

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 29 September 2016.

PRESENT: Councillors P Purvis, (Chair), Higgins, C Hobson and Hubbard

ALSO IN ATTENDANCE: H Fowler, Tees Valley Audit and Assurance Service
S Kenny and N Wright, EY
K Stanners, Deloitte

OFFICERS: J Bromiley, A Johnstone, S Lightwing, M Padfield, R Painter, T Parkinson, B Roberts, A Sawyer, J Shiel, M Taylor

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors D Rooney and Taylor.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor C Hobson	Non pecuniary	Agenda Item 4 - Member of Teesside Pension Fund

16/17 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 28 JULY 2016**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 28 July 2016 were taken as read and approved as a correct record.

16/18 **SUSPENSION OF COUNCIL PROCEDURE RULES**

ORDERED that, in accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business. The Panel agreed to deal with Agenda Items in the following order: Agenda Items 10, 6, 8, 9, 7, 5 and 4.

16/19 **APPOINTMENT OF THE RETURNING OFFICER AND ELECTORAL REGISTRATION OFFICER FOR THE COUNCIL**

A report of the Strategic Director, Finance, Governance and Support was presented to seek approval for the appointment of Bryn Roberts, Monitoring Officer, as the Returning Officer and the Electoral Registration Officer in accordance with the Representation of the People Act 1983 ("the Act").

Relevant local authorities were required by the Act to appoint an officer of the Council to be the Returning Officer for the running of various electoral franchises, including Parliamentary, European, Local, and Parish Elections. Section 8(2)(a) of the Act required the Council to appoint an officer to be the Electoral Registration Officer, responsible for the preparation and maintenance of the electoral register for any parliamentary constituency or part of a constituency within its area.

ORDERED as follows that, with effect from 1 October 2016, Bryn Roberts, Monitoring Officer was appointed as the Council's Returning Officer and Electoral Registration Officer.

16/20 **COUNCIL IMPROVEMENT PLAN – PROGRESS UPDATE**

A report of the Strategic Director of Finance, Governance and Support was presented to provide an update on delivery of the Council's Improvement Plan (CIP) since it was last considered by the Corporate Affairs and Audit Committee.

An external review of the CIP had been carried out by Deloitte and completed in June 2016. One team had reviewed the original CIP and the other reviewed the Council's Change Programme structures and governance arrangements. Deloitte acknowledged that by the middle of July further progress had been made in addressing the governance issues within the

scope of the original CIP. Deloitte found that there was a strong commitment to making the changes required to drive improvement in the Council; frameworks for new governance structures and processes had been created and there was still work to be undertaken to implement and embed them; and there were plans for implementation for most improvement actions although further work was needed to document and share some of those plans.

The updated CIP was approved by the Executive Member for Finance and Governance on 8 September 2016 and a copy was attached at Appendix 1 to the submitted report. The updated CIP contained actions across the following themes:

- Financial performance reporting.
- Financial planning.
- Performance management.
- Risk management.
- Decision making.
- Asset management.
- Change Programme/Programme and Project Management.
- Capital Programme monitoring.
- Embedding business change.

In order to ensure effective oversight of improvement actions, detailed delivery plans had been developed to deliver improvement actions for each theme within the updated CIP. A summary of progress to date made against actions contained within the original CIP for each of these themes and reports by exception on delivery of additional activities that had been encompassed within the updated CIP were also provided within the submitted report.

The Interim Chief Executive stated that given recent media interest in asset disposal a review of the Council's process had been undertaken. The review had triggered a larger piece of work to ensure the revised process effectively addressed the original concerns and implementation of the recommendations outlined in the Deloitte report. The Valuation and Estates team had been transferred to the Finance and Governance Directorate and a plan was in place to deliver improvement actions over the next three months to revise the asset disposal process, review the Estates Strategy and embed the revised asset disposal process within the organisation. The majority of actions were underway and it was expected that the timescale for delivery of the actions would be met.

A Members' Briefing had been scheduled to clarify the project management and asset disposal process and a timeline would be provided at that meeting. In terms of the process around disposal, the issues had been in relation to the audit trail rather than the decision making. The Internal Auditor had provided assurance that actions to address previously identified control and governance issues had been collated into one overarching CIP, enabling all improvement actions to be captured in one document for ease of monitoring; the CIP had been communicated to Members and progress reported; and, there was commitment to implementing the required governance improvements demonstrated by the appointment of Deloitte to provide independent review and guidance on the CIP and further action required.

Members asked questions in relation to the timescale for implementation of the CIP, audit trails, use of emails and text messages in relation to disposals, and the Agresso system and the Interim Chief Executive and Assistant Director Interim responded accordingly.

AGREED as follows that:

1. the progress made to date and the report were noted.
2. the reporting timeline was noted.
3. monitoring arrangements for the Council Improvement Plan were noted.

