

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 25 June 2015.

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

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

OFFICERS: S Lightwing, M Padfield, B Roberts and P Slocombe

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor C Hobson.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Biswas	Pecuniary	Agenda Item 4 - Consultation on the Proposed Changes to Cleveland Fire Authority

1 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 5 MARCH 2015**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 5 March 2015 were taken as read and approved as a true record.

2 **CONSULTATION ON THE PROPOSED CHANGES TO CLEVELAND FIRE AUTHORITY**

Following his Declaration of Interest, Councillor Biswas took no part in the discussion of this item.

The Head of Legal Services presented a report to consider the Council's response to the consultation on proposed changes to Cleveland Fire Authority (CFA) as agreed by the Fire Authority on 27 March 2015.

At an Extraordinary meeting of Cleveland Fire Authority on 7 March 2014, Members resolved to review the governance of the Authority to examine the number of Committees and Elected Members required to govern the Cleveland Fire Authority.

Details of the Governance Review were attached as an Appendix to the submitted report. There were various options for the reduction of the number of elected Members on Cleveland Fire Authority, which ranged from sixteen to twelve. It was proposed by the Fire Authority that the number of elected Members would reduce from twenty-three to twelve. Under this option, Middlesbrough's allocation of seats would reduce from six to three.

It was also highlighted that Stockton on Tees Borough Council currently elected Members to the Fire Authority for a four year term of office, with other Councils appointing on an annual basis.

Members considered the various options and recommendations detailed in the report.

ORDERED as follows:

1. The Committee approved the revised arrangements in respect of Cleveland Fire Authority as detailed in the report, but recommended that the number of elected Members should be sixteen as per Option 5.

2. The Committee recommended that the term of office of its elected Members in respect of the Fire Authority was extended to four years.

Councillor Coupe observed the meeting for consideration of the remaining agenda

items.

3 STATEMENT OF ACCOUNTS 2014/2015

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 2014/2015.

The Statement of Accounts was a technical publication containing accounting statements 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 2014/2015 Statement of Accounts had been prepared in compliance with International Financial Reporting Standards (IFRS).

The Explanatory Foreword provided a narrative context to the accounts by briefly explaining the main sections and presenting a summary of the Council's financial position and performance for the year and its prospects for future years.

The Council achieved a net saving of £3.85 million against its revenue budget (2.95% of its budget). This included £2.4 million of accelerated savings against 2015/2016 savings targets as set out in Appendix A to the submitted report. The major variances from budget for each service Directorate were highlighted.

Details of the state of the local economy were outlined on page 12 of the submitted report. The town had experienced an increase in business growth, inward investment and expansion enquiries via Economic Development and the economic outlook remained optimistic. Unemployment in the town had decreased, although it was still above the national average.

The financial report detailed where the Council got its money from and what it spent it on, what the Council owned, and how much was owed by and to, other organisations. It was highlighted that employee costs continued to decrease due to the impact of the Change Programme review. Staff numbers had fallen by 1,441 (27%) and Full Time Equivalents (FTEs) in post by 613 (21%) since 2010.

The Council's performance in collecting Council Tax in 2014/2015 was 93.55% collected in the year, compared to 93.4% the previous year.

A summary of the Balance Sheet showed that the total value of Council assets had increased by £37 million during the year to £577.7 million.

It was noted that the Pension Liability had increased by £42.3 million between 31 March 2014 and 31 March 2015 and the Accounting Services Manager explained that this was due to a fall in the value of the discount rate used to calculate the liability.

The net revenue saving of £3.9 million in 2014/2015 had resulted in an increase in General Balances from £9.6 million as at 31 March 2014 to £13.5 million as at 31 March 2015. The level of reserves was consistent with the overall financial environment and the key financial risks faced by the Council. There was a £500,000 draw down from school reserves as a result of three schools converting to academy status during 2014/2015 which was partially offset by a £100,000 saving on delegated schools revenue spending. Total schools' balances stood at £6.6 million as at 31 March 2015.

The Teesside Pension Fund Accounts formed part of Middlesbrough Council's Accounts and would be submitted to the Teesside Pension Fund and Investment Panel for approval in due course. The membership of the Fund continued to increase although the number of active members had decreased.

The Statement of Accounts would be subject to external audit by Deloitte which commenced

on 22 June and was expected to be completed by 31 August 2015. 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 net revenue saving of £3.85 million for the 2014/2015 financial year against a revenue budget of £130.60 million.

