/22.</p>
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Update on prior year recommendations

We have no update to provide on prior year recommendations as we did not make any recommendations to address internal control matters as part of our 2019/20 audit.



08

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The following slide includes a summary of the fees that you have paid to us in the year ended 31st March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have undertaken non-audit work in respect of the Council's annual Housing Benefit and Teachers Pension returns. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period to 2 July 2021:

https://www.ey.com/en_uk/about-us/transparency-report-2021

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 23 July 2021.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Affairs and Audit Committee on 22 July 2022.

We confirm we have not undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd (PSAA).

As part of our reporting on our independence, we set out a summary of the fees for the year ended 31 March 2021.

Description	Proposed final fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Base scale fee - Council (note 1)	88,578	88,578	88,578
Base scale fee - Pension Fund (note 1)	21,972	21,972	21,972
Increase for changes in risk and regulatory environment - Council (notes 2,3,8)	81,850	N/A	53,960
Increase for changes in risk and regulatory environment - Pension Fund (notes 2,3,8)	39,359	N/A	14,033
Revised Base Fee	231,759	110,550	178,543
IAS 19 Procedures (Code Work) (note 4)	8,500	N/A	6,000
IAS 19 Procedures (Non-Code Work) (notes 4,5)	-	N/A	2,000
Revised Base Fee (inc. IAS 19 Procedures)	240,259	110,550	184,543
Additional audit fee for response to specific audit findings - Council (notes 6,7,8)	125,500	N/A	20,745
Additional audit fee for response to specific audit findings - Pension Fund (notes 6,7,8)	5,000	N/A	5,202
Total Audit Fee	370,759	110,550	210,490
Non-audit services - Housing Benefit Certification Work	13,450	N/A	12,800
Non-audit services - Teachers Pension Certification Work	5,250	N/A	5,000
Total Fees	389,459	110,550	228,290

Notes on following page

Confirmation and analysis of audit fees

Notes

- 1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) in March 2020.
- 2) We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. In our Audit Planning Report we reported that we had submitted proposals of £64,381 for the Council and £33,602 for the Pension Fund to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2019/20 audits. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).
- 3) The amounts reported for 2020/21 are the amounts we have communicated to management and will submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2020/21 audits. In addition to the factors applicable to the 2019/20 audits, which remain relevant for the 2020/21 audits, the level of audit work required for 2020/21 was impacted by the adoption of the new auditing standard ISA 540: Auditing Accounting Estimates and Related Disclosures and the new framework applicable to our value for money assessment. Amounts for these factors have been based on anticipated fee impacts communicated by PSAA to auditors and audited bodies.
- 4) As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies.
- 5) In 2019/20, the provision of IAS 19 assurances to the auditor of the Care Quality Commission was not covered by the NAO Code of Audit Practice (2015) and we performed this work under a separate engagement agreement between ourselves and the Pension Fund. From 2020/21, this work is now covered by the new NAO Code of Audit Practice (2020) and the fee reflected within the fee for IAS 19 work performed under the Code of Audit Practice.
- 6) In 2019/20, we performed additional procedures over what we planned at the start of our audit, to respond to the impacts of the Covid-19 pandemic on the financial statements. This included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. In our Audit Planning Report we reported amounts of £24,750 for the Council and £12,455 for the Pension Fund as the additional fees we determined as commensurate with the additional work undertaken, which we had submitted to PSAA. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).
- 7) Where we identified significant risks and other areas of audit focus as part of our 2020/21 audits, as reported to the Corporate Affairs and Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. For 2020/21, this has included an exceptional level of audit effort to address the additional risk of significant weakness relating to member and senior officer relationships reported in section 5 which, due to its nature, has had to be performed by the most senior members of the audit team. Audit resources have also been required to respond to a very high level of correspondence we have received during the course of the 2020/21 audit. The amounts of £125,500 for the Council and £5,000 for the Pension Fund represents our current estimate of the additional fees we have determined as commensurate with the additional work undertaken, however until our audits are concluded further procedures may be required.
- 8) PSAA provided final additional fee determinations of £74,705 for the Council and £19,235 for the Pension Fund in respect of 2019/20 audits. These amounts were not broken down further by PSAA, therefore for the purposes of the table on the previous page we have apportioned these amounts between the increase for changes in risk and regulatory environment and additional audit fee for response to specific audit findings in proportion to the amounts originally requested.



