

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 24 September 2015.

PRESENT: Councillors P Purvis, (Chair), Biswas, Cole, (substitute for J A Walker), C Hobson, Hubbard, Lawton and Taylor

ALSO IN ATTENDANCE: H Fowler and A Ingram, Tees Valley Audit and Assurance (TVAAS)
C Craig and A Ross, Deloitte LLP

OFFICERS: A Hoy, S Lightwing, M Padfield, T Parkinson, B Roberts and P Slocombe

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor J A Walker.

DECLARATIONS OF INTERESTS

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

15/9 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 25 JUNE 2015

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 25 June 2015 were taken as read and approved as a true record.

15/10 STATEMENT OF ACCOUNTS 2014/2015

A report was presented for Members of the Corporate Affairs and Audit Committee to receive and review the Middlesbrough Council Statement of Accounts 2014/2015. The 2014/2015 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 2015 was detailed on page 2 of the submitted report. The amendments were as follows:

- Property Revaluations Update - since the draft accounts were produced a review had been undertaken on the valuation of Council assets. Two amendments had been proposed as follows: The ongoing development at the Newham Hall site had been revalued from £4.2 million to £5.3 million and the application of the up-to-date Building Control Information Service (BCIS) index had resulted in an increase in the valuation of the Town Hall from £4.7 million to £5.5 million. These alterations provided an increase of £1.9 million in the value of Properties on the Balance Sheet. The total adjustment of £1.9 million represented an increase of 0.4% in the overall value of long term assets.
- Business Rates (NNDR) Income - an adjustment had been made in the presentation of NNDR bad debt written off in the Collection Fund. There was therefore an increase in NNDR income and an increase in bad debt written off of £2.452 million. This had no impact on the level of resources available to the Authority.
- NNDR Refunds - an adjustment had been made between debtors and creditors in respect of NNDR refunds processed close to year end. This resulted in an increase in Debtors and Creditors of £383,000. This had no impact on the level of resources available to the Authority.
- Reclassification between Debtors and Creditors - there had been a reclassification of

£3.3 million of cash received before the year end against Debtors rather than as Income in Advance. There was therefore a reduction in Debtors and Creditors of £3.310 million. Again, this had no impact on the level of resources available to the Authority.

In response to a query regarding the Property Re-valuations, specifically the reclassification of 1 Albert Terrace and the TAD Centre, the Chief Finance Officer confirmed that a consistent approach had been applied to the valuation of all assets.

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 the Council's Auditors, Deloitte, and matters arising from the audit would be presented to the Committee at Agenda Item 5. Deloitte, had not yet completed their testing on the recognition of grant income but would provide a verbal update.

The Executive Director of Commercial and Corporate Services referred to the Draft Improvement Plan prepared in response to recommendations from Deloitte on matters considered as part of the audit. Three principle areas of concern had been identified which were: governance arrangements for the disposal of properties, project management arrangements and capital programme monitoring reports. It was highlighted these issues had been identified in 2014/2015 and the Council had already taken steps to address them. Referring to the Draft Improvement Plan, the Executive Director highlighted that several actions that had already been completed whilst others had commenced and were on target.

A Member noted that although work had commenced on seeking a new ICT service provider, the timescale for completion was not until October 2016. The Executive Director confirmed that the project would take time to complete and was resource intensive.

Notice was given in the local press and on the Council's website for any interested person to inspect, and make copies of, the Statement of Accounts and other supporting documents between 1 and 28 July 2015. There had been 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 2014/2015 was approved.
2. the Draft Improvement Plan was approved and appended to the Annual Governance Statement.

15/11

ISA260 REPORT ON THE EXTERNAL AUDIT

The External Audit Manager from Deloitte presented a report on the principal matters that had arisen to date from the audit for the year ended 31 March 2015, and outlined the main points as follows:

There were a number of procedures outstanding, principally around the recognition of grant income and the valuation of property, plant and equipment. Deloitte intended to complete the audit procedures and expected to issue an unmodified opinion on the accounts, subject to satisfactory conclusion of outstanding procedures, by the 30 September 2015 deadline.

