

**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

A meeting of the Corporate Affairs and Audit Committee was held on 30 June 2014.

**PRESENT:** Councillors Clark, (Chair for the meeting), Councillors Junier, P Sharrocks and N J Walker

**ALSO IN ATTENDANCE:** H Fowler and A Ingram, Tees Valley Audit and Assurance Service  
N Cooke, Deloitte LLP

**OFFICERS:** S Harker, M Padfield, B Roberts, N Sayer and P Slocombe

**APOLOGIES FOR ABSENCE** were submitted on behalf of Councillors McIntyre and Mrs H Pearson, OBE.

**DECLARATIONS OF INTERESTS**

There were no Declarations of Interest at this point in the meeting.

**14/8 APPOINTMENT OF CHAIR**

Nominations were sought for Chair of the Corporate Affairs and Audit Committee pro tem.

**AGREED** that Councillor Clark was appointed Chair of the Corporate Affairs and Audit Committee for the meeting.

**14/9 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 29 MAY 2014**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 29 May 2014 were taken as read and approved as a true record.

**14/10 ANNUAL GOVERNANCE STATEMENT 2013/2014**

The Chief Finance Officer presented the Annual Governance Statement 2013/2014. A copy of the Statement was attached to the submitted report. Under the 2007 Society of Local Authority Chief Executives (SOLACE)/Chartered Institute of Public Finance and Accountancy (CIPFA) publication - A Framework for Delivering Corporate Governance in Local Government, the Council was required to review its governance arrangements, at least annually, to ensure continued compliance with best practice. The Framework adapted six core principles of good governance for the Local Government Sector and recommended that all Councils should comply with them.

The Annual Governance Statement 2013/2014 was compiled following a review by the Governance Team of the effectiveness of the Council's systems of internal control and governance arrangements. This also involved the most senior officers within services, as well as officers with specific responsibilities for Internal Audit, Risk Management and the professional conduct of officers and members.

The Statement related specifically to the governance arrangements as applied during the 2013/2014 financial year.

Members were asked to note the Significant Internal Control Issues raised in the 2012/2013 Statement and the actions taken during 2013/2014 to address them as follows:

- A control error in the payroll system resulted in a significant overpayment to one member of staff. The problem was immediately rectified, the overpayment repaid in full and the SAP system re-programmed and tested to ensure that there was no repeat of the error.

- Significant issues had been identified in the IT system used to pay the Council's in-house Foster Carers. Additional IT support was provided to alleviate the short term risks. A replacement IT system had been purchased and would go live from 1 July 2014/2015.

Also within the Significant Internal Control Issues section, it was highlighted during 2013/2014 that there were overall weaknesses in the control environment within the financial systems currently used by the Coroner's Service. Actions had been implemented, including staff training, to improve the weaknesses identified in the overall control environment.

The External Auditor stated that the Governance Statement appeared to meet all the requirements however, she would provide additional comments as part of the External Audit opinion at a future meeting of the Committee.

**AGREED** as follows that:

1. The Annual Governance Statement 2013/2014 be received and noted.
2. The Internal Control issues highlighted in the Annual Governance Statement 2013/2014 be noted.

#### 14/11 **STATEMENT OF ACCOUNTS 2013/2014**

A report of the Chief Finance Officer was presented, the purpose of which was for Members of the Corporate Affairs and Audit Committee to receive and review the Middlesbrough Council Draft Statement of Accounts 2013/2014.

The Statement of Accounts was a technical publication containing accounting statements that had been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain and the Statutory Accounts and Audit Regulations (The Code). The Code was updated annually and specified the accounting principles and practices required to prepare a Statement of Accounts that presented a true and fair view of the position of a Local Authority.

The 2013/2014 Statement of Accounts had been prepared in compliance with International Financial Reporting Standards (IFRS).

The Explanatory Foreword provided information in relation to the format of the Statement of Accounts as well as a review of the financial position of the Council for the financial year 2013/2014.

The Accounting Services Manager highlighted an error on the Senior Staff remuneration note. A revised copy of page 88 of the Accounts had been circulated.

The Council had achieved a balanced budget for 2013/2014 after making a contribution of £1,584 million to the Change Fund Reserve. The Change Programme Review was ongoing and the Council needed to invest in service reconfiguration to meet the challenges presented by the unprecedented public spending cuts, increasing costs and growth in demand for services, as well as continuing to deliver the Mayor's Vision for the town.

Key indicators of the state of the local economy were detailed on page 35 of the submitted report. Whilst the majority of indicators had improved, it was highlighted that the number of empty commercial properties had increased. It was also noted that youth unemployment had improved. The Accounting Services Manager agreed to provide further information with regard to possible reasons for the changes in those indicators.