09

Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date;
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Balance Sheet.

Appendix B

Summary of communications

Date 	Nature 	Summary 
03/03/21	Meeting	The audit team met with the Council's internal auditors to discuss our respective audit plans for 2020/21 and matters of common interest.
14/04/21	Meeting	The audit team met with management to discuss developments during 2020/21, key audit issues and audit arrangements for our 2020/21 audit.
23/07/21	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
22/07/22	Report	The audit team will present our Audit Results Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.

In addition to the above specific meetings and reports, senior members of the audit team meet with the Section 151 Officer and senior finance staff every 6 weeks to discuss developments at the Council, the status of the audit and any emerging matters.

The senior members of the audit team have also held various meetings with senior officers, including the Section 151 Officer, Monitoring Officer and Chief Executive, during the course of the audit to discuss the risk of significant weakness in respect of member and senior officer relationships, our observations in this area and the Council's response to those observations. Members of the audit team have also met with members on several occasions, following requests from members.

The audit team also met on a weekly basis with members of the Council's finance team throughout the periods where detailed audit procedures were being performed, along with ad-hoc meetings on specific topics where deemed appropriate.



Appendix C

Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:





Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report (July 2021)
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)

Appendix C





Required communications with the Corporate Affairs and Audit Committee

Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether events of conditions constitute a material uncertainty related to going concern; ▶ Whether the use of the going concern assumption is appropriate in preparation and presentation of the financial statements; ▶ The appropriateness of related party disclosures in the financial statements. 	Audit Results Report (this report)
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Material misstatements corrected by management 	Audit Results Report (this report)
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a) Management; b) Employees who have significant roles in internal control; or c) Others where the fraud results in a material misstatement in the financial statements; ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected. ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report (this report)

Appendix C




Required communications with the Corporate Affairs and Audit Committee

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence; <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report (July 2021); and</p> <p>Audit Results Report (this report)</p>	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report (this report)</p>	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	<p>Audit Results Report (this report)</p>	
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit Results Report (this report)</p>	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	<p>Audit Results Report (this report)</p>	

Appendix C

Required communications with the Corporate Affairs and Audit Committee

Our Reporting to you

Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)

Appendix D

Management representation letter

We include below a copy the management representation letter which we request is printed on the Council's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with the same date as the date of approval of the financial statements.

Management Representation Letter

[Date]

Ernst & Young
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Middlesbrough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.

Management representation letter (continued)

Management Representation Letter (continued)

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *[management to specify rationale]*.

6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- ▶ involving financial improprieties;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

▶ involving management, or employees who have significant roles in internal controls, or others; or

▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council, Executive and Overview and Scrutiny Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates: *[TBC]* for Council, *[TBC]* for Executive and *[TBC]* for Overview and Scrutiny Board.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2021. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter (continued)

Management Representation Letter (continued)

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 2 March 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, (1) any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, aligned with the statements we have made in the other information or other public communications made by us (see section G).

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Management representation letter (continued)

Management Representation Letter (continued)

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuations of land and buildings and the Council's defined-benefit pension balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuations of land and buildings have taken into account all relevant information, and the effects of the Covid-19 pandemic, of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land and buildings.

3. We confirm that the significant assumptions used in making the valuation of land and buildings appropriately reflect our intent and ability to carry out the Council's intentions on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the Covid-19 pandemic on valuation certainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of land and buildings.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the Covid-19 pandemic.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Ian Wright, Section 151 Officer

Cllr Hubbard, Chair of Corporate Affairs and Audit Committee

Management representation letter (continued)

Management Representation Letter (continued)

Schedule of unadjusted differences

- ▶ An overstatement of income and debtors of £1,492k due to incorrect recognition of an invoice for Section 106 amounts raised in error;
- ▶ An overstatement of the valuation of Centre Square 2 of £693k due to a transposition error in the asset size used by the Council's external valuer;
- ▶ An overstatement of income and earmarked reserves of £549k due to double-counting of a Covid-related grant;
- ▶ An extrapolated overstatement of expenditure of £2,704k relating to non-recognition of prepayments for amounts relating to future periods; and
- ▶ An extrapolated overstatement of income of £2,897k relating to late recognition of amounts related to earlier period.

