

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 31 July 2014.

PRESENT: Councillors Clark, (Chair), Junier, McIntyre, P Purvis and N J Walker

ALSO IN ATTENDANCE: H Fowler, Tees Valley Audit and Assurance Service
A Ross and D Wilkinson, Deloitte LLP

OFFICERS: S Harker, E Pout and P Slocombe

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Mrs H Pearson, OBE.

DECLARATIONS OF INTERESTS

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

14/16 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 30 JUNE 2014

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 30 June 2014 were taken as read and approved as a true record.

14/17 PLANNING REPORT TO THE CORPORATE AFFAIRS AND AUDIT COMMITTEE FOR YEAR ENDING 31 MARCH 2014 - DELOITTE

The External Auditor presented the Planning Report for the year ending 31 March 2014. The report included an overview of the key developments at the Council and the more significant matters considered in the Audit Plan. These matters had been considered as part of the audit risk assessment and this determined where the External Auditor's work would be focussed. Details of the impact of these matters on the Auditor's approach were set out in the Audit Plan.

The current environment provided the Council with a significant challenge to continue to deliver services in reduced financial circumstances. There had been several changes amongst senior members of the Council's Leadership Team, including a newly appointed Chief Executive, a change in the Monitoring Officer and a change in the relationship between the Council's Section 151 Officer and the top level of management within the Council.

Some changes had been made to the Code of Practice on Local Authority Accounting, including in respect of the valuation of Property, Plant and Equipment, which had been discussed with key members of the Council's finance function.

The Audit Commission had determined that there would be a fee rebate for 2013/2014 and the Council would also see a reduction in the grants to be certified in the current year. External certification was no longer required for the NNDR return.

The key developments in financial reporting requirements included:

- Changes to the Code requirements including the classification, recognition, measurement and disclosure of post-employment benefits.
- New guidance on the accounting entries required from the localisation of business rates, affecting the collection fund, with additional responsibilities falling on the Council in respect of the risks of appeals and the rewards of business rate growth.
- Clarification regarding the frequency of revaluations for properties. This amended previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets was completed within a short period and provided that revaluations were kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.
- The national Council Tax Benefit scheme had been replaced by a local Council Tax

Reduction scheme, which the Council had implemented from the start of the year.

Based on an initial audit risk assessment, the significant audit risks had been identified as:

- Recognition of grant income.
- Valuation of Property, Plant and Equipment.
- Adequacy of Related Party Disclosures.
- Management override of key controls, as presumed by auditing standards.

The risks were similar to those raised in the Planning Report for 2012/2013 and had been identified on the basis of the External Auditor's understanding of the Council, its objectives and the environment within which it operated. The Auditor highlighted that the recognition of grant income and management override of key controls were presumed risks that were included in all audits as standard.

A significant risk had been identified in relation to the Value for Money conclusion, in that the Section 151 Officer did not sit on the Chief Executive's Management Team. The Governance Review, reported in March 2014, had already considered this and would inform procedures in this area. It was highlighted that the Draft Statement of Accounts 2013/2014 would be updated to reflect the detailed arrangements that were in place with regard to the Section 151 Officer during the 2013/2014 financial year.

A risk had also been identified in relation to the Council's future financial planning and resilience. The External Auditor had considered the criteria specified by the Audit Commission as well as other factors directly affecting the Council, and concluded that there were no other significant risks to report on. Additional procedures would be performed as part of the review in support of the Value for Money conclusion.

The details of the audit quality promise were set out in the submitted report and included how the External Auditor would communicate with Council Officers and the Committee during the course of the audit and provide insight into issues that were happening generally around the risk areas. The Audit Team was consistent with the team in previous years and had been supplemented with additional skilled, experienced and knowledgeable individuals to ensure timely and effective delivery of the audit.

The five key areas of assurance that the External Auditor was required to report on included the Financial Statements, Value for Money Conclusion, Annual Governance Statement, Whole of Government Accounts Return and Grants.

The Value for Money conclusion was based on whether the organisation had proper arrangements in place for securing financial resilience and for challenging how it secured economy, efficiency and effectiveness. The biggest challenge was around financial resilience and whether the Medium Term Financial Plan was robust enough to give assurance that the Council could continue to deliver statutory services as well as the non-statutory services that it wished to deliver.

At a meeting on 25 March 2014, the Audit and Governance Committee had considered the External Auditor's Annual Report summarising the work undertaken in respect of grants. The most significant of the grants certified related to the Council's claim from the Department of Work and Pensions for the Housing Benefit Subsidy. In previous years the certification process also included providing the Council with assurance over the processing of Council Tax Benefit claims. However, following the replacement of Council Tax Benefit with a local Council Tax Reduction scheme, the Auditor's certification no longer covered these elements of Council income and expenditure. The Auditor suggested that as a result of this reduced assurance from External Audit, the Council might wish to consider further assurance work on grants.

Details of the four significant audit risks identified by the External Auditor were included in the

report together with the potential impact on the Council and the Auditor's approach to testing and reviewing the Council's controls and procedures.

Several items including the value of Acklam Hall and the transfer of MIMA to Teesside University were raised. The External Auditor confirmed that these items would be included in the audit, and the management controls in place and the disclosures in the Accounts would be reviewed.

The External Auditor referred to the appendices to the submitted report which contained information in relation to Audit Fees, Fraud: responsibilities and representations, the timetable for the audit and a summary of a research project in relation to the current state of local public services.

The External Audit work was due to be completed by the end of August and the findings would be presented to the Corporate Affairs and Audit Committee in September 2014.

AGREED that Deloitte's Planning Report for the year ending 31 March 2014 was received and noted.