The report included information as to where the Council got its funding from and what the money was spent it on, as well as detailing what the Council owned, how much it was owed by, and was owed to, other organisations. A change to funding during the year had been the Retained Business Rate scheme, implemented from 1 April 2013, under which the Council could keep a proportion of the income received from business rates.

A summary of the Balance Sheet showed that the total value of Council assets had decreased by £25.4 million during the year. This was mainly due to depreciation in the value of operational plant and equipment and also the conversions of schools to academy status.

The Council was expected to maintain a minimum balance on the General Fund of between £4 million and £4.5 million over the medium term to cover unexpected financial risks after making specific reserves and provisions to meet known and expected liabilities. The balance at 31 March 2014 remained unchanged at £6 million. It was noted that schools were still holding more overall reserves than the Council with the total schools' balance being £6.2 million.

The Council's performance in collecting Council Tax in 2013/2014 was 93.4% collected in the year, compared to 96% the previous year. However, due to the changes to welfare reform and introduction of the Council Tax Benefit Scheme the Council had set a target of 94% collection rate, 2% less than the previous year's rate.

The financial performance of the Teesside Pension Fund for the year to 31 March 2014 was positive with the value of fund rising to over £3 billion for the first time, ending at £3.049 billion. The rise was due to UK, European and US equity markets and investment income. The membership of the Fund continued to increase although the number of active members had decreased.

As part of the arrangement the Council had with Municipal Mutual Insurance (MMI), the Council's former insurers, the Council had to fund any ongoing liabilities for claims. During the course of 2013/2014 the Council made payments totalling £901,800 as clawback of previously paid claims due under the MMI Scheme of Insurance. The Council potentially had liability for ongoing contributions to any future claims for anything that was previously insured through MMI.

The Statement of Accounts would be subject to external audit by Deloitte which would commence on 30 June and was expected to be completed by 31 August 2014. A Statement (ISA 260) would be produced which would detail any unadjusted misstatements found during the course of the audit.

Overall the accounts showed a sound financial position for the Council with the level of balances being in line with the Council's Medium Term Financial Plan. The Council achieved a break-even position in 2013/2014 against a revenue budget of £140.402 million.

**AGREED** as follows that:

1. the draft Statement of Accounts 2013/2014 were approved.
2. further information with regard to possible reasons for the increase in empty commercial properties and the decrease in youth unemployment would be provided to the Committee.

14/12

#### **ANNUAL AUDIT REPORT 2013/2014**

The Audit and Assurance Manager presented the Internal Audit Annual Report, the purpose of which was to provide a summary of the internal audit work performed in the year 2013/2014 and express an opinion on the internal control environment in place within Middlesbrough Council. The report also considered the internal audit performance outturn for 2013/2014 and the performance of Tees Valley Audit and Assurance Services against the Public Sector Internal Auditing Standards (PSIAS).

The Audit and Governance Committee approved the Audit Plan 2013/2014 in June 2013 and the total number of planned audit days for 2013/2014 was 1,325.

The work carried out by TVAAS was aimed at providing assurance to the Council's senior officers, Elected Members and members of the public that the key risks faced by the Council were being managed effectively and that appropriate safeguards were in place for public funds and assets.

The overall opinion of the Audit and Assurance Manager on the controls operating within the Council was that they provided Satisfactory Assurance. This opinion was based on the work performed by the internal audit team during the year 2013/2014, the details of which were

contained in Appendices A to C of the submitted report. Given the amount of the change the Council was currently experiencing in relation to cuts to funding and re-structuring, the Audit and Assurance Manager commented that retaining that level of assessment was positive.

Key areas highlighted by internal audit work during 2013/2014 included some areas of non-compliance with accounting procedures across various Council service areas and the Coroner's Office financial controls.

Two particular areas of budget managers' responsibilities needed to be addressed. Service and budget managers needed to be reminded of: their debt recovery responsibilities to ensure that the Council's overall debt recovery was maximised; and the raising of purchase orders in order to reduce the number of invoices that could not be progressed for payment due to the lack of an appropriate order. Compliance with the Middlesbrough Manager Framework would address these issues.

With regard to the Coroner's Office, the audit report included 19 recommendations, including one P1 recommendation. Based on the testing undertaken, the audit concluded that there was an overall weakness in the control environment within the financial systems currently being used. Details of the P1 recommendation were included at Appendix C to the submitted report. The Audit and Assurance Manager confirmed that actions were being taken to address the recommendations made in the audit report.