Commentary on value for money arrangements

We include below a copy of our commentary on the Council's arrangements for securing value for money from its use of resources. This commentary will also be included as part of our Auditor's Annual Report, which we intend to issue at the same time as our audit report.

Commentary of value for money arrangements

Scope and risks

We have complied with the NAO's 2020 Code (2020 Code) and the NAO's Auditor Guidance Notes in respect of VFM. We presented our VFM risk assessment to the 5 August 2021 Corporate Affairs and Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of minutes from the Council's committees and Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had identified one risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Provision of Children's Services

We qualified our VFM opinion for the year ended 31 March 2020 in respect of the Council's provision of children's social care services following an assessment by Ofsted in December 2019 that services were inadequate. Following the Ofsted inspection, the Council put in place an Improvement Plan and subsequent reports by the appointed Commissioner for Children's Services in Middlesbrough and Ofsted supported that the Council has put in place appropriate governance structures to respond to the Ofsted findings.

Nevertheless, there remained a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during the year ended 31 March 2021.

We responded to this risk by making enquiries of management to understand the progress being made against the Improvement Plan and reviewing the findings of subsequent external assessments of the Council's Children's Services as third party evidence of the progress being made by the Council. Based on the insight gained from these procedures, we formed an assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that no significant weakness existed. Further details of our assessment are provided within the 'How the body evaluates the services

it provides to assess performance and identify areas for improvement' section below.

During the course of our audit, additional matters came to our attention which indicated a further risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021. We therefore recognised a further significant risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Member and Senior Officer Relationships

During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to. We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Based on identification of these matters and in accordance with the proper arrangements criteria set out in the 2020 Code, we recognised a risk that the Council did not "have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

We responded to this risk by following up on each of the individual matters brought to our attention through enquiries of management and the Council's internal auditor, review of reports and other documentation, including reports commissioned by management to investigate the more serious concerns raised and consideration of the consistency of the information obtained in the course of these enquiries with other information obtained during the course of our audit. Based on the insight gained from these procedures, we formed our assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that significant weaknesses did exist, and provide further details of these in the sections below.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Reporting

We completed our VFM arrangements work in [TBC] and identified a significant weakness in the Council's VFM arrangements in relation to member and senior officer relationships and the impact of these on the Council's governance processes. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendation(s) we have agreed with the Council.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- ▶ Governance
 - How the Council ensures that it makes informed decisions and properly manages its risks;
- ▶ Improving economy, efficiency and effectiveness
 - How the Council uses information about its costs and performance to improve the way it manages and delivers its services; and
- ▶ Financial sustainability
 - How the Council plans and manages its resources to ensure it can continue to deliver its services.

Introduction and Context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a

governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Governance

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of Executive and other committees, operating at both Council-wide and service level, which are responsible for approving key decisions. Committee discussions are informed by a standard reporting template which sets out the background to the decision, available alternatives to the proposed decision, the advantages and disadvantages of available options and any financial or legal implications for the Council of the proposed action.

The Council also has an Overview and Scrutiny Board whose role is to scrutinise the performance of Council functions and the decisions taken by Executive committees. The Overview and Scrutiny Board is supported by 7 Scrutiny Panels and a joint committee with Redcar and Cleveland Council, with each able to refer decisions back to the Executive for further consideration.

The Corporate Affairs and Audit Committee receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The Council's largest project during the year was the development of a specialist digital office space known as Boho X. The Council's Executive originally approved a 60,000 square foot design for this project in March 2019, before approving a revised 20-floor 100,000 square foot design in March 2020. Between March 2020 and August 2020, the design of Boho X changed again from the 100,000 square foot design to a revised 6-floor 60,000 square foot design. We have not sought to assess the merits of each Boho X design nor the strength of the evidence base informing them.

