

**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 29 June 2023.

**PRESENT:** Councillors J Ewan (Chair), D Coupe, P Gavigan, B Hubbard, S Platt, A Romaine (as substitute for Councillor Kabuye), and M Storey (as substitute for Councillor High)

**PRESENT BY INVITATION:** Councillors I Blades and N Walker

**ALSO IN ATTENDANCE:** J Dodsworth (Veritau), M Thomas (Internal Auditor) (Veritau) and M Rutter (External Auditor) (Ernst Young)

**OFFICERS:** S Lightwing, C Benjamin, A Johnstone and J Weston

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillors J Kabuye and A High

23/1 **WELCOME AND EVACUATION PROCEDURE**

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

The Chair wished to record her thanks to the former Chair, Vice Chair and Members of the Corporate Affairs and Audit Committee for their contributions and work during the past four years.

**NOTED**

23/2 **DECLARATIONS OF INTEREST**

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

23/3 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 28 APRIL 2023**

The minutes of the Corporate Affairs meeting held on 28 April 2023 were submitted and approved as a correct record, subject to the following amendment:

Page 2, 3<sup>rd</sup> paragraph: "This was because work was still on-going in relation to the value for money qualification on Governance."

This sentence to be removed as it was incorrect - the value for money work had been completed.

**NOTED**

23/4 **TIMELINE FOR STATEMENT OF ACCOUNTS**

A timeline for the Statement of Accounts was presented to the Committee for information.

There were currently three sets of accounts being prepared relating to 2021/2022, 2022/2023 and 2023/2024.

Due to a number of high profile private sector accounting issues, there had been increased scrutiny which had fed through to the public sector and regulation around the process had extended significantly. The Statement of Accounts was required to show a true and fair view of the Council's finances and provide a value for money assessment.

The additional work required and audit queries had led to a backlog of work for the Council's Finance Team on the accounts and the audit process. The timeline provided details of the work that was required to close off the outstanding accounts. The 2021/2022 accounts were almost complete, the 2022/2023 were close to completion and the 2023/2024 accounts were

currently being prepared.

The Director of Finance was currently seeking additional investment in the Finance Team to assist with the backlog of work. Additional external examination of the accounts and the position of the Council in terms of financial sustainability and going concern were adding to the workload.

A Member highlighted recent press reporting that delays to the publication of the Teesside Pension Fund Accounts had caused some issues for other Employers in the Teesside Pension Fund. The External Auditor stated that the overall timetable for the approval of the accounts was not necessarily holding up the pension fund work. The work for 2021/2022 was completed and published in March 2022 and at the end of that month the valuation of the pensions came out and the values had increased significantly.

It was confirmed that whilst there were no financial penalties for not meeting the deadlines for publishing draft or audited accounts, there could potentially be reputational damage. A notice had to be placed on the Council's website to explain why deadlines had not been met. The Officer added that the Council was quite close to being able to publish within the statutory deadlines.

In terms of recruitment of additional resources, the Council had been unable to recruit to the Chief Accountant post. The skill set was in high demand but there was potential to employ suitable people through recruitment agencies. A further update would be provided at the next meeting.

**AGREED** that the information provided was received and noted.

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#### **AUDITOR'S ANNUAL REPORT - YEAR ENDED 31 MARCH 2021**

The External Auditor Ernst and Young had concluded the planned audit work in relation to the financial year 2020/21 and presented the Annual Report to the Committee for information and discussion.

The report included the Auditor's conclusions and recommendations in relation to the audit of the financial statements and in relation to the assessment of the Council's arrangements for securing robust governance and Value For Money. The findings had been subject of previous reports to the Committee over the period July 2022 and updates through to April 2023. However as the Corporate Affairs and Audit Committee had a new membership following the local elections in May 2023, it was appropriate for the Committee to formally consider the Auditor's Annual Report. The External Auditor suggested that the audit planning reports for 2021-22 should be circulated to Committee Members for information.

The Council provided management responses to the auditor's 7 recommendations in relation to Value for Money in July 2022 as set out in the Annual Report. The Council continued to progress the delivery of its Improvement Plan over the last year and the latest progress update was due to be presented to Council on 5 July 2023.

The External Auditor's Annual Report was attached at Appendix 1 to the submitted report and included the following:

- Executive summary
- Purpose and responsibilities
- Financial statements audit
- Value for Money
- Other reporting issues
- Appendix 1 – Fees

Members' attention was drawn to paragraph 9 of the covering report which set out in detail the fees for the 2020/2021 audit. The fees were significantly higher than both the planned fee for the 2020/21 (4.5 times higher) and the final fee for the previous year's audit. This related primarily to the length of the audit at just under two years, the increasing changes in both risk and regulation involved with the audit activity, and some of the specific governance issues which culminated in a value for money qualification for the Council. All these points had been raised previously by EY to both Officers and the Committee. The increase in audit fees had

been acknowledged by the Council and was being factored into the on-going medium-term financial plan. Given the level of increase in fees, a fee variation request has been submitted by EY to Public Sector Audit Appointments (the regulatory body in this area). The Council could submit its comments as to whether it accepted the fees or not and could provide further explanation or evidence if needed.

