

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 7 March 2019.

PRESENT: Councillors Walkington, (Chair), Hubbard, Storey and Walters

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

OFFICERS: J Bromiley, A Johnstone, S Lightwing, R Painter, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor C Hobson.

DECLARATIONS OF INTERESTS

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

18/44 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 7 FEBRUARY 2019

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 7 February 2019 were taken as read and approved as a correct record.

18/45 ANNUAL REVIEW OF THE LOCAL CODE OF CORPORATE GOVERNANCE

A report of the Director of Finance, Governance and Support was presented setting out the outcome of the annual review of the Local Code of Corporate Governance.

Regular reviews of the Code were necessary to ensure that the Council was assessing its governance arrangements against industry best practice as described by CIPFA relevant codes of practice. A copy of Middlesbrough's Local Code of Corporate Governance was attached at Appendix 1 to the submitted report.

As a result of the annual review, it was recommended that the Committee agreed that no changes to the Local Code of Corporate Governance were required, since there had been no change to the CIPFA Solace guidance 'Delivering Good Governance' (2016) which was used to inform the current Code.

It was highlighted that the Annual Governance Statement, which would be presented to the Corporate Affairs and Audit Committee in 2019, would be assessed against the Code.

AGREED that the Local Code of Corporate Governance, as attached to the submitted report, was approved.

18/46 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18

The External Auditor presented EY's Certification of claims and annual returns report 2017/2018 which summarised the results of work undertaken on Middlesbrough Council's 2017/2018 claims.

From April 2015 the duty to make arrangements for the certification of relevant claims and returns and to prescribe the scales of fees for this work was delegated to PSAA (Public Sector Audit Appointments Ltd) by the Secretary of State for Communities and Local Government. For 2017/2018, these arrangements required the certification of the Housing Benefits Subsidy Claim only. In addition to this, EY acted as reporting accountants in relation to the Council's Teachers' Pensions return, which was outside the PSAA's regime.

The Auditor highlighted that it was important to recognise that when carrying out the certification award they did not work to any materiality and therefore any differences, no matter how small, were reported to the Committee.

In relation to the Housing Benefit Subsidy Claim, the findings were broadly similar to the

previous year and the values were incredibly small, totalling around £5,000 on a claim of approximately £73 million. The findings from the work on the Teachers' Pensions return were similarly small.

The Chair queried the finding on the Housing Benefits Subsidy claim in relation to War Pensions and the External Auditor explained that this was a technicality due to the Council uprating the war pensions on an annual basis by the increase in the pensions value provided centrally. The Auditor added that this was a common finding on most returns across the country.

AGREED that the Certification of Claims and Returns Annual Report 2017/2018 was received and noted.

18/47 **MIDDLESBROUGH COUNCIL AUDIT PLANNING REPORT YEAR ENDED 31 MARCH 2019**

The External Auditor, EY, presented the Audit Planning Report for the year ended 31 March 2019. The purpose of the report was to provide the Committee with the basis to review the Auditor's proposed audit approach and scope for the 2018/2019 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 Appointment Ltd (PSAA), auditing standards and other professional requirements.

The Auditor highlighted the main audit risks and areas of focus as:

- Risk of fraud in revenue and expenditure recognition.
- Misstatements due to fraud or error.
- Valuation of land and buildings.
- Pension liability valuation.
- Implementation of new accounting standards.

The first two risks were mandatory and had to be considered in all audits. The next two risks were unchanged from the previous year and were higher risks that the Auditor focussed on. Land and Buildings and Pension Liability were big numbers on the Balance Sheet made up from a number of assumptions. The Valuer and Actuary provided the numbers and because they were judgemental the Auditor engaged experts to support them in their testing.

The Implementation of new accounting standards was a new risk since two new reporting standards had been introduced in relation to financial instruments and revenue from contracts with Customers. The Auditor did not anticipate expenditure movement in the numbers but potentially different levels of disclosure. They were not identified as a significant risk on numerical changes but the Auditor wanted to give them some focus.

As well as the financial statements the Auditor also provided an assessment on the Value for Money risk. Two new risks had been identified:

- Prior year value for money recommendations.
- Financial sustainability.

