

**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

A meeting of the Corporate Affairs and Audit Committee was held on 26 September 2014.

**PRESENT:** Councillors Clark, (Chair), C Hobson (as substitute for Mrs H Pearson, OBE), Junier, 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, M Padfield, N Sayer, J Shiel, 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.

**14/18 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 31 JULY 2014**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 31 July 2014 were taken as read and approved as a true record.

**14/19 STATEMENT OF ACCOUNTS 2013-2014**

A report was presented for Members of the Corporate Affairs and Audit Committee to receive and review the Middlesbrough Council Statement of Accounts 2013/2014. The 2013/2014 Statement of Accounts had been prepared in compliance with International Financial Reporting Standards (IFRS).

A summary of the main changes to the draft Statement of Accounts presented to Members in June 2014 was detailed on page two of the submitted report. A further two items were tabled at the meeting. The amendments were as follows:

- Transfer of the 2013/2014 revenue saving between the Change Fund and General Balances - The draft accounts assumed that the net revenue saving of £3.6 million would be transferred to the Change Fund. However it was subsequently agreed by the Executive on 15 July 2014 that the saving should remain within General Balances. Therefore, £3.6 million was transferred from the Change Fund reserve to General Balances.
- Weekly Refuse Grant - The weekly refuse grant had been reclassified from a capital grant to a revenue grant. Therefore, a transfer of £1.010 million had been actioned between the Environmental and Regulatory Services and the Taxation and Non Specific Grant income lines on the Comprehensive Income and Expenditure Statement.
- Depreciated Replacement Cost (DRC) Revaluations - A number of land and building assets were valued on 1 April 2013 using the DRC, for example, schools. A subsequent review of asset valuations as at 31 March 2014 showed that there had been a significant increase in valuations. The accounts had been amended to reflect this net increase of £14.369 million in the value of Land and Building assets on the Balance Sheet.

- Direct Payments - The repayment of Direct Payment surpluses had been incorrectly treated as income rather than a reduction in expenditure. Gross expenditure and gross income on the Adult Social Care line of the Comprehensive Income and Expenditure Statement had therefore been reduced by £668k.
- Revenue Expenditure Funded from Capital Under Statute (REFCUS) Expenditure - Several grants had been incorrectly classified as capital grants rather than REFCUS grants. A transfer of £1.374 million had therefore been actioned between service income lines and the Taxation and Non Specific grant income line on the Comprehensive Income and Expenditure Statement.
- Recognition of revenue and capital grants carry forwards - There had been a change in the classification of several grant income carry forwards from grants unapplied to Income in Advance. There had therefore been a £2.142 million reduction in income on service lines in the Comprehensive Income and Expenditure and a £4.695 million reduction on the Tax and Non Specific grants line. Entries on the Movement in the Reserves Statement had been offset and appropriate changes had been made to the relevant notes. Overall there was no change in Council balances.
- Future Lease Payments - Future Operating Lease payments had been understated by £538k - Note 38 had been amended accordingly and there was no impact on the accounts.

Copies of updated Sections 2 and 4 of the Statement of Accounts 2013/2014 were tabled and the changes made as a result of the amendments detailed at the meeting were highlighted. It was confirmed that the changes had no impact on the Council's overall financial standing.

A copy of the full Statement of Accounts had been made available to all Members of the Corporate Affairs and Audit Committee and a copy had been placed in the Members' Library. A copy of the accounts would be made available on the Council's website, once the External Auditor had signed the document.

The Statement of Accounts had been audited by Deloitte and matters arising from the audit would be presented to the Committee at Agenda Item 5.

Notice was given in the local press for any interested person to inspect, and make copies of, the Statement of Accounts and other supporting documents between 1 July and 28 July 2014. There was one interested person this year.

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.

**AGREED** as follows that:

1. the Middlesbrough Council Statement of Accounts 2013/2014 be approved.
2. a response would be provided to a query that was raised in relation to the purchase of recycling vehicles and circulated to Members of the Committee.
3. in future, every effort would be made to ensure that any updates to the Accounts that were made after the issue of the Committee agenda, would be circulated to Members via email, rather than documentation being tabled at the meeting.

The External Auditor presented a report on the principal matters that had arisen to date from the audit for the year ended 31 March 2014.

There were a number of audit procedures still to complete before the Auditor would be in a position to complete the audit. An objection had been received from a member of the public in respect of an item of account, which the Auditor would consider. It was noted that the objection might impact on the Auditor's ability to certify the completion of the audit by the 30 September 2014 deadline if the matter was not satisfactorily resolved by then. In addition, there was one item in the Letter of Representation which required further discussion.

Reference was made to two queries that had been raised on the accounts by an elector and the External Auditor confirmed that he had arranged to meet with the member of public following this meeting.

The audit was conducted using the concept of materiality. Materiality was set at a level of £4.0 million and all uncorrected errors over a threshold of £0.2 million were reported within Appendix 2 to the submitted report.

No significant deficiencies in internal control had been identified although there were some areas where improvements could be made which would be detailed in a separate management letter following the conclusion of the audit and submitted to the next meeting of the Corporate Affairs and Audit Committee.

The following significant risks had been identified and the External Auditor provided a detailed explanation and update as to the current position for each of the items:

- 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.