Committee Members raised queries in relation to items including an overspend in Commercial and Corporate Services, vacant commercial properties and schools' reserves, and the Chief Finance Officer and Accounting Services Manager provided explanations.

AGREED that the draft Statement of Accounts 2014/2015 were approved.

4 **ANNUAL GOVERNANCE STATEMENT 2014/15**

The Chief Finance Officer presented the Annual Governance Statement 2014/2015. 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 2014/2015 was compiled following a review by the Governance Team of the effectiveness of the Council's systems of internal control and governance arrangements.

The Statement related specifically to the governance arrangements as applied during the 2014/2015 financial year.

Members were asked to note the following Significant Internal Control Issue raised in the 2013/2014 Statement and the action taken during 2014/2015 to address it as follows:

- Coroner's Service - Weaknesses in the control environment within the financial systems used by the Coroner's Service were identified. These weaknesses had been significantly rectified by providing appropriate Coroner's staff with SAP refresher courses. Coroner's staff were now using the financial management system and an improved system of internal control was now in operation.

A Committee Member commented on developments in the Coroner's Service and the much improved timescales for the completion of inquests.

The following areas of concern arose during 2014/2015 and were highlighted in the report along with the action plans in place to address them:

- Project Management - The existing project management governance arrangements did not currently help support the Council's vision and objectives as there was no effective overall programme management of the Council's portfolio of capital projects.
- Middlesbrough Manager - The successful roll out and adoption of Middlesbrough Manager was key to ensuring that Middlesbrough Council had an effective governance structure. Whilst the programme was at too early a stage to carry out a compliance audit during 2014/2015, this was an area requiring internal audit input during 2015/2016 to confirm that the programme was operating as intended.

AGREED as follows that:

1. The Annual Governance Statement 2014/2015 be received and noted.
2. The Internal Control issues highlighted in the Annual Governance Statement 2014/2015 were noted.

5 **PLANNING REPORT TO THE CORPORATE AFFAIRS AND AUDIT COMMITTEE FOR YEAR ENDING 31 MARCH 2015**

The External Auditor presented Deloitte's Planning Report for the audit of Middlesbrough Council's 2014/2015 Accounts. The report included an overview of the key developments at the Council and the more significant matters considered in developing 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.

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 from 1 April 2014. Financial management was now organised by strategic theme rather than a Directorate structure.

Subtle changes had been made to the Code of Practice on Local Authority Accounting, including in respect of the account for Schools, which had been discussed with key members of the Council's finance function.

The Audit Commission was formally abolished from 31 March 2015, with responsibility for overseeing local public audit transferring to a dedicated company under the auspices of the Local Government Association. The 2014/2015 audit was Deloitte's final audit of Middlesbrough Council following a tendering exercise undertaken by the Audit Commission. The Auditor confirmed that a protocol was in place to ensure a smooth transition from Deloitte to the Council's new Auditors for 2016.

The key developments in financial reporting requirements included:

- Changes had been made to the Code of Practice, incorporating new guidance. The impact of these changes had been assessed and was expected to have limited impact on financial reporting for the Council.
- The updated Code included additional guidance around the clear presentation of the financial statements, which had been brought to management's attention.
- The Council's decision to adopt a new approach to budget monitoring, analysing expenditure via strategic themes rather than through the Directorate structure would require changes to the accounts, including the Segmental Reporting disclosure note. This note reconciled the style of information reviewed by the Council's Executive to the information disclosed in the Financial Statements.
- A session was held in February with key members of the Finance team to discuss Deloitte's audit approach, the identified significant risks and to provide two-way feedback from the 2013/2014 audit to help improved the audit process from both the Council's and Deloitte's perspectives.

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.
- Disclosure of Related Party Transactions.
- Management override of key controls.

The risks had been identified on the basis of the External Auditor's understanding of the

Council, its objectives and the environment within which it operated. Each risk was explained in detail in the submitted report, together with the Auditor's observations from the planning procedures and approach to testing and reviewing the Council's controls and procedures. 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.

The Value for Money (VFM) 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. In relation to the VFM Conclusion, the External Auditor's preliminary assessment identified two significant risks which were:

- Financial Sustainability.
- Property Disposals.

In relation to financial sustainability, the Council faced a challenging set of circumstances resulting from reductions in revenue from Central Government and additional budget pressures including growing demand for services, leaving the Council in a difficult financial position. Despite significant savings made in previous years, further reductions in budget would be required in future years to ensure the Council could continue to deliver its core services.

