

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 22 March 2018.

PRESENT: Councillors D Rooney, (Chair), C Hobson, Hubbard, Walkington and Walters

PRESENT BY INVITATION: Councillor N J Walker

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

OFFICERS: J Bromiley, B Carr, A Johnstone, S Lightwing, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Lewis and Brady.

DECLARATIONS OF INTERESTS

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

1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 8 FEBRUARY 2018

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 8 February 2018 were taken as read and approved as a correct record.

2 DECISION MAKING

A report of the Strategic Director of Finance, Governance and Support was presented to provide Members with information and raise awareness of the Council's decision making process.

Democratic Services had produced an E learning Module with regard to Decision Making Awareness. The module explained the different types of decisions, the expectations of officers, the managerial or political routes to take to get a decision approved, and how decisions were recorded and/or published. In addition, a Decision Making Toolkit had been produced which provided information on the processes, protocols and work which related to the decision making processes of the Council and included details on relevant Leadership Management Team (LMT) processes. The Members and Statutory Services Manager also attended a Heads of Service meeting in November 2017 and delivered a presentation in relation to Decision Making.

The Openness of Local Government Bodies Regulations 2014 required officers to produce a written record of certain decisions they might take. The Regulations were outlined in the submitted report.

A Guidance Note for Officers with regard to Delegated Decisions had been produced, a copy of which was attached at Appendix A to the submitted report. An electronic Decision Making form was produced as part of the Council's Committee Management System (Egenda) to enable officers to publish any decisions made to the Council's website. Elected Members received a link to any officer delegated decisions made to enable them to view the decision.

A report containing details of Officer Delegated Decisions taken during the period 1 January to 31 December 2017 was attached to the submitted report at Appendix B.

In terms of the Executive Decision Making process, the Mayor and Executive Members possessed a range of delegated powers, details of which could be found in the Executive Scheme of Delegation in the Council's Constitution. A report containing details of Executive decisions taken during the period 1 January to 31 December 2017 was attached to the submitted report at Appendix C.

AGREED that the information provided was received and noted.

3 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

The External Auditor presented a report which summarised the results of their work on Middlesbrough Council's 2016/2017 claims and returns.

Section 1 of the submitted report outlined the results of the 2016/2017 certification work and highlighted the significant issues.

The Housing Benefits Subsidy Claim, with a total value of £79,520,238, was checked and certified and the submission deadline was met. A qualification letter was issued which detailed the qualification matters as included in Section 1 of the submitted report. No amendments had been made to the claim relating to the matters in the qualification letter.

On 18 December 2017, the DWP contacted the Council regarding an extrapolated error contained in the qualification letter. Following discussion with the DWP, the Council agreed to perform additional testing in order to reduce the size of the extrapolated error that was originally reported. On 22 January 2018, EY issued a revised qualification letter to the DWP following completion of the additional testing. The External Auditor explained that the qualification of Housing Benefit Subsidy Claims was not unusual. The additional testing carried out by the External Auditor on the benefit subsidy claim resulted in an additional fee of £3,600, however the additional testing meant that repayment of grant was avoided.

In relation to the findings identified by the External Auditor, the Committee was assured that all issues were addressed and efforts made to reduce the number of errors going forward.

A separate report to the Council in relation to the Teachers' Pensions return was issued and details were set out in Section 2 of the submitted report. A qualification letter was issued in relation to this return and the matters included in the qualification letter were detailed in Section 2.

The certification fees for 2016/2017 were published by PSAA in March 2016 and detailed on page 4 of the submitted report. The difference between the actual and indicative fee related to the additional testing completed on behalf of the Council following the communication with the DWP. The additional fee was still subject to final approval by PSAA. The certification fees in respect of the Teachers' Pension return were outside of the PSAA regime.

The External Auditor highlighted that from 2018/2019 the Council would be responsible for appointing their own reporting accountant to undertake the certification of the Housing Benefit Subsidy Claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that were being established by the DWP.

AGREED that the information provided was received and noted.

4 MIDDLESBROUGH COUNCIL AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2018

The External Auditor presented the Audit Planning Report to provide the Corporate Affairs and Audit Committee with a basis to review the proposed audit approach and scope for the 2017/2018 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd (PSAA), auditing standards and other professional requirements.

The Plan summarised EY's initial assessment of the key risks driving the development of an effective audit for the Council, and outlined the planned audit strategy in response to those risks. The significant risks were identified as:

- Risk of fraud in revenue and expenditure recognition.
- Misstatements due to fraud or error.

- Valuation of land and buildings and investment properties.
- Pension liability valuation.
- Property disposal governance arrangements.

The External Auditor explained that the first two risks were mandatory and required to be included in all audits.

A Member voiced concern regarding value for money in relation to assets since this was the third year it had been included as a significant risk. The External Auditor stated that there was an extensive planned programme of work focussed on property governance. It was clarified that the Audit Planning Report covered the procedures and process in the financial year 2017/2018 and the work on value for money was not yet concluded, since it was not yet the year end. The results of the audit would be reported to the Committee in July 2018.

The Strategic Director of Finance, Governance and Support reminded the Committee that the previous qualification was in respect of the governance arrangements for property disposals rather than value for money. Whilst the Council had made good progress, the External Auditor had felt that the new policy agreed in December 2016 was not sufficiently embedded by March 2017 to remove that qualification last year. The Director added that the focus on strengthening governance arrangements was an absolute priority.

