

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 9 March 2017.

PRESENT: Councillors D Rooney (In the Chair), Councillors Blyth, C Hobson, Hubbard, Storey and Taylor

ALSO IN ATTENDANCE: H Fowler, Tees Valley Audit and Assurance Services (TVAAS)
N Wright and S Kenny, EY

OFFICERS: A Johnstone, S Lightwing and J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor P Purvis.

DECLARATIONS OF INTERESTS

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

1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 9 FEBRUARY 2017

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 9 February 2017 were taken as read and approved as a correct record.

2 REVIEW OF THE LOCAL CODE OF CORPORATE GOVERNANCE

A report of the Strategic Director of Finance and Governance was presented which set out the revised Local Code of Corporate Governance, a copy of which was attached to the submitted report at Appendix 1.

Middlesbrough Council had been on an improvement journey for the past year to strengthen its governance arrangements across a range of issues. This had been extensively documented to Members via briefings and formal reports on delivery of actions within the Council Improvement Plan (CIP). The actions had been taken because the Council was committed to ensuring that it had good governance arrangements in place that supported efficient and effective service delivery that met local needs.

As part of that improvement agenda and commitment to good governance, the Council was committed to regularly reviewing its Local Code of Corporate Governance. The content of the Local Code had been revised to reflect the latest CIPFA Solace guidance 'Delivering Good Governance' (2016). The guidance set out seven principles for good governance, supported by sub-principles and examples of evidence that would demonstrate that an organisation's governance processes, systems and policies were in line with the principles of good governance. The draft Local Code of Corporate Governance outlined how the Council would meet those principles.

In response to a query, it was highlighted that progress in meeting the principles would be assessed by the Annual Governance Statement which would be published alongside the Statement of Accounts later in the year.

Two minor amendments to the report were suggested as follows:

Introduction, paragraph 2 - replace 'good governance' with 'excellent governance' .

Page 5, Managing risks and performance... - insert 'proportionate' to read: Embed *proportionate* effective risk management within all activities...

AGREED that the Corporate Affairs and Audit Committee endorsed the draft Code of Corporate Governance and its submission to full Council for adoption, subject to the two minor amendments agreed at the meeting.

3 INTERNAL AUDIT - PROGRESS REPORT

The Internal Audit Progress Report was presented to update Members on the main findings arising from internal audit work carried out since the previous progress report to Members on 8 December 2016.

The total number of planned audit days for 2016/2017 was 855 and at the time of this report, 58% of the Plan had been completed with a number of other audit assignments ongoing and close to the draft stage. This position was ahead of that reported at the same time last year (49%).

Appendix 1 to the submitted report provided a brief summary of all internal audit reports and briefing notes issued in final since the last update, the number of outstanding internal audit actions due to have been implemented by 31 January 2017 and the progress to implement any outstanding Priority 1 recommendations. Details of the current performance of the Tees Valley Audit and Assurance Services (TVAAS) against the Service Level Agreement measures was attached at Appendix 2 to the submitted report. TVAAS' opinion methodology was attached at Appendix 3 to the submitted report.

The main points highlighted from the internal audit work during this period were as follows:

- No internal audit reports with an overall assurance level of Cause for Concern or Significant Concern had been issued as a final during the period.
- No new priority 1 recommendations had been made during the period.
- One P1 action was still outstanding from previous periods and action was well underway to address this recommendation via the Council's Improvement Plan.
- Besides the P1 action, there were 10 priority 2 and 2 priority 3 actions, which should have been implemented by 31 January 2017 (or before) and which were currently outstanding. Progress was underway to implement the outstanding actions. This represented an improved position when compared with the same time last year when a total of 44 actions (including two P1s) were reported as being outstanding.
- Many of the outstanding actions were also included on the Council's Improvement Plan and the auditors acknowledged the considerable work ongoing to implement this Plan.

The Audit and Assurance Manager drew Members' attention to Appendix 1 of the submitted report which provided details of all reports issued in final since the last Corporate Affairs and Audit Committee meeting. It was clarified that the audits had been looking at the framework rather than compliance. For the remainder of this financial year and the beginning of the new financial year, the Auditors would be testing compliance.

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 formal report including 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.

One variation to the 2016/2017 Audit Plan was previously reported to the Committee in December 2016, however no further variations were proposed at this stage although it was likely that the critical friend work on health integration would be delayed until the new financial year.

The Audit and Assurance Manager clarified that the data sharing referred to in the audit on school readiness related to personal data. Members requested updates on Connected Persons Placements, Ayresome Industries and Lingfield School for the next meeting.

AGREED that the report was received and noted.

4 **ANY OTHER BUSINESS - AUDIT PLANNING REPORT FOR YEAR ENDING 31 MARCH 2017**

The External Auditor presented the Audit Planning Report for the year ending March 2017. The Plan summarised the Auditor's initial assessment of the key risks driving the development of an effective audit for Middlesbrough Council and outlined the planned audit strategy in response to those risks.

The External Auditor highlighted the significant risks that had been identified as follows:

- Risk of fraud in revenue and expenditure recognition.
- Risk of management override of controls.
- Valuation of land and buildings and investment properties.
- Accounting for pension obligations.
- Changes to Code of Practice on Local Authority Accounting.
- Implementation of a new payroll system.

The Auditor was required to consider whether the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In the previous financial year, the External Auditor had issued a modified opinion on value for money which linked back to property disposal and capital framework issues. A significant amount of work had already been completed in relation to the issues and sampling of property disposals and procedures would also be undertaken.

The Auditor also wished to highlight that the overall materiality for the financial statement of the Council was £8,800,000 based on 2% of gross operating expenditure. Any uncorrected audit misstatements greater than £440,000 would be reported to the Corporate Affairs and Audit Committee. Any particular area of concern to the External Auditor, even if it fell below the thresholds, would also be reported.

The Vice Chair suggested that the report was presented to the next meeting of the Committee for further consideration.

AGREED as follows that:

1. The information provided was received and noted.
2. The Audit Planning Report – Year ending 31 March 2017 would be added to the agenda for the next meeting of the Corporate Affairs and Audit Committee.