Under the Council's Constitution, elected members have no role in the delivery of projects, however changes in design were recorded by the external contractor as being approved by the Council's Mayor and followed meetings between the contractor and the Mayor which were held without Council officers being present. The changes in design were not submitted through the formal project change control process, as required by the Council's Programme and Project Management Framework (PPMF), and no meetings of the Internal Project Board were held during the period when changes occurred. The impact of the Covid-19 pandemic was cited by the Council as the reason for the change in design during public consultation and approval by the Executive of the revised design, however there is no documentation of the reasons for the change to support this assertion and the decision-making process remains unclear. Whilst the Council's Mayor understood that he had been authorised to discuss changes to the design with the external contractor by a senior officer, in our view the communication on which this was based did not explicitly provide such authority and such approval would in any event have been contrary to the Council's Constitution and the PPMF. It is therefore our assessment that there have been significant weaknesses in the Council's management of the Boho X project which undermine the Council's ability to demonstrate that the project represents value for money for taxpayers.

In addition to the changes in design for the Boho X project, we have identified several other transactions entered into by the Council during the year where Council policies and procedures were not followed and where a lack of adherence to the respective roles of officers and members was a key factor. These included the purchase of Covid-19 antibody tests which were not approved for use by the Medicines and Healthcare Products Regulatory Authority and therefore could not be used as the Council had intended, and the provision of political and

administrative support to the Mayor by an outside party. In both cases, concerns about the proposed transactions were raised by senior officers prior to the transactions being entered into however both subsequently proceeded without following the Council's proper procurement processes. Whilst the monetary value of these transactions was not significant in the context of the financial statements, they demonstrate that the weaknesses identified in the Boho X project were not a one-off and that there are wider weaknesses in the Council's arrangements in particular where reliant on appropriate working between officers and elected members.

We have also noted multiple further examples of difficult relationships between officers and members, and between members, across a number of areas in the course of performing our audit work. As part of our reporting on the Council's audit for the year ended 31 March 2018, we reported that:

"We have observed that the relationship between some Councillors and senior officers is strained. This appears to be due to a mutual level of mistrust. Officers consider that the level of challenge provided by some Councillors is excessive. Officers have also noted that they are required to spend disproportionate amounts of time on issues that, in their opinion, have been previously addressed. We note that concerns about the style of communication between members and officers have also been expressed that have resulted in Standards Committee action.

In contrast, some members consider that the information provided by officers, in relation to their challenge, is in some cases not adequate or is deliberately withheld, and as a result they are unable to make informed decisions. This has also led to members sharing concerns directly with internal and external audit regarding ongoing matters as a way to address their concerns, rather than being confident to address matters with the responsible statutory officers and ultimately the head of paid service."

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Since 2018 there have been a number of changes to both the senior officers of the Council and to elected members. Despite these changes, our observations during the year ended 31 March 2021 are that a lack of trust is still pervasive within the organisation and is undermining the effectiveness of the Council's governance arrangements. In our view these are serious matters indicative of deep rooted cultural and relationship issues which require urgent action. This lack of trust extends beyond the relationships between officers and members to the relationships between members, in particular between the Council's Executive and other members. This in turn hinders efforts to improve the relationships between officers and all members, as officers feel they are regarded by members as 'taking sides' in areas of disagreement between members.

1. We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.

We consider that the Council needs to take this step as an immediate action and we will be following up on the Council's response to our recommendation over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council's Overview and Scrutiny Board monitors the performance of the Council's services and has the power to invite expert witnesses, such as professionals or service users, to advise the Board. The Council's Constitution includes Codes of Conduct for both elected members and employed officers which set out the expected behaviour of individuals, including the management of conflicts of interest. Failure to adhere to the Codes of Conduct may result in disciplinary proceedings under the Council's HR policies.

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection.

Like many organisations, the Council is reliant on self-reporting by elected members and officers of any conflicts of interest, however we have identified a small number of instances where declarations made by elected members were either incomplete or inconsistent with previous declarations. We have also observed that there is a lack of trust between elected members that relevant interests are declared at decision making meetings, which contributes to a lack of confidence from some elected members in decisions being taken.