16/21

INTERNAL AUDIT - ANNUAL COUNTER FRAUD REPORT

A report of the Audit and Assurance Manager was presented to update Members on the

impact of fraud on the UK by summarising the main national fraud risks facing the public sector as set out in the Protecting the English Public Purse (PEPP 2015) report by The European Institute for Combatting Corruption and Fraud (TEICCAF).

The report considered the potential impact of fraud on Middlesbrough Council and its residents, the existing counter fraud arrangements in place and the further action that could be taken to safeguard the Council from fraud and loss. The number and type of investigations undertaken by Tees Valley Audit and Assurance (TVAAS) since the previous report on Counter Fraud activity was also reported on.

During the financial year 2015/2016, TVAAS had not been made aware of any incidences of internal fraud but had issued fraud alerts in response to potential external threats. It was noted that cyber attempts at fraud were becoming increasingly common. A number of other potential fraud risks had been examined and fraud alerts circulated accordingly.

A checklist for those responsible for combatting fraud and corruption was attached to the submitted report at Appendix 1. The checklist set out the kind of measures that the organisation should have in place. The Audit and Assurance Manager highlighted that due to the reduction in Council resources it was inevitable that less pro-active work could be undertaken. Currently no Member had the specific role of fighting fraud across the Council in their portfolio. The Audit Assurance Manager invited any Committee Member who wished to do so, to work with Internal Audit on that issue.

AGREED that the information provided was received and noted.

16/22 **INTERNAL AUDIT - INTERNAL AUDIT CHARTER**

In accordance with the revised Public Sector Internal Audit Standards (PSIAS), the updated Internal Audit Charter was presented to the Corporate Affairs and Audit Committee for comment and approval.

Public Sector Internal Audit Standard 1000 stated that the Internal Audit Charter should include a formal definition of the purpose, authority and responsibility of the internal audit activity. It should set out the internal audit activity's position within the organisation, establish reporting relationships and define the role and scope of its activities in relation to assurance, fraud and consulting work. It should establish the organisational independence of internal audit and identify its contribution to the review of the effectiveness of the organisation's control environment.

This year's review of the Internal Audit Charter had resulted in a number of minor amendments to reflect the revised PSIAS and a copy of the updated Charter was attached at Appendix 1 to the submitted report.

AGREED that the Internal Audit Charter was approved.

16/23 **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. In addition, the report briefed Members on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).

A brief summary of all internal audit reports issued in final, since the last update to the Committee, was provided in Appendix 1 (Table 1) to the submitted report. No new Priority 1 recommendations had been made to date in 2016/2017 but three were still ongoing from previous periods and the latest update to Members was provided at Appendix 1 (Table 2). The Service's opinion methodology is detailed in Appendix 3.

In addition to the final reports issued in Appendix 1, TVAAS staff had been involved in a number of other areas of work that did not result in the issue of a formal report. This work included detailed housing benefit count testing, co-ordinating the Council's involvement in the

national fraud initiative (NFI) and following up on the implementation of previous audit recommendations.

No variation requests had been made to date to the agreed Audit Plan for 2016/2017.

The opinion for 2015/2016 was originally assessed as Moderate in June due to the higher number of reports issued with a Cause for Concern during 2015/2016 and the significance to the Council's overall governance and control environment of those areas where a Cause for Concern opinion had been identified. However, at the time of the annual report, 18 reports were still in draft and therefore the opinion associated with each of those reports was still subject to discussion and possible change.

Since the Annual Report, there had been a change to the draft audit opinion for four of the reports relating to key financial systems. As a result of additional evidence provided and extra progress made to address the control issues identified, the individual opinions for the Debtors and Creditors reports had both been raised from Cause for Concern to Moderate; the individual opinion for Main Accounting has been raised from Cause for Concern to Good, whilst the opinion for Social Care Payments had been raised from Cause for Concern to Moderate. All other draft opinions had remained the same. One draft report had not yet been issued as a final version although the associated opinion for that report was unlikely to change. An updated comparison between 2015/2016 and 2014/2015 was set out in Appendix 1 (Table 4) to the submitted report. Taking the above changes into account, it was considered that the overall internal audit opinion for 2015/2016 on the control environment could be raised from Moderate to Good Assurance.

A Member requested that copies of any Audit Reports containing P1 recommendations were circulated to the Committee in future.

AGREED that:

1. the Internal Audit Progress Report was received and noted.
2. Audit Reports containing P1 recommendations were circulated to Committee.

16/24

ISA260 REPORT

The External Auditor presented the Audit Results Report - ISA 260 for the year ended 31 March 2016. The report summarised the findings from the 2015/2016 audit which was substantially complete. The report included issues arising from the audit of financial statements and the results of the work undertaken to assess the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Subject to satisfactory completion of the outstanding items included in Appendix B to the report, EY anticipated issuing an unqualified opinion on the Council's financial statements. The audit certificate would be issued at the same time as the audit opinion.