In relation to the first risk, the Auditor would look at the recommendations made in the previous year and ensure that they were implemented. The second risk recognised that the Council was under financial pressure and would look at the the key processes that underpinned the Medium Term Financial Plan.

Materiality was set at £8.1m which represented 1.8% of the prior year's gross expenditure on provision of services. All uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and the collection fund greater than £0.4m would be reported to the Corporate

Affairs and Audit Committee.

The Chair asked how the Auditor would assess financial sustainability. The Auditor explained that they would assess the Council's savings plan and check how it was monitored and reported and what actions were taken to ensure it stayed on track. The Auditors met regularly with the Director of Finance, Governance and Support and Head of Financial Governance and Revenues to look at the Medium Term Financial Plan and focus on service areas under particular pressure such as adult and children's services.

AGREED that the Middlesbrough Council Audit Planning Report Year ended 31 March 2019 was received and noted.

18/48 **CONSULTATION ON INTERNAL AUDIT PLAN 2019/20**

The Audit and Assurance Manager, Tees Valley Audit and Assurance Services (TVAAS), presented a report the purpose of which was to seek Members' views on the priorities for the Internal Audit 2019/2020 programme of work.

The Internal Audit Plan and its consideration by the Corporate Affairs and Audit Committee was a key element in the annual governance cycle of the Council.

Appendix 1 of the submitted report provided a summary of the key themes in which the Plan aimed to provide assurance and some possible audit assignments that had 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, Council priorities and delivering its Business Imperatives. Links were also made to the Council's Strategic Risk Register.

Consultation was ongoing and the assignments included in Appendix 1 were subject to change once all Departmental Management Teams (DMTs), External Audit and the Leadership and Management Team (LMT) had been consulted and all comments collated and considered.

It was noted that the Hot Topics included in the report were not specific to Middlesbrough but were areas flagged up internationally.

The Audit and Assurance Manager stated that as well as being a legal requirement, it was good practice to consult with the Corporate Affairs and Audit Committee to ensure good assurance was provided on the control environment. The Committee was invited to provide any comments or suggestions for the draft Plan. The final, more detailed Plan, would be presented at the next Committee meeting for approval.

AGREED that the draft Internal Audit Plan 2019/2020 was received and noted.

18/49 **INTERNAL AUDIT PROGRESS REPORT**

A report of the Strategic Director of Finance, Governance and Support, was presented to update Members on the main findings arising from internal audit work carried out since the annual internal audit report to Members on 6 December 2018 and to brief Members on the performance of Tees Valley Audit and Assurance Services (TVAAS).

Appendix 1 to the submitted report provided a summary of the main internal audit work; a summary of the Priority 1 (P1) actions recommended (if any) during the quarter, plus any P1s outstanding from previous periods (if they had passed their due dates). The key points to note from Appendix 1 were as follows:

- A total of 104 actions were due to have been implemented (according to the agreed target date) between 1 April 2018 and 31 January 2019 and only 6 were outstanding.
- No new P1 actions had been recommended during the period and none were outstanding from earlier periods.

- One draft report had been issued with a good assurance opinion although this report was still under discussion.
- All but two internal audit reports issued as a final during the period had an overall assurance level of Strong or Good. One report had a Moderate assurance opinion and one had a cause for concern opinion.

No significant variations to the agreed Internal Audit Plan had been requested.

Appendix 2 to the submitted report detailed the Internal Audit Performance Target Position for 2018/2019 and Appendix 3 outlined the audit assurance levels.

It was noted that there had been some impact on productivity levels due to two new starters in TVAAS who required additional training and support.

AGREED that the information provided was received and noted.

18/50 **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.

18/51 **SCHOOL GOVERNING BODIES - APPOINTMENT OF LA GOVERNORS**

A report of the Executive Director of Children's Services was 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 current vacancies were outlined in the submitted report.

It was noted that there were currently 3 vacancies out of a total of 13 Governorships for Local Authority representatives. There were no nominations for the vacancies at Newham Bridge Primary School, or Beverley School and one nomination for Holmwood School.

ORDERED as follows:

1. That the following appointment, for a four year term of office, as agreed by Holmwood School Governing Board, was approved:

Holmwood School - Mrs E Cowley