

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 24 March 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, M Padfield and J Shiel

APOLOGIES FOR ABSENCE All Committee Members were present..

DECLARATIONS OF INTERESTS

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

15/27 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 4 FEBRUARY 2016

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 4 February 2016 were taken as read and approved as a true record, subject to the following amendment:

Page one, third paragraph - replace the word "Deloitte" with "Accounting Services Manager".

In relation to Agenda Item 3 - External Audit Report - Certification of Claims and Returns 2014/2015, the Accounting Services Manager agreed to provide Councillor Lawton with further detailed information in relation to the Benefit Housing Subsidy testing and the sample tested.

15/28 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 Members. Members were also briefed on the performance of Tees Valley Audit and Assurance Services (TVAAS), the Council's internal audit service.

A brief summary of all internal audit reports issued in final, since the last update to the Corporate Affairs and Audit Committee, was provided at Appendix 1 to the submitted report. Two Priority 1 recommendations were still ongoing from previous periods. One further Priority 1 recommendation had been made this year. The current status against the TVAAS Service Level agreement was attached to the submitted report at Appendix 2 and the Service's opinion methodology was detailed in Appendix 3. Since the report was written, approximately 70% of the Plan was now completed and there were 32 actions outstanding.

In addition to the final audit reports issued, TVAAS staff had been involved in a number of other areas of work that did not result in the issue of a final report, as follows:

- Detailed housing benefit count testing. Reviewing payments made to a supplier to confirm whether the Council's procurement rules had been complied with.
- Reviewing a number of requests for exemptions from contract procedure rules.
- Coordinating the Council's 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.
- Following up on the implementation of previous audit recommendations.

Responding a query regarding debt of £45 million owed to the Council, the Deputy Chief Finance Officer explained that this sum was likely to include several other items rather than just unpaid invoices. The Deputy Chief Finance Officer agreed to provide further details. For example, it was likely that some loans were included which might not be due for

repayment for several years. The Internal Auditor confirmed that this item would be included in the audit.

Reference was made to recent audits of the Coroner's and Bereavement Services and the assurance opinions given. The Internal Auditor explained that the assurance opinion did not necessarily relate to the overall Service but to the specific area that was audited. The Internal Auditor agreed to provide a brief summary of the specific areas audited in future reports to Committee for clarification.

AGREED as follows that:

1. The Internal Audit - Progress Report was received and noted.
2. The Deputy Finance Officer would provide a report itemising the £45 million owed to the Council.
3. The Internal Auditor would provide a brief summary of the specific areas audited in each audit in future update reports to the Committee.

15/29

AUDIT PLANNING REPORT - EY

The External Auditor presented the Audit Planning Report for the year ending 31 March 2016.

The Auditor's current assessment of the financial statement risks facing the Council, identified through knowledge of the Council's operations and discussions with Officers included the following:

- Risk of fraud in revenue and expenditure recognition.
- Risk of management override of controls.

It was highlighted that both of these risks were required to be included in the Audit Plan by Auditing Standards.

- Implementation of a new finance system.

In addition to the significant risk areas, the external audit work would also consider the following audit risks, which although unlikely to result in a material misstatement of financial statements, did require special audit attention:

- Valuation of land and buildings.
- Accounting for pension obligations.
- Grant recognition.
- Financial statement close process.

Members' voiced some concern in relation to the implementation of the new Agresso financial system and the forthcoming year end closure of accounts. The Accounting Services Manager provided reassurance that regular testing of the system was being carried out and a Consultant with substantial knowledge of the Agresso system had been employed to support the year end processes. Both internal and external IT support was also on hand to assist with any Agresso software issues.

The External Auditor confirmed that the audit work would be undertaken, in conjunction with Internal Audit, to ensure that the accounts were fully complete.

It was acknowledged by the Deputy Chief Finance Officer that, as with the implementation of any new system, it was still being developed and embedded and adjustments made as appropriate.

The Value for Money risks identified were:

- Project Management and Property Disposals.
- Financial Resilience.
- Leadership Team Review.

The External Auditor confirmed that the issues documented by the previous auditor and the Internal Auditor in relation to Property Management and Property Disposals would be followed up. Whilst the Internal Auditor had documented that the Council had made progress in these areas, the External Auditor would consider whether the Council had made sufficient progress during the financial year for an unqualified opinion to be issued or whether the current qualified opinion would remain.

The External Auditor stated that EY were anticipating a materiality figure of 2% and this would be confirmed at the June meeting of the Corporate Affairs and Audit Committee. It was highlighted that the amount considered material at the end of the audit might differ from the initial determination.

In response to a query from a Member regarding the risk of cyber fraud, the External Auditor agreed that this was a hot topic at the current time. It was noted that the risk of cyber fraud could be mitigated by IT controls and the overall control environment that the Council operated within.

In relation to financial resilience, reference was made to the recent Peer Review of the Council. Members had considered how the Council could continue to invest in spite of the current economic climate. The Deputy Chief Finance Officer commented that the recently approved Budget Report set out details of the Council's current reserves and plans for the use of those reserves over the next three years. The External Auditor confirmed that as part of their audit they would examine the Council's Medium Term Financial Plan and test the assumptions.

AGREED that the information provided was received and noted.

15/30

VALUE FOR MONEY UPDATE - EY

The External Auditor presented the Value for Money (VFM) update and explained that the framework was driven by the new Code of Audit Practice.

The Code required Auditors to be satisfied that the Council had proper arrangements in place for securing financial resilience and economy, efficiency and effectiveness in use of its resources. The new Code required the VFM audit to be risk assessment based rather than outcome focussed.

In addition, the Auditor would consider three sub criteria which were: informed decision making; sustainable resource deployment; and working with partners and other third parties.

The Auditor would also consider the impact of findings of the previous External Auditor, and other relevant bodies such as OFSTED, CQC, as well as TVAAS' opinions and the Risk Register. The External Auditor would also have a series of discussions with management and cross-checks with Members to ensure that understanding had fed through. Initial discussions with management had started.

In response to a query, the External Auditor confirmed that benchmarking with other Local Authorities formed part of the process and the particular circumstances in each Local Authority were considered.

AGREED that the information provided was received and noted.

15/31

LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

A copy of the Local Government Audit Briefing produced by EY had been circulated for Members' information. The External Auditor gave a brief commentary in relation to the document.

AGREED that the information provided was received and noted.

15/32 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

The Chair informed the Panel that he had been notified of an additional item of business - School Governing Bodies - Appointment of Local Authority School Governors - following issue of the Agenda for the meeting.

AGREED that this item would be considered.

15/33 **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.

15/34 **SCHOOL GOVERNING BODIES - APPOINTMENT OF LOCAL AUTHORITY SCHOOL GOVERNORS**

A report of the Executive Director of Wellbeing, Care and Learning was tabled and 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.

It was noted that there were currently 7 vacancies out of a total of 42 Governorships for Local Authority representatives, which equated to 16.6%.

At this point in the meeting, Councillor J A Walker declared a non-pecuniary interest and took no further part in the meeting.

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 Uddin
Archibald Primary School - Councillor D Rooney
Captain Cook Primary School - Julie Skipp
Holmwood School - Councillor J A Walker
Prince Bishop School - Councillor M Carr