

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 1 February 2024.

PRESENT: Councillors J Ewan (Chair), J Kabuye (Vice-Chair), I Blades, D Coupe, B Hubbard, S Platt and M Storey

ALSO IN ATTENDANCE: P Jeffrey (Internal Auditor) (Veritau), M Rutter (External Auditor) (Ernst Young) and M Kirkham (Mazars)

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

APOLOGIES FOR ABSENCE: None

23/17 **WELCOME AND EVACUATION PROCEDURE**

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

23/18 **DECLARATIONS OF INTEREST**

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

23/19 **MINUTES - AUDIT COMMITTEE - 14 DECEMBER 2023**

The minutes of the Audit Committee meeting held on 14 December 2023 were submitted and approved as a correct record.

23/20 **DRAFT STATEMENT OF ACCOUNTS 2022/2023**

A report of the Director of Finance (Section 151 Officer) was presented for information in relation to the draft Statement of Accounts (SOA) for the 2022/2023 financial year.

Officers were due to meet with External Auditors to discuss the implications of the Government's proposals, announced in July 2023, in relation to the need to re-set the national local government audit market to address the significant delays in completing the audit of prior year accounts. Further information would be shared with the Committee when the position was clarified by the Department for Levelling Up Housing and Communities (DLUHC).

Presentation of the draft SOA for 2022/2023 had been delayed due to the ongoing audit of 2021/2022, which included a specific review of the methodology for calculating the Collection Fund bad debt provision for compliance with IAS37. The S151 Officer requested the External Auditor to undertake this work considering the material adjustments that were anticipated to result from the review, whilst other work on the 2021/2022 audit had been suspended by the External Auditor pending resolution of the approach to be taken to conclude legacy audits as part of the national reset of the local government audit market.

The cumulative delay to completing the audit of the Council's legacy accounts was also due to a much longer audit process on the previous two years audits (2019/2020 and 2020/2021) as reported to the Committee in October 2023. This was due to additional regulatory and value for money work being undertaken by the auditor.

Any potential audit adjustment because of the review of the Collection Fund Bad debt provision in the 2021/2022 accounts would impact on the opening balances of 2022/2023, therefore the S151 officer was unable to sign and publish the 2022/2023 accounts as presenting a true and fair view until this work was concluded.

Despite this delay (the statutory date for publishing these accounts was 31 May 2023), it was still an important aspect of the governance and approval process for Members to consider the financial details of the Council at the draft stage and prior to the external audit process being undertaken. Members of the Audit Committee had received bespoke training on the

Statement of Accounts prior to the meeting.

A copy of the draft Statement of Accounts (SOA) 2022/2023 was attached at Appendix A to the submitted report. The Statement of Accounts consisted of a Narrative Report from the Director of Finance that provided an explanation on the financial position of the Council and described the key activities/highlights for the Council during the year. The report also contained performance-based information that showed what had been achieved using public funds during the financial year. The second section includes the Council's financial statements. These were the core elements of the SOA and included the movement in reserves statement, the income and expenditure statement, the balance sheet, and the cash flow statement for 2022-23. The third section was the notes to the accounts, and these include detailed narrative explanation and figures that supported the key totals within the financial statements and other issues that were of interest to local authority stakeholders. The Accounts also included the collection fund, covering council tax and business rates activities, the accounts of the Teesside Pension Fund for which Middlesbrough Council was the administering authority, and a set of group accounts (financial statements and notes) which consolidated the wholly owned subsidiary, Middlesbrough Development Company, into the Council's own accounts. The final section was the Annual Governance Statement that set out how the Council had complied with best practice governance arrangements and any key issues that arose from that.

It was drawn to Member's attention that there were significant differences between the Council's financial statements, which were part of the SOA document, and its management accounts which were reported for budget and operational purposes. This related to technical accounting adjustments and timing issues in how certain totals were reported. Two important areas to note were the presentation of reserves and the net worth of the Council's balance sheet.

The total value of usable reserves in the Balance Sheet as of 31st March 2023 was £59.826m. This was much higher than the £14.829m total that had been reported in the budget monitoring process for 2023/24 and was leading to the Council having difficulties currently in setting a balanced budget for 2024/25. The reason for the higher total figure included capital and revenue grants unapplied (those amounts paid over in past financial years but to be expended on committed items), as well any other committed revenue reserves, such as schools reserves and the better care fund from the NHS. These were not available to finance the current year revenue budget position.