With regard to a query in relation to tendering and value for money, the External Auditor confirmed that the audit was in relation to the governance arrangements for value for money.

For planning purposes, materiality for 2017/2018 had been set at £10.4 million. This represented 2% of the Council's prior year gross expenditure on provision of services. The figure would be reassessed throughout the audit process. Any uncorrected misstatements over £0.52 million would be reported to the Committee.

The timetable for reporting the Audit had been amended this year and the External Audit would report back to the Committee by the end of July rather than the end of September.

Confirmation of EY's independence and the Audit Fees were also included in the submitted report. It was noted that a scale fee variation of £50,000 had been requested by the External Auditor for the additional work undertaken in respect of the value for money risks in 2016/2017. The fee had been agreed with Officers and the PSAA had been informed. Given the significant risk to the value for money opinion identified in 2017/2018, it was expected that there would also be a scale fee variation for this work which would be quantified following EY's initial scoping of the work.

The External Auditor explained that the scope of work had been extended following queries received in relation to some specific transactions. Additional time had been built in and some specialists engaged to deal with specific queries. This additional work had been agreed in advance with Officers.

AGREED that the information provided was received and noted.

5 **INTERNAL AUDIT PLAN 2018/19 CONSULTATION**

A report of the Strategic Director of Finance, Governance and Support was presented to seek Members' views on the priorities for the Internal Audit 2018/2019 programme of work.

Appendix 1 to the submitted report provided a summary of the key ways in which the Plan aimed to provide assurance and some possible audit assignments that had already been identified based on consultation to date. Where applicable, Appendix 1 demonstrated the links between the planned audits and the Council's Strategic Plan and how the assurance work would be aimed at supporting the Mayor's Vision and the Council priorities of physical regeneration, social regeneration and delivering its business imperatives. Links were also made with the Council's strategic risk register where applicable.

Consultation was ongoing and the assignments included in Appendix 1 were likely to change once all Departmental Management Teams (DMTs), external audit and the Leadership Management Team (LMT) had been consulted and all comments collated and considered. Following consultation, the detailed Plan would be presented to the next meeting of the Corporate Affairs and Audit Committee and would set out the list of audits and the planned number of days in total for each assignment. Progress against the Plan would be reported to Members by the Audit and Assurance Manager throughout the year.

Hot topics for internal auditors that had been identified nationally included:

- Cyber Security.
- Compliance with General Data Protection Regulations.
- Investment in new IT Technologies.
- Impact of political risks and events.
- Vendor risk and third party assurance (outsourcing).
- Corporate culture (maintaining employee trust, public confidence and reputation).
- Workforce Planning (maintaining key skill sets).

Some of these issues had been on the Council's radar/audit plan or risk register for some time and the Chair concurred that they should be included in this year's Plan. In response to a query as to how topics such as Corporate Culture would be audited, the Audit and Assurance Manager explained that there was a series of high level questions that would be asked in relation to the Council's processes and policies.

The Audit Plan was designed to be responsive in nature and all efforts would be made to maximise coverage to provide the most effective service possible that focussed on the key issues facing the organisation throughout the year. The Audit Plan included contingency time to be allocated to events as they emerged during the year.

AGREED that:

1. The draft Internal Audit Plan 2018/2019 was received and noted.
2. The final Plan would be presented to a future meeting of the Corporate Affairs and Audit Committee for approval.

6 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 previous progress report to Members on 7 December 2017. The report also provided information on the performance of the Council's internal audit service, Tees Valley Audit and Assurance Services (TVAAS).

Based on the internal audit work carried out since the progress report to Members on 7 December 2017, 11 reports had been issued in final (5 strong, 5 moderate and 1 cause for concern). Of the 41 actions recommended in those reports, one was a P1 action (relating to preparation for the Data Protection reforms). This P1 action had been confirmed as implemented.

Three additional reports (one moderate and two cause for concern) had also been issued but were currently still in draft and awaiting agreement with the relevant officers so could be subject to change. One draft report provisionally included one further P1 action. Only 6 actions that were due to have been implemented by, or before, 28 February 2018 remained outstanding. There were no significant concerns to raise regarding the remaining 6 actions. The Audit and Assurance Manager commented that this showed the progress being made by the Council to address any issues.

All proposed variations to the agreed Internal Audit Plan arising as a result of emerging issues and/or requests from directorates would be communicated to the Corporate Affairs and Audit Committee for information and comment. Several variations had been requested and would be considered for inclusion in the 2018/2019 Plan. These included IT Governance, Contract

Management, Agresso and Youth Employment Initiative.

A query was raised with regard to the Planning Enforcement audit which had received Moderate Assurance even though it was highlighted as part of the audit that the Enforcement Manual had not been updated since 2008. The Audit and Assurance Manager explained that the audit would have considered how significant it was that the Manual was out of date, what the impact was, and determined whether it warranted cause for concern.

AGREED that the information provided was received and noted.

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

The Chair was pleased to announce that Middlesbrough Council's Investment Strategy had been nominated for an award by the Local Government Chronicle Awards 2018 in the Driving Growth category and was highly commended.

NOTED