Deloitte intended to issue a qualified opinion on the Council's arrangements for securing Value for Money in its use of resources.

Work on the Whole of Government Accounts (WGA) process was still to be completed and this was in line with work being scheduled to enable the External Auditor to provide a

consistency opinion to the National Audit Office (NAO) by 2 October 2015.

Materiality was set at a level of £4.4 million and all uncorrected errors over a threshold of £0.22 million were reported.

One deficiency had been identified with respect to a significant internal control, which related to a lack of separate of duties in making journal adjustments to the accounting records. The Audit Manager confirmed that whilst this deficiency had been identified, there had been no errors detected in the sample of journals tested. A recommendation had been made for senior staff to perform sample checks in this area and other areas of the financial reporting process which were detailed in Appendix 4 to the submitted report.

An objection to the 2013/2014 accounts had been considered and Deloitte had concluded that it was not in the taxpayers' interest to take further action.

The following significant risks had been identified and the Audit Manager 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 and Investment Properties.
- Adequacy of Related Party Disclosures.
- Management override of key controls, as presumed by auditing standards.

The Audit Manager drew Members' attention to the Appendices to the submitted report. Appendix 1 detailed the audit fees for 2014/2015 and confirmed that Deloitte were independent of the Council. Appendix 2 set out the responsibility between Deloitte and the Council for detecting fraud and error. Appendix 3 contained a schedule of uncorrected misstatements, a summary of adjusted items and a schedule of uncorrected disclosure misstatements identified from the audit. Appendix 4 to the submitted report listed Deloitte's recommendations on the audit and the Audit Manager provided a detailed explanation of each recommendation.

The Director from Deloitte reported on the Value For Money (VFM) conclusion and the extent to which the Council had proper arrangements in place to secure value for money. The External Auditor's preliminary assessment had identified the following significant risks in relation to the VFM conclusion: financial planning, Change Programme and efficiency plans; and property disposals. An additional risk was identified in relation to project management as the Internal Auditor issued a 'Cause for Concern' opinion in this area. Linked to this, the External Auditor had also raised concern over the adequacy of capital programme reporting and monitoring.

Deloitte intended to issue an 'except for' qualification to the VFM conclusion, confirming satisfaction with the arrangements in place during 2014/2015, with the exception of the following three areas: Project Management arrangements; Capital Programme Monitoring Reports and Governance arrangements for the disposal of properties. Details of the Auditor's findings and observations were contained in the submitted report and the Director emphasised that the issues raised related to corporate governance arrangements in relation to securing VFM rather than on the Accounts.

Although some suggestions for improvement had been identified, the External Auditor had noted good progress in the development and implementation of the Change Programme and in the Middlesbrough Manager initiative. The Change Programme and Medium Term Financial Plan (MFTP) were broadly aligned in terms of spending profile and plans were in place to deliver the savings required in 2015/2016. The level of reserves continued to improve and the Council had sufficient financial reserves to cope with the risk of non-achievement of savings in the short term, with work ongoing to develop plans for future years.

The Director acknowledged that management were addressing the concerns that were subject of the VFM conclusion qualification via the Improvement Plan and that progress had been

made.

The Council was required to produce an Annual Governance Statement (AGS) for publication with the Annual Accounts, to summarise significant governance issues and provide an open analysis of significant governance matters within the Council. Deloitte had reviewed the draft AGS and had discussed a number of amendments with the Council to better reflect the Auditor's understanding of the Council and its operations.

The Director reported that a formal objection to an item of account, namely the income arising from taxi licence fees, had been received and accepted in relation to the 2013/2014 accounts. Deloitte had completed an investigation and issued a Statement of Reasons summarising its conclusions on 15 September 2015. The same objection to the 2014/2015 accounts had been received but no additional work would be carried out since the Auditor's conclusions had been issued.

In response to a query, the Director informed the Committee that there was a protocol in place for the transition of the Council to a new External Auditor and it was anticipated that the new Auditor would follow up recommendations from this year's audit of the Accounts.