The net worth of the Council's balance sheet at the 31 March 2023 was £345.0m, an increase in year of £252.7m. It was highlighted that this increase predominantly related to retirement benefits under IAS 19 and a change in the discount rate applied to the liabilities that form part of the local government pension scheme. Further information on this was given in note 39 to the draft Statement of Accounts, but it was highlighted that again this increase was not available to the Council for revenue budget purposes as it would influence future pensions payments over the next 20-40 years.

In response to a request from a Member, it was confirmed that minutes from the Middlesbrough Development Company's Board Meetings could be made available.

Members asked about the timescale for recovery of debts and it was acknowledged that, particularly for Council tax, some were low in value and the Council needed to be more proactive in writing them off.

In relation to Trust Funds it was confirmed that they did not provide any income to the Council. Trust Funds were separate entities, managed by Trustees and the Council was the custodian.

Regarding the current low level of reserves, it was noted that information on the reserves was presented quarterly as part of the budget monitoring process. In recent years demand pressures for adult social care had outstripped budget for much longer than anticipated which had contributed to the current position. It was within the remit of the Chief Financial Officer to determine whether reserves were too high or too low.

AGREED as follows that:

1. the Committee noted that draft Statement of Accounts for 2022/2023 had been

approved by the Director of Finance for publication and were currently on the Council website and out to public inspection until 16 February 2024.

2. Copies of the minutes from the Middlesbrough Development Company Board Meetings would be made available to the Audit Committee.

23/21

BUSINESS CONTINUITY ANNUAL ASSURANCE REPORT

A report of the Director of Legal and Governance Services was presented, the purpose of which was to outline the Council's approach to Business Continuity management, summarised activity in the past year, and planned activity for 2024, in order to provide the Committee with assurance that the Council had robust arrangements in place, as required by the Civil Contingencies Act 2004.

Business Continuity planning was separate to emergency planning, which set out how the Council responded to emergency incidents that impacted on residents and businesses, though there would be occasions when the two disciplines interrelated.

The Council's Corporate Business Continuity Plan defined critical functions as those which, if interrupted could result in:

- Risk of serious injury
- Risk of death
- Massive financial losses; or
- Significant damage to the Council's reputation.

The following plans were place to respond to a variety of events that could occur:

- The Corporate Business Continuity plan.
- Supporting Departmental Business Continuity plans.
- Relocation Plan.
- ICT Disaster Recovery Plan.
- Fuel Plan.
- Pandemic Plan.

The Council did not publish its business continuity plans as they outlined sensitive information around its critical functions and their recovery that could be misused and contained personal information relating to employees who had agreed to share personal contact details to enable the Council to get in touch with them quickly in the event of an incident. The content of the Council's plans in broad terms only were outlined in the submitted report.

The Council aimed to test its plans at least once every 12 months, or produced a lessons learned report if a live incident had occurred during the past year. Testing of the plans was completed in January 2024. This was a live test of business continuity which involved senior managers surrounding a marauding attack and vehicle borne improvised explosive device on critical infrastructure. This ensured that senior management understood their roles and responsibilities during an incident and tested the robustness of plans.

In a normal planning cycle, Business Continuity plans were updated every six months, and reviewed on an annual basis (May and November) with the scale of the review dependent on the level of organisational change that had occurred in the intervening period. In some years this meant that only minor updates were required. In other years, fundamental reviews will be required to reflect changes to the Council's structure or other significant developments for example, where services have been outsourced, or brought back in house.

During the 2023 annual review of plans, there was an increased focus on the impact loss of ICT could have on critical activities to ensure services planned effectively for this event.

Activity in 2023/2024 included generator failover tests at both the Council's data centres and an emergency response exercise. All Corporate Business Continuity Plans were updated in November 2023 and an update and full review of Directorate Business Continuity plans had been completed. A corporate Business Continuity room has been established in Fountain Court. A Business Continuity and Emergency Planning mapping portal had been built in the Council's mapping software, including flood plains, gritting routes and schools. eLearning portal was developed in relation to Business Continuity capturing basic awareness raising and

advancing best practice and all senior management had received face to face training.

During 2024/2025, further work would be undertaken to build on progress made in 2023/2024 as part of the Council's commitment to continual improvement in business continuity planning. This would include:

- Officers planned to undertake a cyber-attack exercise on a key system as the next ICT Disaster Recovery Plan exercise to test its effectiveness.
- Increase the number of trained loggists to support Business Continuity responses in an invocation.
- Refresh eLearning package range in relation to Business Continuity capturing new amendments and best practice from the North East Local Resilience Forum and ISO 22301.
- Produce and deliver loggist training to all nominated loggists within the Business Continuity Teams.
- Further training for Senior Leadership relating to decision making and Business Continuity impacts.
- Undertake the annual full review and update of all business continuity plans to ensure they remain fit for purpose.
- Review and implement the Business Continuity Policy and Management System.
- Battle boxes to be updated by business-critical services to enable service delivery to be maintained in the event of a cyber-attack or power cut.
- Revision of plans to reflect occupation of the new main offices this year.
- Communications Plan for Business Continuity to be enhanced to cover communications in the absence of ICT system.