2. We therefore recommend that refresher training 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 we recognise 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 our observations we also recommend 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.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

As a local authority with a mayoral model, the Council is entitled to utilise its resources to appoint a mayoral political assistant. A mayoral political assistant is a local government employee who undertakes research and provides administrative support to the Mayor. The mayoral political assistant post is a politically restricted post, and there are strict rules set out within The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 which govern appointments to this post. These include that the role must be performed by an employee of the Council. The Council's mayoral assistant post has remained vacant since September 2019.

Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002. The payments made to the publicity company under this arrangement were therefore also unlawful, however we note they were not material to our opinion on the Council's financial statements.

The arrangement was entered into by the Council without following either the Council's recruitment policies, which would have applied to a permanent employee of the Council, or the Council's procurement policies, which would have applied to an external supplier. Payments to the publicity company were directly approved by the Council's Chief Executive despite the Council not being able to explain the nature of services received. Notwithstanding the lawfulness of the arrangement, by making payments to a supplier without understanding the nature of services being received in exchange for those payments the Council is unable to demonstrate that the payments represented value for money for taxpayers.

4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council maintains a Strategic Risk Register which is used to record and monitor the most significant risks, both financial and non-financial, identified by the Council. Beneath the Strategic Risk Register, each directorate maintains its own risk register and can escalate risks up to the Strategic Risk Register when sufficiently significant.

The strategic and directorate risk registers are reviewed monthly by the Leadership Management Team and directorate management teams, respectively. The Strategic Risk Register is also reviewed quarterly by the Executive and the Overview and Scrutiny Board.

Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan. Internal audit also provide a programme of counter-fraud activity to the Council.

A number of the matters which have been brought to our attention during the course of our audit were also reported to senior officers and the Council commissioned several reviews by internal audit to respond to the matters raised. These included reports on the management of the Boho X project, the purchase of the Covid-19 tests and the completeness of member declarations of interest. In our view, the scope of this work was not always sufficient to provide assurance to management on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up on findings which indicated areas where additional risks may exist beyond the initial scope of work. Budget limitations were cited as a reason for this, however the reports produced did not highlight these areas for consideration of follow-up work by officers or the Corporate Affairs and Audit Committee. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.

6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.

How the body approaches and carries out its annual budget setting process

The Council maintains a Strategic Plan which sets out the key priorities for the Council, including those of the Mayor, over a multi-year period. The Strategic Plan forms the basis for the Council's budget setting exercise, along with forecasts from individual directorates for existing plans and services. These are collated with assumptions for cost pressures and future funding levels to produce a draft budget.

The draft budget is reviewed and stress tested for different scenarios by the Council's Leadership Management Team and Executive, before being issued to key stakeholders for consultation.

Management review the responses received from stakeholder consultations and make any necessary amendments to the draft budget, before submitting the finalised budget to meeting of the full Council for approval.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council delegates budgets to individual cost centre managers, who are responsible for ensuring delivery within the delegated budget. Financial training is provided to all budget holders, who meet regularly with finance business partners to monitor financial performance.

Financial performance against budget and updated forecasts for the remainder of the year are presented to the Council's Leadership Management Team and

Executive on a quarterly basis, along with proposals for corrective actions where required.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

Financial performance is monitored via management accounts and presented to the Executive and Corporate Affairs and Audit Committee on a quarterly basis. Reporting includes comparison of both performance to date and full-year forecasts against budgets, with explanations provided for significant variances. Comparison is also made to the position in previous reporting to monitor whether improvement actions have had the desired impact.

Beneath the Council's high-level reporting, budgets and performance are monitored at service line and budget holder levels, with individual budget holders responsible for ensuring delivery against delegated budgets and the accurate forecasting of future performance.

How the body evaluates the services it provides to assess performance and identify areas for improvement

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions.

In January 2020, the Council's provision of children's social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. Our value for money opinion in 2019/20, issued in accordance with the 2015 Code of Audit Practice extant at the time, was qualified in respect of this matter.