AGREED that following the clarification of outstanding matters from Deloitte's audit of the 2014/015 Accounts, the Chair of the Corporate Affairs and Audit Committee was authorised to sign the Letter of Representation on behalf of the Council.

15/12 **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.

Members approved the 2015/2016 Audit Plan at their meeting on 25 June 2015 and the total number of planned audit days was 1118. Appendix 2 to the submitted report detailed the performance target position for 2015/2016 and the current status.

At the time the report was produced, 14% of the Plan had been completed with a number of other audit assignments ongoing and close to the draft stage. The level of completion of the audit plan was continuously monitored and resources reallocated as appropriate.

It was clarified that the customer satisfaction information was obtained from a survey sent out with each final report which asked a series of questions. The scores were totalled and then divided by the number of audits to give an average score. The current rate for internal audits was 3.85 based on surveys returned on 2014/2015 audits and the highest possible score was 4.

A brief summary of all internal reports issued in final, since the last update to the Committee, was provided at Appendix 1 to the submitted report. Two Priority 1 recommendations had been made in relation to Project Management and further detail was provided. Senior management had accepted all the recommendations and action was ongoing to address them. There were no outstanding Priority 1 recommendations from previous years.

In addition to the final audit reports issued, Tees Valley Audit and Assurance Services (TVAAS) had also been involved in other areas of work, that did not result in the issue of a formal report. These areas included: detailed housing benefit count testing; reviewing payments made to a supplier to confirm whether procurement rules had been complied with; reviewing a number of requests for exemptions from contract procedure rules; co-ordinating involvement in the National Fraud Initiative (NFI); advising on the policy, procedures and documentation for business grants; ongoing monitoring of the Council's counter fraud arrangements and following up the implementation of previous audit recommendations.

The Service's opinion methodology was detailed at Appendix 3 to the submitted report. No significant variations had been requested to date for the 2015/2016 Plan.

AGREED that the information provided was received and noted.

15/13 **INTERNAL AUDIT - INTERNAL AUDIT CHARTER**

In accordance with the new Public Sector Internal Audit Standards (PSIAS), the Audit and Assurance Manager presented the updated Internal Audit Charter for the Committee's comment and approval.

The revised Charter was attached at Appendix 1 to the submitted report. The Charter included various statements relating to the scope of internal audit activity, its responsibilities, objectives, independence and reporting lines.

ORDERED that the Internal Audit Charter was approved.

15/14 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them 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.

15/15 **SCHOOL GOVERNING BODIES - APPOINTMENT OF LA 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 and Audit Committee. The nominations received for the vacancies were outlined in the submitted report and additional nominations were tabled at the meeting.

It was noted that there were currently 11 vacancies out of a total of 42 Governorships for Local Authority representatives, which equated to 26.19%.

Members were asked to note that the Constitution of Governing Bodies of Maintained Schools Statutory Guidance for Governing Bodies August 2015 stated that Local Authority Governors were nominated by the Local Authority but appointed by the Governing Body. The Local Authority could nominate any eligible person as a Local Authority Governor but it was for the Governing Body to decide whether the nominee had the skills to contribute to the effective governance and success of the school and met any other eligibility criteria they had set.

Members were also requested not to make appointment to those Catholic Schools currently in the process of forming a Multi-Academy Trust (MAT) with effect from 1 October 2015, since the Governing Bodies involved with the MAT might decide that they did not require Local Authority representation.

ORDERED as follows:-

1. That the following appointments be recommended for a four year term of office, subject to ratification by the full Governing Body of each school concerned:

Abingdon Primary School - Councillor L Lewis
Berwick Hills Primary School - Councillor J McGee
Caldicotes Primary School - Councillor G Purvis
Marton Manor Primary School - Councillor J Sharrocks
Newham Bridge Primary School - Councillor S Dean
Park End Primary School - Mr D Jackson
St Alphonsus' RC Primary School - Councillor J McGee
Priory Woods School - Mr L Henman

2. That no action be taken with regard to the current vacancies in respect of the following:-

The Avenue Primary School
Ormesby School
Trinity Multi Academy

3. That future application forms include a section highlighting the skills required to contribute to the effective governance and success of the school.