

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 26 July 2018.

PRESENT: Councillors Walkington, (Chair), Higgins(As Substitute), Rathmell (As Substitute), Storey, J A Walker (As Substitute) and Walters

PRESENT AS OBSERVERS: Councillor D Rooney

PRESENT BY INVITATION: Councillor N J Walker

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

OFFICERS: J Bromiley, S Dorchell, L Henman, A Hoy, D Johnson, S Lightwing, M Padfield, J Shiel, P Stephens, I Wright

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Brady, C Hobson, Hubbard, P Purvis.

DECLARATIONS OF INTERESTS

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

18/8 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 29 MAY 2018

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 29 May 2018 were taken as read and approved as a correct record.

18/9 INTERNAL AUDIT ANNUAL REPORT 2017/18

The Audit and Assurance Manager presented the Internal Audit Annual Report 2017/2018.

The report provided a summary of the internal audit work performed in the year 2017/2018 and expressed an opinion on the overall internal control environment in place within Middlesbrough Council. The report also considered the internal audit performance outcome for 2017/2018 and the compliance of Tees Valley Audit and Assurance Service against the Public Sector Internal Auditing Service (PSIAS).

The Corporate Affairs and Audit Committee approved the 2017/2018 Audit Plan at a meeting on 29 June 2017 and the total number of planned audit days for 2017/2018 was 855 days.

For 2017/2018, 134 actions had been recommended, of which 61 had been implemented to date. Of the 73 that had yet to be implemented, only 11 (7 P2 and 4 P3) had passed their agreed target date (as at 30 June 2018).

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2017/2018 was that they provided Good Assurance. This opinion was based on the work performed by the internal audit team during the year 2017/2018 as detailed in the full annual report, a copy of which was attached at Appendix 1 to the submitted report.

A self-assessment comparing current internal audit working practices against the criteria set out in the PSIAS had been completed and was included at Appendix 1 to the submitted report.

In addition, since it was 5 years since the standards were introduced, an independent external assessment of TVAAS' compliance with the PSIAS had been undertaken by the Chief Internal Auditor of Hartlepool Borough Council. The assessment reported Satisfactory Assurance that TVAAS complied with the PSIAS with only minor areas for further consideration. Hartlepool Borough Council's internal audit service applied three opinion levels: satisfactory, limited and

no. A copy of the external review report was attached at Appendix 2 to the submitted report.

AGREED that the report was received and noted.

18/10 **INTERNAL AUDIT CHARTER**

The Audit and Assurance Manager presented the updated Internal Audit Charter for approval, in accordance with the revised Public Sector Internal Audit Standards (PSIAS).

The Internal Audit Charter was a formal document that defined the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Charter set out how the internal audit work would be carried out and the Service would perform its duties. The Charter established the role, authority, mission and independence of the internal audit function and how it would report its findings.

Each year, the Audit and Assurance Manager reviewed the content of the Charter to ensure that the document remained fit for purpose and reflected the PSIAS. Only minor changes were proposed to the Charter this year, and these were shown as tracked changes in the copy of the Charter, which was attached at Appendix 1 to the submitted report.

AGREED that the Internal Audit Charter was approved.

18/11 **MIDDLESBROUGH COUNCIL AUDIT RESULTS REPORT YEAR ENDED 31 MARCH 2018**

The External Auditor presented the Audit Results Report for the year ended 31 March 2018. The report summarised EY's conclusions in relation to the audit of Middlesbrough Council for 2017/2018.

Based on EY's materiality measure of gross expenditure on provision of services, the overall materiality assessment had been updated from £6.7 million in the planning report to £9 million.

The audit of the Council's financial statements for the year ended 31 March 2018 was substantially completed with only completion of payroll testing outstanding. Subject to satisfactory completion of that item, EY expected to issue an unqualified opinion on the Council's financial statements.

There were no unadjusted audit differences arising from audit, however, it was noted that £635K relating to the Housing Benefit claim had been identified. There was no need to amend this since it fell well below the £9 million materiality figure.

In relation to the key areas of focus and significant risks for the audit of the Council's financial statements, there were no matters that the External Auditor wished to bring to the attention of the Committee. One recommendation had been made in relation to an amendment to the Asset Disposal Policy for clarification.

In the Audit Planning Report one significant risk was identified in relation to property disposal governance arrangements. Based on the work performed in relation to this risk, the External Auditor had no matters to report.

However, the External Auditor was currently considering information made available in June 2018 in relation to other governance arrangements at the Council which might impact on the risk assessment and work programme relating to value for money. As a result, the External Auditor was unable to fully conclude the value for money procedures at this time. A further update would be brought to the Corporate Affairs and Audit Committee as soon as possible. The External Auditor was unable to specify a date for completion of this work but confirmed that additional fees would be incurred.

The External Auditor was satisfied that the Annual Governance Statement complied with guidance and was consistent with other information from the audit of the financial statements. Some updates to the wording had been suggested by the Auditor and actioned by

management. Procedures set out by the National Audit Office (NAO) on the Whole of Government Accounts submission were currently being performed.