Appendix A to the submitted report provided a summary of the Audits issued within the financial year. The reports with limited assurance were: Museums, Volunteer Working, Patron Edge System software, Coroner's and Monitoring of Safeguarding Adult Alerts. A number of reports were still in progress and at the draft or review stage and were therefore not included in the final report section.

Appendix B to the submitted report provided an analysis by type of the 132 recommendations. Whilst Counter-Fraud appeared as the highest category, the Audit and Assurance Manager explained that this was as a result of prevention measures being put in place rather than actual fraud.

Details of the TVAAS Performance Target outturn for 2013/2014 were included at Appendix D to the submitted report. Only two indicators had not been fully achieved which were the percentage completion of the agreed Annual Audit Plan and the number of audits completed within the budget time allocation. The Audit and Assurance Manager highlighted that the Service's staffing levels had reduced and any key audits not completed had been included in the 2014/2015 Plan.

The Audit and Assurance Manager confirmed that the level of co-operation between Middlesbrough Council employees and TVAAS staff was very good.

**AGREED** that the Annual Report of Internal Audit be received and noted.

14/13

#### **FINAL INTERNAL AUDIT PLAN 2014/2015**

The Audit and Assurance Manager presented a report seeking approval to the final Internal Audit Plan 2014/2015 for Middlesbrough Council. The Internal Audit Plan was a key element in the annual governance cycle of the Council and provided the means by which Tees Valley Audit and Assurance Services (TVAAS) could demonstrate an effective internal audit service which met the requirements of the Public Sector Internal Audit Standards (PSIAS) was being delivered.

The Audit Plan was based on a number of factors and was designed to provide the Corporate Affairs and Audit Committee with assurance that the Council's framework of internal control was adequate and effective, thereby supporting the Committee's review of the Annual Governance Statement.

The draft Audit Plan had been presented to the Audit and Governance Committee in March 2014 to enable Members to contribute to the consultation process. The only changes made to

the Audit Plan were formatting revisions to reflect organisational changes that had occurred within the Council since the draft version was presented. Following consultation with the Assistant Director Finance and Investment and Chief Finance Officer and directorate management teams, the Audit Plan had been agreed by the Corporate Executive Management Team.

A copy of the Internal Audit Plan 2014/2015 was attached at Appendix 1 to the submitted report. It was highlighted that the majority of the audit work this year would focus on supporting the Change Programme and providing corporate assurance. Although the number of audit days for 2014/2015 had been reduced by 25% due to cost savings imposed by the Council, the Audit and Assurance Manager confirmed there were enough days in the Audit Plan to cover the main risks to the Council.

Progress against the Audit Plan would be reported to the Committee by the Audit and Assurance Manager throughout the year.

**AGREED** that the Middlesbrough Council Internal Audit Plan 2014/2015 be approved.

14/14 **EXCLUSION OF PRESS AND PUBLIC**

**ORDERED** that the press and public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 1 and 2 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

14/15 **SCHOOL GOVERNING BODIES - APPOINTMENT OF LOCAL AUTHORITY SCHOOL GOVERNORS**

A report of the Executive Director of Wellbeing, Care and Learning was presented regarding vacancies for Local Authority appointed School Governors that had arisen as a result of resignations, the expiry of terms of office or the removal of Governors due to non-attendance and any vacancies deferred from previous meetings of the Corporate Affairs Committee. The nominations received for such vacancies were outlined in the submitted report.

It was noted that there were currently 13 vacancies out of a total of 142 governorships for LA representatives, which equated to 9.1%.

Members were asked to note that there were seven schools that were considering formulating a Co-operative Trust with effect from the beginning of the 2014/2015 academic year. The Corporate Affairs and Audit Committee would be permitted to make a recommendation for appointment, which would be considered by those schools, who could choose to either agree or decline the recommendation. The seven schools concerned were detailed in the submitted report.

It was also highlighted that in order to adhere with the School Governance 2012 Regulations, all maintained schools would have to comply with the proposals contained therein by September 2015. This would have consequences on the size and membership of Governing Bodies in future.

**ORDERED** as follows:-

1. That the following appointments be approved for a four year term of office with effect from 30 June 2014:-

Ayresome Primary School - Mr M Scott  
Corpus Christi RC Primary School - Councillor Junier

St Gerard's RC Primary School - Mr G Wijesinghe  
Complementary Management Board - Mrs D Hunt

2. That having regard to the present position in relation to the Governing Bodies no action be taken with regard to the current vacancies in respect of the following:-

Abingdon Primary School  
Berwick Hills Primary School  
Marton Manor Primary School  
Newham Bridge Primary School  
Pallister Park Primary School  
Acklam Grange School  
Holmwood School