In relation to the adequacy of disclosures of related party transactions, it was highlighted that a number of annual declarations were not returned by elected members and the process to follow-up those Members who had not responded needed to be improved. Members suggested that it would be helpful to have a single form to cover all declarations of interests.

Completion of a risk assessment regarding Value for Money arrangements in place at the Council had identified two significant risks to address which were: the Section 151 Officer did not sit on the Council's Management Team (CMT) and the Council's future financial planning and resilience. The External Auditor highlighted the observations on both these two significant risks that were detailed in the submitted report.

The External Auditor confirmed that in terms of financial resilience the Council, like other public bodies, faced a significant challenge to reform to ensure it continued to operate effectively with reduced resources. The Council's Medium Term Financial Plan (MFTP) had been reviewed and provided a high level summary of the resources, expenditure and funding gap of the Council. The Change Programme and the MFTP were broadly aligned in terms of the spending profile, however significant spending gaps still existed. The current year savings plans were approved and the 2015/2016 savings plans were progressing and further work was ongoing to identify the full extent of the savings required for 2016/2017.

The External Auditor confirmed that Deloitte expected to provide an unmodified audit opinion by 30 September 2014, pending resolution of outstanding matters.

The External Auditor also intended to issue an unmodified opinion on the Council's arrangements for securing Value for Money in its use of resources.

Work was not yet complete on the Council's submission as part of the Whole of Government Accounts (WGA) process. However, it was anticipated that this opinion would be issued by the deadline of 3 October 2014.

The External Auditor confirmed that the ISO 260 Progress Report would be updated to reflect the changes agreed since the initial Report was issued.

**AGREED** as follows that:

1. the Middlesbrough Council Statement of Accounts 2013/2014 be approved.
2. following the issue of the final ISO 260 Progress Report and clarification of the outstanding matters, the Chair of the Corporate Affairs and Audit Committee was authorised to sign the Letter of Representation on behalf of the Committee.
3. the current process for Members' Declaration of Interests would be reviewed.

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#### **INTERNAL AUDIT - PROGRESS REPORT**

The Audit and Assurance Manager presented a report to update Members on the main findings arising from internal audit work carried out since the annual report was submitted to the Committee. In addition, the report briefed Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).

Members approved the 2014/2015 Audit Plan at their meeting on 30 June 2014 and the total number of planned audit days was 994. At the time the report was produced for Committee, 15% of the Plan had been completed. Unfortunately this was behind schedule given the number of audits due to be completed and was due to a number of factors including:

- Higher than expected sickness absence levels in the first few months of the financial year including some long term absence.
- Delays in agreeing recommendations with relevant managers over the summer holiday season - this usually resulted in a much higher number of reports being issued in the second quarter and hence where catch-up took place.
- Individual performance management issues which were being addressed via the appropriate mechanisms.
- Considerable senior auditor resource had been focussed during the summer on the completion of the housing benefit count work for Middlesbrough which was a 35 day assignment.

The level of completion of the audit plan was continuously monitored and resources were reallocated as appropriate. A catch-up plan had been discussed with the Team Leader and Principal Auditor and a much improved position was anticipated by the time of the next Corporate Affairs and Audit Committee meeting in December 2014.

A summary of all internal audit reports issued in final since the last update was provided at Appendix 2 to the submitted report. Progress to implement any outstanding Priority 1 actions was included at Appendix 3. No further Priority 1 recommendations had been made as a result of the 2014/2015 audits to date. No significant variations to the Plan had been agreed although a small number of assignments had been completed using contingency and these were detailed at Appendix 4 to the submitted report. Appendix 5 contained details of the Service's opinion methodology which had changed for 2014/2015 onwards.

In addition to the final audit reports issued, TVAAS had been involved in a number of other areas of work that did not result in the issue of the formal report but included detailed housing benefit count testing, reviewing payments to confirm that procurement rules had been complied with, reviewing requests for exemptions from contract procedure rules, advising on the policy, procedures and documentation for business grants and undertaking a review of the Council's counter fraud arrangements.

The Audit and Assurance Manager confirmed that Council staff had been co-operative in assisting TVAAS with all aspects of their audit work.

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

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#### **APPOINTMENT OF INDEPENDENT MEMBERS**

A report was presented to update Members in relation to the appointment of Independent Members to the Corporate Affairs and Audit Committee. Provision existed within the Committee membership for up to two Independent Non-Elected Members, without voting rights in respect of items 4 to 9 of the terms of reference of the Committee, to be appointed.

The two posts were advertised on the Council's intranet, website, and in the Gazette during July 2014. One application was received and arrangements were made to interview the applicant. Unfortunately the applicant withdrew from the process prior to the interview.

It was recommended that Members consider re-advertising the two posts at a later date.

**AGREED** that the two posts for Independent Members for the Corporate Affairs and Audit Committee would be re-advertised at a later date.

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

MIMA

A query was raised in relation to the Council having entered into a 99 year lease agreement with the University of Teesside for the land and 'buildings' associated with MIMA. It was clarified that the word 'buildings' was a typographical error in the Statement of Accounts and the only building included in the agreement was MIMA itself. The land and building would no longer be included in the Council's balance sheet from the date of transfer. MIMA's Heritage Assets, which included works of arts and exhibits, valued at £8.743 million as at 31 March 2014, remained the property of the Council and would remain on the Council's balance sheet.

**NOTED**