

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (S151 Officer)
Relevant Executive Member:	Executive Member for Finance and Governance
Submitted to:	Audit Committee
Date:	25 July 2024
Title:	Middlesbrough Council – Value for Money Interim Report – 2021/22 and 2022/23
Report for:	Information
Status:	Public
Council Plan priority:	Delivering Best Value
Key decision:	No
Why:	Report is for information only
Subject to call in?:	No
Why:	Not Applicable

Executive summary	
<p>The External Auditor, Ernst & Young (EY), has concluded their assessment work in relation to the Council's systems and arrangements for securing value for money on the use of resources within the organisation. This covers the period from 1 April 2021 to 31 March 2023. The report gives their main findings on the work undertaken to date.</p> <p>The Committee will be aware that the audit of the accounts process for 2021/22 and 2022/23 are still open and awaiting government guidance on how to finalise.</p> <p>In line with government proposals, EY have produced the attached value for money interim report. The findings of this overlap with the S24 recommendations issued by the external auditor in January 2023 and for which the Council has already made significant progress in addressing. The main issues therefore are already in the public domain.</p> <p>The report also covers some other matters that the external auditor feels appropriate to report to the Committee, in line with their remit of overall governance for the Council. These matters are highlighted below and the implications of these are considered, including where they may lead to previous accounts being amended and re-published.</p>	

1. Purpose

- 1.1 The purpose of the report is for Ernst & Young, the Council's External Auditor, to present their Value for Money interim report for the 2021/22 and 2022/23 financial years. This sets out their findings and commentary on the Council's systems and arrangements over this period and highlights any deficiencies that require improvement for the future.
- 1.2 It also covers some other findings that EY want to raise with the Committee following this work. These matters relate to either governance related issues or to the accounts for the relevant two-year period. Members will recall that the accounts for these financial years are still open and have not yet been signed off by EY.

2. Background and relevant information

- 2.1 EY's Value for Money interim report for 2021/22 and 2022/23 is attached at Appendix 1 and includes the following sections:

- Executive Summary
- Value for Money Commentary
- Other matters

- 2.2 The external auditor will present their report and main findings to the Committee.

- 2.3 The context of this report is different to normal reports received from the external auditor. The Committee is aware that there is a national backlog of local authority audits that are still outstanding from previous financial years. This position has arisen over several years as the audit of the financial statements has become more complex, local authorities' financial positions have become more fragile, and there has been problems with capacity on the required work within both local audit teams and local authority finance teams.

- 2.4 The government has undertaken consultations with the local authority sector, regulatory bodies (including external auditors) and other system partners to establish proposals to catch up on the current backlog. Draft proposals have been put forward but have not yet been introduced. As a result of this, there has been a period of uncertainty where the audit of the financial statements has been paused by EY awaiting further guidance. This has resulted in the work required to establish an audit opinion on the draft Statement of Accounts for 2021/22 and 2022/23 being incomplete and the accounts for these years remaining open.

- 2.5 The external auditor has instead concentrated on completing the work required for the audit of the Teesside Pension Fund accounts for these two years and that required to assess the Council's value for money arrangement for the same period. The interim report set out at Appendix 1 sets out EY's findings and conclusions from this work. It should be noted that although this is designated as an interim report on value for money. This relates to the report being issued prior to the audit opinion for these two years. There will be no final report issued on value for money at a subsequent stage.

2.6 In terms of the findings on value for money, many of these are already in the public domain due to EY previously issuing a set of Section 24 recommendations at the end of the audit process for the 2020/21 statement of accounts. These were issued as informal recommendations in July 2022 and then formalised in January 2023. The recommendations made already covered most of the period from 1 April 2021 to 31 March 2023 and have been reported to Audit Committee, Executive and Council previously, as has the Council's response, in terms of a corporate governance improvement and section 24 action plan.

2.7 To summarise, the main areas identified for improvement by the Council in the value for money interim report are as follows:

- Member and senior officer relationships.
- Asset acquisitions.
- Financial sustainability.
- Contracting and procurement
- Oversight of Middlesbrough development company.
- Provision of children's services. (Applicable for 2021/22 only).