In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The appointed Commissioner for Children's Services in Middlesbrough issued a 12-month review of the Council's progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that "considerable progress has been made and there is evidence of real impact" and recommended that the Council be allowed to retain control of its Children's Services. The report did however note that the Council's Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children's Services can be considered as adequate in all regards.

Whilst we note that the Council's Children's Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council's actions during the year to 31 March 2021, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2021 in respect of the provision of Children's Services, however we will continue to monitor the Council's progress against the Improvement Plan.

The provision of children's social care is a key financial pressure for the Council. Whilst the Council has invested additional resources in the delivery of the Children's Services Improvement Plan, it is management's expectation over the medium term that the improvements in service delivery will ultimately decrease costs by more effectively meeting the needs of service users during the earlier, lower cost, stages of care.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has a Partnership Governance Policy which governs how the Council develops and manages its partnerships. All new partnership arrangements are considered to be projects and subject to the approval processes of the Council's Programme and Project Management Policy.

Each partnership arrangement has a dedicated lead manager who is responsible for managing the partnership's performance and governance. A register is

maintained of all Council partnerships and the performance of significant partnerships is included in quarterly performance reporting to the Executive and Overview and Scrutiny Board.

A number of the Council's elected members also hold positions in local and regional partner organisations to promote effective cross-working between partnership members.

Through the Multi-Agency Strategic Board and Multi-Agency Operational Board, the Council has worked particularly closely during 2020-21 with the Department for Education (DfE) and the DfE appointed Commissioner for Children's Services in Middlesbrough on the delivery of the Council's Children's Services Improvement Plan.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council uses the North East Procurement Organisation (NEPO), a regional procurement hub for North East local government authorities, for all of its tendered procurements. NEPO also maintains a public contracts register which lists all of the Council's current contracts. The Council also has a central procurement unit, which provides support to individuals within the Council overseeing procurement activity through NEPO.

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts.

The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed above.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government. The MTFP for 2021-24 also included consideration of additional costs and funding relating to the Covid-19 pandemic.

The Council's finance team work with the heads of individual directorates to identify cost pressures, including due to changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFP.

Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which require reflecting in subsequent MTFPs.

How the body plans to bridge its funding gaps and identifies achievable savings

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. For the 2021-22 budget, a budget gap of £1.626 million was identified.

Individual directorates are required to identify potential savings within their service area, which may arise from reductions to expenditure or increases to income. Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery. Where proposed savings may have a significant impact on service delivery, the Council holds a public consultation prior to incorporating the saving into financial plans.

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. For the 2021/22 budget, identified savings exceeded required savings by £0.695 million.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle.

The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

During 2020/21, management undertook a self-assessment against the CIPFA Financial Management Code, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Several actions were identified to strengthen the Council's processes, however no major weaknesses were noted.

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers. We have however identified multiple instances, as detailed above, where the involvement of members strayed into operational matters. We also note that where this occurred, it was often known to officers and insufficient challenge was provided to members on the boundaries of members' and officers' respective responsibilities. A lack of adherence to the delineation between strategic and operational responsibilities increases the risk that operational decisions are taken which are not optimal for the Council or the Council is unable to demonstrate represent value for money. Examples of this noted above include the Boho X project and the purchase of Covid tests.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

7. We therefore recommend that the Council provides 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 these boundaries are not being adhered to, is 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.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council develops its Capital Strategy and Investment Strategy alongside the MTFP and incorporates the revenue impact of planned capital expenditure and borrowing into the MTFP.

The Council operates a finance business partner model to facilitate regular communication between finance staff and the Council's directorates to ensure that other plans being prepared by the Council are consistent with the Council's financial planning.

The Council also requires that all decisions which are deemed significant enough to warrant approval by the senior management team or elected members are approved by the Council's Director of Finance to ensure that the financial implications of significant decisions are considered and reflected in the Council's financial planning.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures. During 2020-21, management released a previously held Investment Fund Reserve to offset the impact of the Covid-19 pandemic on the Council's finances.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal

activities. During 2020/21, the Council increased this minimum level from £9.4 million to £11 million, effective from 2021/22, to reflect higher uncertainty in the Council's financial projections, including the ongoing impact of the Covid-19 pandemic. At 31 March 2021, the Council's General Fund balance was above the £9.4 million minimum level in effect for 2020/21 at £10.5 million and is forecast to increase to the revised minimum level of £11 million during 2021/22.

