

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 4 February 2016.

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

ALSO IN ATTENDANCE: D Houghton and N Wright, EY
H Fowler, Tees Valley Audit and Assurance Service (TVAAS)

OFFICERS: S Lightwing and M Padfield

APOLOGIES FOR ABSENCE All Committee Members were present.

DECLARATIONS OF INTERESTS

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

15/21 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 3 DECEMBER 2015

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 3 December 2015 were taken as read and approved as a true record.

15/22 ISA260 REPORT ON THE EXTERNAL AUDIT TO CORPORATE AFFAIRS AND AUDIT COMMITTEE FOR THE YEAR ENDED MARCH 2015

A report of the Chief Finance Officer was presented for Members of the Corporate Affairs and Audit Committee to note the final version of the Auditors ISA 260 report and review the Council's response to the recommendations made in Appendix 4 of the report.

Deloitte presented their draft ISA 260 report on the audit of the Council's 2014/2015 Statement of Accounts to the Corporate Affairs and Audit Committee on 24 September 2015. The ISA 260 included thirteen recommendations arising from the audit; and an action plan listing the recommendations made by Deloitte together with the management response was attached at Appendix A to the submitted report.

It was emphasised that none of the issues raised in the ISA 260 Report had any impact on the level of resources available to the Council.

The Accounting Services Manager highlighted some of the key recommendations and outlined the management response as follows:

The Audit had identified a weakness in the operation of the control around journals being posted to the financial ledger. Although there was a protocol in place, in some instances this was not being adhered to. No inappropriate mis-adjustments had been identified as a consequence of this. The protocol for processing journals had been recirculated to all staff and spot checks would be carried out three times a year to ensure it was being followed.

The Council needed to ensure that Related Party Transactions forms were completed annually to support the production of the accounts. Future returns would be pre-populated with data supplied in the previous year's returns with information obtained from the Register of Members' Interests. In future, Members would be requested to confirm that the information contained on the form was correct or advise of any changes.

Testing of grant income had identified a number of errors in the application of the recognition criteria. Whilst the number of errors had reduced from the previous year, it was recommended that the level of management review was increased to ensure the appropriate recognition criteria were adopted. The Council was satisfied that the current control procedures were sufficient. However, in future if there were any queries in relation to grant income, the Accounting Service Team would check with EY for clarification before recognising it in the Accounts.

The implementation of the new finance system, Agresso, presented a number of challenges to the Council including financial reporting. Deloitte had recommended a dry run of the closure of accounts to ensure that all information required as part of the production of the financial statements could be readily and easily obtained. Unfortunately, the Council did not have the resources to carry out a full test closure as recommended and Members' voiced concern that this recommendation had not been implemented.

However, Finance and Investment Officers had met with colleagues in a neighbouring Authority who had recently implemented Agresso and identified the key processes and possible risk areas relating to year end closure. Additional support had been identified from Unit 4 if required and a test system was also available. The External Auditor commented that they would also be carrying out some testing in advance of the year end closure and would provide an update at the next meeting.

From 31 March 2017, the Code of Practice on Local Authority Accounting would adopt a change in the valuation approach for infrastructure assets on the Balance Sheet. The Council would be required to provide valuations as at 31 March 2017 and comparators as at 31 March 2016 on a Depreciated Replacement Cost (DRC) basis. Finance Officers would be liaising with Officers from the Transportation and Infrastructure Department to develop a database to capture details of all the Council's infrastructure assets and agree the basis of valuations. An Action Plan would be developed to identify the key actions and milestone dates leading up to the implementation of the new Code requirements.

AGREED that the ISA 260 report and the management response were received and noted.

15/23 **EXTERNAL AUDIT REPORT – CERTIFICATION OF CLAIMS AND RETURNS 2014/2015**

A report of the Chief Finance Officer was presented for Members of the Corporate Affairs and Audit Committee to note and review the Certification of Claims and Returns report for 2014/2015 prepared by the previous External Auditors, Deloitte.