The External Auditor drew Members' attention to the following aspects of the Financial Statement Audit and provided further detailed explanation in relation to each heading:

#### Areas of Significant Risk:

- Misstatements due to fraud or error (Council and Pension Fund).
- Risk of fraud in revenue and expenditure recognition (Council).
- Valuation of land and buildings (Council only).
- Accounting for infrastructure assets (Council only).
- Valuation of unquoted pooled investment vehicles (Pension Fund only).
- Valuation of directly-held property (Pension Fund only).

#### Other areas of audit focus

- Valuation of defined benefit pension liability (Council only).
- Going concern and associated disclosures (Council only).

#### Audit differences (Council and Pension Fund).

#### Value for Money (VFM) Assessment.

In relation to the longer timescales for audit completion, the financial implications for the Council in terms of audit fees, and whether this would be repeated in future, the External Auditor explained that the requirements were set in legislation. Pre-pandemic, audits were expected to be completed by July. However, in 2020 this date was moved to November and then to September the following year. It was likely that September would continue to be the new end date.

Regarding asset valuations, a Member queried whether there was any difference in the Teesside Pension Fund's valuations and EY's. The External Auditor stated that the Council used an external valuer to undertake the valuation and then EY examined the work of this specialist and the methodology. A sample of the assets would be selected and the data tested for accuracy. EY's own specialist would also review a sample of the valuations.

A Member commented on the decision making in relation to Boho X highlighted in the VFM section of the report and EY's view on the communication between the Mayor and a Senior Officer which did not explicitly provide authority. Several examples were provided within the report where Council policies and procedures were not adhered to. The External Auditor was asked whether work was ongoing on this issue and it was confirmed that a Governance Audit was currently being undertaken.

The Internal Auditor confirmed that audit report on the Middlesbrough Development Company was close to completion and would be made available to Committee Members once finalised.

#### **AGREED** as follows that:

1. the content of the External Auditor's Annual Report was received and noted.
2. audit planning reports for 2021-22 would be circulated to the current Committee membership.

#### **INTERNAL AUDIT AND COUNTER FRAUD WORK PROGRAMMES 2023/2024**

The Head of Internal Audit, Veritau, presented a report to seek Members' approval for the 2023/2024 Planned Programme of Internal Audit and to asked Members to note the Counter Fraud 2023/2024 Work Programme.

The Internal Audit work was high level, risk based and prioritised to those areas of most benefit to the Council. The Auditor tried to be responsive to emerging issues and risks that had not been identified previously and therefore the programme was flexible throughout the

year. The proposed areas of coverage had been subject to consultation with the Corporate Affairs and Audit Committee and senior officers including Directorate Management Teams.

Appendix 1 to the submitted report set out the proposed internal audit work for 2023/24 and eleven key areas identified for audit were as follows:

- strategic planning
- organisational governance
- financial governance
- risk management
- information governance
- performance management and data quality
- procurement and contract management
- people management
- asset management
- programme and project management
- ICT governance

The planned work was based on an initial assessment of risk undertaken. The identification of risks included in the assessment had been informed in a number of ways. This included review of the organisational risk management processes, sector-wide risk information, understanding the Council's strategies and objectives, other known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in Council services and systems.

Further meetings would be held throughout the year to plan and confirm the scope and timings of audit work and regular updates would be provided to the Corporate Affairs and Audit Committee on the coverage, scope and findings of internal audit's work.

The total days allocated to internal audit assurance in 2023/24 was 555.

A Member queried the proposed audit in relation to Domestic Abuse. The Internal Auditor explained that this had been identified through discussions with officers and would examine the Council's plans for monitoring activity, assessing outcomes and what plans were in place for improving performance.

In relation to those audits marked "to do later", the Internal Auditor clarified that those audits would be done in Quarter 3 or Quarter 4.

Internal Audit's aim in relation to counter fraud was to prevent fraud occurring at the Council, raise awareness amongst staff, demonstrate that there were consequences of fraud and recover any money that was lost.

Proposed areas of counter fraud work in 2023/24 were set out in Appendix 2 to the submitted report.

No estimate of time was made for each area as this would depend on the levels of suspected fraud reported to the team. The priorities for the work programme were set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment which were most recently presented to the Committee in September 2022.

The total days allocated to counter fraud work in 2023/24 was 150.

**AGREED** as follows that the:

1. Internal Audit Work Programme 2023/2024 was approved.
2. Counter Fraud Work Programme 2023/2024 was noted.

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

A proposal was put forward that an additional meeting of the Corporate Affairs and Audit Committee should be convened in August 2023. The Director of Legal and Governance Services suggested that this proposal should be discussed outside of the meeting in consultation with the Chair and Vice Chair.

**NOTED**