The Council's MTFP produced during 2020/21 included a balanced budget for 2021/22 and indicative budgets for 2022/23 and 2023/24. The MTFP forecast a budget deficit of £0.6 million in 2022/23, which the Council intends to finance from reserves, and a budget deficit of £3.1 million for 2023/24 which the Council will need to address in future MTFPs.

Appendix F

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
<p>1. We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.</p>	<p>The Council has proposed, within the draft Annual Governance Statement, that a Corporate Governance Improvement journey is commenced. It is intended that this will be informed by the views of external specialists, CIPFA, who have been commissioned to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration.</p> <p>In order for this to be successfully delivered, it will require full buy in from all stakeholders in this process. There is a significant risk that this action cannot be achieved if this is not gained. This is reflected within the Annual Governance Statement and has been highlighted to EY.</p>	<p>October 2022</p>
<p>2. We therefore recommend that refresher training 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.</p>	<p>Refresher training on the code of conduct was provided to members during 2021/22 (27/9/21). 21 members attended that training. Training also included ethics within public life. Following the event the training presentation was emailed to all Councillors</p>	<p>Complete</p>
<p>3. Whilst we recognise 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 our observations we also recommend 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.</p>	<p>Member refresher training was delivered during 2022 on the code of conduct and included information on hospitality requirements and registers of interests. A separate micro session was also delivered on members interests on 22 Sept 21. As standard materials from all training events is sent out to all councillors.</p> <p>While it is an Elected Member's sole responsibility to ensure that they appropriately declare interests, the Council will undertake periodic spot checks on a risk based basis at least three times a year of one or more Members' declarations during 2022/23 to assess whether there are ongoing compliance issues.</p>	<p>March 2023</p>

Appendix F

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
<p>4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.</p>	<p>The council will consider the findings of the pre-formal fact finding to date and use this to propose a scope of reviews that will test similar arrangements to those that were within the scope of the pre-formal fact-finding. This will be embedded within the Internal Audit programme for 2022/23.</p>	<p>March 2023</p>
<p>5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.</p>	<p>The Council has recently refreshed its approach to Risk Management and tasked all senior officers to review existing risks. This is an ongoing exercise.</p> <p>Senior Managers will consider whether risk has been fully identified as part of steps in response to recommendations and to establish whether there are additional areas of Council business that that require further governance review.</p> <p>Risk register content is available to LMT on the dashboard, performance against existing risk is presented on a monthly basis and risk register content is reviewed regularly within the quarterly performance report. The Q1 process will include an assessment of risk changes as a result of the VfM judgement and the update of the Annual Governance Statement.</p>	<p>August 2022</p>
<p>6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.</p>	<p>Management will work with Veritau to build the highlighting of identified wider risks into the audit reporting process. The reporting of these risks will then be built into regular Internal Audit updates to Corporate Affairs and Audit Committee.</p>	<p>October 2022</p>

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
<p>7. We therefore recommend that the Council provides 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 these boundaries are not being adhered to, is 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.</p>	<p>There is a planned action within the Annual Governance Statement to complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers during 2022/23.</p> <p>This is supplemented by training already delivered during 2021/22 on roles and responsibilities in a range of corporate governance areas:</p> <ul style="list-style-type: none"> ▸ Refresher senior leadership development work programme delivered by the Local Government Association to ensure officer and member roles continue to be understood and adhered to. <p>And other training planned for delivering during 2022/23:</p> <ul style="list-style-type: none"> ▸ Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training; ▸ Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers; ▸ Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to; ▸ Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management; ▸ Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge; ▸ Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers. <p>The Council has also commissioned CIPFA to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration. As a result of this work, it is likely that further training needs will be required to drive required culture changes that are needed.</p>	<p>Various - as reflected in the Annual Governance Statement</p>