A query was raised in relation to communication with Elected Members on their role if there was an incident. It was confirmed that part of the recent test had included communication with Elected Members. It was suggested that it would be helpful for Members to receive some training on this area.

AGREED as follows that:

1. the arrangements in place to manage business continuity within the Council, progress within the last year, and plans to further strengthen those arrangements were noted.
2. a workshop for Members on what their role would be in a live business continuity incident would be provided.

23/22

LOCAL CODE OF CORPORATE GOVERNANCE

A report of the Director of Legal and Governance Services (Monitoring Officer) was presented to report the outcome of the annual review of the Council's Local Code of Corporate Governance (LCCG).

The Local Code of Corporate Governance provided a framework that enabled the Council to assess its governance arrangements against sectoral best practice.

The LCCG was reviewed annually to ensure it aligned with best practice. The report confirmed that the LCCG continued to align with the CIPFA code of practice on delivering good governance in local government which remained unchanged. The Council's Annual Governance Statement would assess compliance with the LCCG.

AGREED that the Audit Committee noted that there had been no changes in the past year to the CIPFA/SOLACE guidance document 'Delivering Good Governance' and, as such, that the current Council's Local Code of Corporate Governance was retained.

23/23

SECTION 24 REPORT

A joint report of the Chief Executive, Director of Finance and Director of Legal and Governance Services was presented to set out the key activities, progress and impact of the Corporate Governance Improvement Plan and activity in response to the Section 24 recommendations made by the Council's External Auditors, since last reported to Committee on 14 December 2023.

Alongside the activity that had been delivered, the report also set out the impact actions had

had on the measures of success that had been identified within the Corporate Governance Improvement Plan and Section 24 response plan.

Overall performance in relation to delivery of activity across the two improvement plans (excluding activity not yet planned to start and not due to be delivered yet) was set out at paragraph 5.2 of the report. 92% of planned activity had either been delivered or was on-track for delivery in relation to the Corporate Governance Improvement Plan, with seven planned activities measuring as off-track.

87.5% of activity in relation to the Section 24 delivery plan was on-track or had been delivered, with six activities showing as off-track. The report set out the detail of the delivery plan activity, alongside supporting measures of success that were in place to assess the impact of activity. Key activities and measures of success were shown in the Appendix to the submitted report.

Over the next four weeks, an exercise would be undertaken to refresh the content of the Corporate Governance Improvement Plan to capture additional key milestones that could now be articulated following delivery of initial actions in some milestones, therefore future reporting figures would be altered, however the changes would be outlined within reports.

Members raised several issues with regard to the presentation of the information and Officers agreed to amend the format.

On the overall position, the Chief Executive commented that he was pleased with progress and wanted to focus on the actions and to ensure completion as quickly as possible. In relation to the Best Value Notice issued in January 2023, this had recently been extended for a further six months. The Government reserved the right to put statutory intervention in place but had allowed the Council to continue addressing the issues previously raised in a timely manner. Work was progressing with the Independent Interim Advisory Board (IIAB) to ensure the Council's financial stability and was also focussing on efficiencies in process, IT and services at lower cost.

AGREED as follows that the:

1. progress against the Corporate Governance Improvement Plan and Section 24 Action Plan was noted.
2. Best Value Notice extension would be an agenda item at the next Audit Committee meeting.
3. Amendments would be made to the current format of the reports to ensure they were more accessible to read.

23/24

INTERNAL AUDIT CONSULTATION REPORT

The Head of Internal Audit presented a report to outline arrangements for developing the internal audit work programme and to ask for the Committee's views on areas that should be considered for audit in 2024/2025.

The consultation report was attached at Appendix 1 to the submitted report and contained information on Veritau's approach to producing the work programme and background on the internal audit opinion framework.

The Committee's views were sought on areas it considered a priority for internal audit coverage during 2024/25. The report represents the first stage in consultation on the annual programme of work. A full draft programme would be brought back to the Committee at a later date.

The following areas were suggested to the Internal Auditor for consideration:

- Home To School Transport costs.
- Middlesbrough Development Corporation and relationship with Middlesbrough Council.
- The Council's relationships with external agencies and contracts management.
- Controls over Council assets including alley gate keys, cotags, uniforms etc when

staff leave employment.

- Strategic Risk Register.

AGREED that the report was received and noted.

23/25

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

None.