In terms of the audit itself, some audit differences were highlighted to management for amendment and these had been corrected. Information regarding these amendments were detailed in Appendix A of the submitted report. There were no uncorrected audit differences to report. In relation to scope and materiality, the threshold for reporting audit differences which impacted the financial statements had reduced slightly from £393,500 to £390,000.

The audit risks identified during the planning phase of the audit, audit procedures performed and details of the assurance gained were detailed in Section 3 of the submitted report. The External Auditor highlighted that in the draft accounts, the Council had not made a provision for redundancies in relation to the Leadership Team Review or business rates appeals. This had been amended in the final accounts.

In relation to the new finance system, Agresso, no issues were identified from sample testing of the migration of data. However, it was noted that Council officers had limited involvement in the implementation of the new finance system, as it had been led by Agresso personnel. As a result, the Council had limited knowledge of the controls used to ensure the successful

migration of data between systems. The External Auditor therefore recommended that Council Officers should have more involvement in the implementation of new systems in order to ensure that appropriate controls, which were relevant to the Council, were introduced.

With reference to the valuation of land and buildings, the External Auditor commented that this was a significant risk for all local authorities since evaluations were complex. The valuation of land and buildings was subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the accounts. However, there were no matters to report arising from the External Auditor's work in this area.

Other matters that were significant to the audit were also highlighted. During 2015/2016, the Council had treated as "disposed" an asset held in the course of construction of £3.2 m. This related to BoHo 5, where the Council was constructing the asset on behalf of the Homes and Communities Agency (HCA). The Council capitalised the costs of the construction work on its balance sheet in the prior year as it believed the asset would be owned by the Council on completion. However on review of the agreement with the HCA, it was identified that the asset would remain with the HCA and the construction costs were fully funded by the Agency. The External Auditor recommended that lease agreements and contracts were reviewed prior to the commencement of building work so that the correct accounting treatment was implemented at the start of a capital project.

In 2014/2015 Middlesbrough Council was the subject of a qualified conclusion in relation to value for money, issued by the previous External Auditor. Middlesbrough Council implemented a Council Improvement Plan (CIP) to address each area identified in the qualification. Although progress was made against the CIP in 2015/2016 a number of actions were incomplete at 31 March 2016. Work commissioned during the year by the Council from its internal auditor on project management and property disposal arrangements confirmed limited progress in strengthening these processes. Whilst the External Auditor acknowledged that improvements had been made, there was still work to do, and therefore the qualified conclusion in relation to value for money remained. The External Auditor was however satisfied that in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

The Interim Chief Executive commented that the Council had taken the time to properly understand, investigate and resolve the issues raised at the highest level and was confident that the effort put into addressing those issues would result in an unqualified audit opinion next year.

In response to a query from a Member as to whether all sales of Council assets should have been frozen while the CIP actions were implemented, the Interim Chief Executive explained that whilst the Auditors had highlighted areas for improvement in the Council's property disposal processes, there was no evidence of any impropriety in the transactions completed.

AGREED that the Chair of the Corporate Affairs and Audit Committee was authorised to sign the Letter of Representation on behalf of the Council.

16/25 **STATEMENT OF ACCOUNTS 2015/2016**

A report was presented for Members of the Corporate Affairs and Audit Committee to receive and review the Middlesbrough Council Statement of Accounts 2015/2016. The 2015/2016 Statement of Accounts had been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The Code was based on International Financial Reporting Standards (IFRSs) and had been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Interim Assistant Director provided a comprehensive verbal summary of each section of the Annual Statement of Accounts 2015/2016.

Members asked questions in relation to income from the Middlesbrough Sports Village, the Welding Institute and the Hemlington Grange site and the Interim Assistant Director provided

detailed explanations.

The Interim Assistant Director stated that Members could take assurance on the accuracy of the accounts from the work undertaken by the Council's Auditors, EY, who expected to give an unqualified opinion on the financial statements and confirmed that the accounts gave a true and fair view of the financial position of the Council as at 31 March 2016 and had been prepared in accordance with the CIPFA code of practice. Assurance could also be taken from the Internal Audit report on Main Accounting. The overall opinion was that there was a good control environment.

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 July and 11 August 2016. 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 that the Statement of Accounts 2015/2016 were approved and adopted.

16/26

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

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 15 vacancies out of a total of 45 Governorships for Local Authority representatives, which equated to 33%.

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:

Beech Grove Primary School - Councillor C Rooney
Chandler's Ridge Primary School - P Thwaites
Whinney Banks Primary School - Councillor B Taylor

Corporate Affairs and Audit Committee - Appointments

A Member queried the recent appointment of two Councillors to vacancies on the Corporate Affairs and Audit Committee. It was confirmed that the Monitoring Officer had approved both appointments in accordance with the delegated authority granted to him by Council.