Finally, a copy of the Management Representation Letter was included in the submitted report for information.

AGREED that the information provided was received and noted.

18/12 **STATEMENT OF ACCOUNTS 2017/18**

The Council's Statement of Accounts 2017/2018 were presented for Members' approval.

The draft Statement of Accounts 2017/2018 were presented to the Committee on 29 May 2018. Members of the Committee were also given the opportunity to attend a briefing session with the Head of Financial Governance and Revenues on 27 June 2018 to consider the draft accounts in more detail.

The accounts highlighted the fact that the Council was in a stable financial position with the level of reserves and general balances being in line with those included in the Council's Medium Term Financial Plan.

The draft accounts were currently being audited by the Council's auditors, Ernst Young (EY), who expected to give an unqualified opinion on the financial statements as at 31 March 2018.

During the audit process, EY had identified several issues requiring changes to the draft accounts and these had been reflected in the revised final accounts. Details of the adjustments made were included in EY's audit results report. None of the changes had an impact on the Council's overall financial position.

The Head of Financial Governance and Revenues paid tribute to all Officers involved in the preparation of the Statement of Accounts for their hard work and dedication.

AGREED that the Statement of Accounts 2017/2018 was approved.

18/13 **ANNUAL RISK MANAGEMENT ASSURANCE REPORT**

A report of the Strategic Director Finance, Governance and Support was presented to provide an annual review of the Council's approach to Risk Management, highlight progress made against the Risk Improvement Plan over the last year, and outline plans to further strengthen Risk Management within the Council.

Risk Management was the collective responsibility of all Elected Members and Officers of the Council. The Council's approach to Risk Management was articulated by the Performance and Risk Management Framework which was periodically reviewed by the Executive, most recently in June 2018.

The Strategic Risk Register was also submitted to the Executive for consideration as part of the Strategic Plan and a summary of the Strategic Risk Register accompanied the quarterly Balanced Scorecard update to the Executive and Overview and Scrutiny Board. A summary of the current Strategic Risk Register was appended to the submitted report at Appendix 1.

A Risk Improvement Plan was developed for 2017/2018 which identified improvements and the actions were split into the following areas:

- risk communication and training.
- risk identification and monitoring.
- risk management processes.

The Council's Risk Management approach was supported by an officer Risk Management

Group which had cross directorate membership and the inaugural meeting was held in April 2018. The Group's role was to monitor the implementation of the Risk Improvement Plan and to highlight key risk areas within the Council to ensure that any required risk mitigating actions were taken and any lessons were learnt and shared. The group was chaired by the Strategic Director of Finance, Governance and Support and met on a quarterly basis.

A Member Risk Management awareness presentation had been developed and included in the Member Development Programme. This was requested by Corporate Affairs and Audit Committee and was provided before today's meeting. Risk Management training had also been provided to Heads of Service and Directors. Support had been provided to Project Managers specifically in the area of identifying risks within the projects they were responsible for through training and development of guidance. Two e-learning modules had also been developed for risk management for staff and managers, which would go live in July 2018.

Horizon scanning identified significant emerging risks that the Council should be aware of and how they impacted on the organisation. The information from this was considered by LMT and the outcome was reflected within risk registers as appropriate. This exercise was repeated every 6 months.

The Risk Management Framework had been reviewed to align the terminology utilised within the various documents and to ensure that it remained in line with current best practice. The Risk Business Partner had met with all Directorates to challenge the risk register contents and this work had ensured that all risks recorded in these risk registers was relevant and up to date. To support the identification and updating of risks the Risk Business Partner how attended Budget and Performance Clinics.

An Internal Audit of the Council's Risk Management arrangements was conducted in early 2018 by Tees Valley Audit and Assurance Service and this concluded that the Council had a good control environment for Risk Management. Recommendations from that audit were reflected in the Risk Improvement Plan for 2018/2019 which also detailed the work to be undertaken to build on the progress made within the previous Plan.

AGREED that the information provided was received and noted.

18/14

PERFORMANCE AND RISK MANAGEMENT FRAMEWORKS UPDATE

A report of the Strategic Director of Finance, Governance and Support was presented to outline recent revisions to frameworks for corporate performance and risk management, and a new format for quarterly performance reporting to the Executive.

The streamlined Strategic Plan 2018/2022, approved by Council on 28 March 2018, offered the opportunity to further improve post-quarterly reporting on expenditure against budgets and performance. The Executive approved the current corporate performance and risk management framework in June 2018.

Appendices 1 and 2 to the submitted report set out revised performance and risk management frameworks for the Council. Appendix 3 to the submitted report set out the new quarterly reporting format for the Executive, focusing on key items of strategic interest.

An internal audit review of performance management would be undertaken during 2018/2019.

AGREED as follows that:

1. The revised Performance Management Framework, attached at Appendix 1 to the submitted report, and Risk Management Framework, attached at Appendix 2 to the submitted report, were noted.
2. The revised quarterly performance reporting format, attached at Appendix 3 to the submitted report, would be implemented from Quarter One 2018/2019.