The report summarised the principal matters that had arisen from the certification work carried out by Deloitte for the 2014/2015 financial year. The only claim that required certification was the Housing Benefit Subsidy claim. Two types of benefit required consideration which were: Rent Allowances and Non-HRA Rent rebates. Testing revealed a number of minor errors of both underpayment and overpayment of benefit across both types of benefit.

It was noted however, that given that the nature of the benefits system involved a high volume of low value transactions, there would always be an element of human error and this was acknowledged by Deloitte. Fewer errors were revealed for 2014/2015 compared to the previous year and none were the result of any significant control weaknesses.

Initial testing of forty cases identified six errors across the two types of benefit. Types of errors included mis-classification of overpayments and incorrect calculation of earned income, amongst others. The qualification letter was submitted to the Department of Work and Pensions (DWP) setting out the details of the errors identified. The extrapolated error on which subsidy was receivable of £14,363, represented only 0.02% of the total subsidy claimed (£79,739.310). Following receipt of the 2014/2015 certified claim, the DWP confirmed there were no outstanding issues and the total amount of Housing Benefit Subsidy payable to the Authority remained unchanged.

Whilst the value of errors identified was negligible, the Council and Kier were committed to reducing manual errors in processing claims and discussions were ongoing to address specific areas of concern with the aim of improving performance and reducing errors.

AGREED that the Certification of Claims and Returns 2014/2015 Annual Report was received and noted.

15/24 **ANNUAL AUDIT LETTER 2014/2015**

A copy of Deloitte's Annual Audit Letter to Middlesbrough Council following completion of audit procedures for the year ended 31 March 2015 had been circulated. An unqualified opinion on the Council's financial statements for the year had been issued.

In September 2014 a formal objection to the 2013/2014 accounts in respect of taxi license fee income had been lodged. This objection was also made to the 2014/2015 accounts. A Statement of Reasons to the Council and the Objector was issued on 15 September 2015, setting out the Auditor's decision not to petition the Courts to have the income declared unlawful. No appeal to this decision was received within 28 days and in accordance with National Audit Office guidance, completion certificates were issued on the 2013/2014 and 2014/2015 audits on 19 October 2015.

EY confirmed that if the same objection was raised again, it would not be re-investigated if it had already been considered and dealt with.

AGREED that the Annual Audit Letter for the year ended 31 March 2015 was received and noted.

15/25 **INTERNAL AUDIT – AUDIT PLAN 2016/17 CONSULTATION**

The Audit and Assurance Manager presented a report that represented the first consultation with Members of the Corporate Affairs and Audit Committee on the content of the 2016/2017 Audit Plan for Middlesbrough Council. The purpose of the report was to seek Members' views on the priorities for the Audit and Assurance Team for the 2016/2017 programme of work.

Appendix 1 attached to the submitted report outlined the proposed audit and assurance areas as well as the proposed individual audits for 2016/2017 which were based on consultation to date. The number of audit days would be included in the final plan which would require the Corporate Affairs and Audit Committee's approval.

The Audit and Assurance Manager provided a brief explanation of each proposed audit and assurance area which included Corporate, Material/Financial Systems, Risk Based, Controls Compliance, IT Systems, Anti-Fraud Controls and Schools.

A series of short assignments were also included to follow up on the implementation of previous areas where internal audits had resulted in a low level of assurance or where there were known issues. In respect of Priority 1 and 2 recommendations, evidence was required whereas for Priority 3 recommendations management assurance would suffice.

A Committee Member congratulated the Audit and Assurance Manager for an excellent response to a recent request for an issue to be investigated.

AGREED as follows that:

1. The information provided was received and noted.
2. Committee Members would forward any items they wished to be included in the 2016/2017 Internal Audit Programme to the Audit and Assurance Manager.
3. The detailed Internal Audit Programme 2016/2017 would be presented to the Corporate Affairs and Audit Committee for approval at the next meeting.

15/26 **EY BRIEFINGS**

Copies of the following briefings produced by EY had been circulated for Members' information:

- Accelerating Your Financial Close Arrangements- Think Piece.
- Local Government Audit Committee Briefing

The External Auditors gave a brief commentary in relation to both items.

AGREED as follows that:

1. The information provided was received and noted.
2. Further updates would be provided.