2.8 The auditor's findings in these areas are set out in Appendix 1 and the main highlights from this will be presented by EY at the meeting. Clearly, time has moved on significantly from the end of March 2023 and the Council's response has been significant to address these shortcomings. However, EY need to report on these at the end of the relevant reporting periods and it is not within their remit to consider this progress as part of their assessment process. These will be picked up by the Council's new external auditor, Mazars, in their 2023/24 audit work, as this is the end of the five-year contract period for EY with the Council.

2.9 In terms of the other matters being reported, these can be summarised as follows:

- Presentation of the statement of accounts.
- Inspection of the accounts.
- Collection Fund provisions for impairment.
- Objections received within the reporting period.

2.10 In relation to the statement of accounts item raised, the Council accepts the points from EY and has made the appropriate changes in its 2021/22 and 2022/23 accounts. We have also introduced an internal consistency checker to ensure that these types of issues are identified during preparation for the 2023/24 accounts and subsequent years. This results from additional external resources being employed over the last year to help strengthen the resilience and capacity of the internal finance team.

2.11 On the Collection Fund item, Members will be aware that the re-assessment of the provisions for council tax and business rates is an important element of restoring the Council's earmarked reserves to a sustainable level following the 2023/24 financial year. Ongoing discussions have been held with EY over the last 12 months to evidence the council's proposed changes to the provisions held in the 2021/22 and 2022/23 accounts. This work, although ongoing, is substantially complete. As part of the agreement process with EY, there may be a need to slightly amend the previous year's accounts for this.

Where changes are required, the S151 Officer will re-certify and re-publish updated accounts on the Council's website for the relevant financial years. Any changes to prior year's figures will influence those in the draft accounts for 2023/24 which will be certified and published over the next month.

3. What decision(s) are being recommended

3.1 That the Committee:

- Note the contents of the value for money interim report for 2021/22 and 2022/23.
- Discuss any appropriate matters with the external auditors and officers, in terms of the matters being raised, and how they impact on future reports and accounts that may come to the Committee for approval.

4. Rationale for the recommended decision(s)

4.1 The Committee is required to receive and consider the external auditor's report as part of its governance role and responsibility in relation to audit activities.

5. Impact(s) of the recommended decision(s)

5.1 *Financial (including procurement and Social Value)*

All relevant financial implications are contained within the report being presented by EY to the Committee, or in the above commentary. It should be noted that any audit fees from the remaining work on the 2021/22 and 2022/23 accounts have been provided for within the current financial year.

5.2 *Legal*

The certification and publication of the Statement of Accounts (covering the financial statements and the value for money opinion) is set out in the Accounts and Audit Regulations 2015 and subsequent amendments. The role of the external auditors within this is defined in the Local Audit and Accountability Act 2014. Any non-compliance with these requirements will be highlighted to Members where appropriate.

5.3 *Risk*

The report sets out how the external auditor has assessed the Council's value for money arrangements any other related items that need to be reported to the Committee.

The governance and value for money arrangements in place within the Council need to be robust when managing public money. It is the external auditor's role to consider these, provide assurance where appropriate, and report on any significant findings to those charge with governance under the Council's constitution.

The assessment by EY contains an element of reputational risk in how the Council has managed the various processes and as such, given its significant, is included within the Council’s strategic risk register.

5.4 Human Rights, Public Sector Equality Duty and Community Cohesion

There are no specific impacts or implications.

5.5 Climate Change / Environmental

There are no specific impacts or implications.

5.6 Children and Young People Cared for by the Authority and Care Leavers

There are no specific impacts or implications.

5.7 Data Protection

There are no specific impacts or implications.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Not applicable		

Appendices

1	Middlesbrough Council – EY Value for Money interim report for 2021/22 and 2022/23.
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Background papers

Body	Report title	Date
Audit Committee	Draft Statement of Accounts 2022/23	1 February 2024
Audit Committee	Update on audit of accounts progress	6 October 2023
Corporate Affairs and Audit Committee	Timeline for Statement of Accounts	29 June 2023
Corporate Affairs and Audit Committee	External Audit – Value for Money governance update	5 December 2022
Corporate Affairs and Audit Committee	External Audit – Council Audit Planning report 2021/22	5 December 2022

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