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, provide insight into the quality of the control environment, systems and audit risk areas and ensure that Audit Team was delivering the best quality audit at every level. The Committee was informed of recent changes in personnel within the Audit Team.

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 External Auditor referred to the appendices to the submitted report which contained information in relation to Independence and Audit Fees; Fraud: responsibilities and representations; the Audit Team; the Timetable for the audit; a summary of a research project in relation to the current state of local public services and a Briefing on Audit Matters.

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 2015.

The External Auditor invited questions and Members commented on financial sustainability in relation to the VFM conclusion and the adequacy of disclosures of related party transactions.

AGREED that Deloitte's Planning Report for the year ending 31 March 2015 was received and noted.

6 **CERTIFICATION OF CLAIMS AND RETURNS 2013/14 - ANNUAL REPORT - FEBRUARY 2015**

The External Auditor presented the Certification of Claims and Returns 2013/2014 Annual Report.

This year only two items required certification which were the Housing Benefit Subsidy claim and the Tees Valley Bus Network Improvements (TVBNI) claim. The TVBNI claim was certified with no matters to report.

The Housing Benefit claim excluded council tax subsidy, therefore only two types - Rent Allowances and Non-HRA Rent Rebates - were tested this year. A number of minor errors of both underpayment and overpayment of benefit, across both types of benefit, were revealed by the testing. The individual errors ranged from a few pence to £393. A qualification letter was sent to the Department for Work and Pensions setting out the various errors found.

Given the nature of the benefits system, with a high volume of low volume transactions, there would always be an element of human error. This year revealed fewer errors than last year, partly as a result of council tax subsidy being excluded from the claim, and none of the errors found highlighted any significant control weaknesses.

AGREED that Certification of Claims and Returns 2013/2014 was received and noted.

7 **INTERNAL AUDIT - 2015/2016 ANNUAL INTERNAL AUDIT PLAN**

The Audit and Assurance Manager presented the 2015/2016 Annual Internal Audit Plan for the Committee's consideration. The draft plan had previously been presented to the Committee in March 2015 and a full consultation had been carried out.

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 and supported the Committee's review of the Annual Governance Statement.

A copy of the Plan was attached at Appendix 1 to the submitted report and progress against it would be reported to the Committee throughout the financial year. Due to the cost savings the Council had to make across all of its services, the overall audit budget had been reduced by a further 12.5%. However, because of the different focus and mix of audits proposed for 2015/2016, it was possible to meet this reduction whilst also delivering a small increase on the number of days to be included in the Plan. The number of audit days was 1118 compared to 994 in 2014/2015.

The main focus of the Plan was on corporate areas and corporate risks. For each assignment the Plan included detail as to what the audit was likely to cover but this was only a brief indication at this stage. The exact scope for each piece of work would be agreed with the relevant head of service or director at the planning stage of each audit.

The reduced internal audit budget meant that the contingency allocation was not very high. Therefore, should additional audit requirements arise unexpectedly during the year, consideration would have to be given as to which planned audits were of a lesser priority and could be replaced. Alternatively, the Council could consider an option of purchasing additional audit days if required.

AGREED that the 2015/2016 Annual Internal Audit Plan was approved.

8 **INTERNAL AUDIT – ANNUAL REPORT OF INTERNAL AUDIT**

The Audit and Assurance Manager presented the Annual Report from Internal Audit which provided a summary of the internal audit work performed in the year 2014/2015 and expressed an opinion on the overall internal control environment in place within Middlesbrough Council. A copy of the Report was attached at Appendix 1 to the submitted report.

The Annual Report also considered the internal audit performance outturn for 2014/2015 and the performance of Tees Valley Audit and Assurance Services (TVAAS) against the Public Sector Internal Auditing Standards (PSIAS).

The total number of planned audit days for 2014/2015 was 994.

The Internal Auditor explained that the audits on Project Management governance arrangements and Middlesbrough Manager, which were highlighted in the Annual Governance Statement, were still in progress and not yet complete.

TVAAS undertook its programme of work in accordance with the standards set out in the PSIAS and Standard 2450 stated that the Council's chief audit executive should provide an annual internal audit opinion and report on the overall adequacy and effectiveness of the

organisation's framework of governance, risk management and control.

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council, based on the audit work performed and the audit reports issued, was that they provided Good Assurance.

AGREED that the Internal Audit Annual Report was received and noted.