

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 25 July 2019.

PRESENT: Councillors Rathmell, (Chair), Garvey, Higgins, J Hobson, Hubbard, S Walker and Wright (As Substitute for D Rooney)

PRESENT BY INVITATION: Councillor C Hobson

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

OFFICERS: J Bromiley, A Johnstone, S Lightwing, J Shiel, J Weston

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor D Rooney.

DECLARATIONS OF INTERESTS

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

19/10 APPOINTMENT OF VICE CHAIR

Nominations were sought for the appointment of Vice Chair of the Corporate Affairs and Audit Committee.

Councillor Hubbard was nominated, seconded and appointed as Vice Chair of the Corporate Affairs and Audit Committee.

AGREED that Councillor Hubbard was appointed Vice Chair of the Corporate Affairs and Audit Committee.

19/11 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 6 JUNE 2019

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 6 June 2019 were taken as read and approved as a correct record, subject to the following amendment:

Governance Audit - remove the words "and would not deal with historic matters".

19/12 GOVERNANCE REVIEW TERMS OF REFERENCE

The Audit and Assurance Manager presented draft Terms of Reference for the Governance Review - Middlesbrough 2019/2020. Details of the audit approach, scope and objectives were outlined in the submitted report.

A draft report would be issued for review and consultation by the appropriate levels of management. Management actions would be prioritised to identify clearly their respective risk and these would be agreed prior to the issue of the final report. The final report would then be issued with the aim of prompting management to implement management actions for change, leading to improvements in performance and control.

AGREED that the Governance Review - Middlesbrough 2019/2020 Terms of Reference were approved.

19/13 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 over the last year against the Risk Improvement Plan, and outline plans to further strengthen Risk Management within the Council.

A Risk Improvement Plan was developed in 2017/18 as the Council was committed to ensuring its risk management practice continued to be effective. The Plan was refreshed annually.

During 2018/19 training had been developed further with all documentation being made available via the intranet. In order to increase Member awareness of risk management there was a commitment to presenting an overview of a key risk every six months to the Corporate Affairs and Audit Committee. A Member Risk Management awareness presentation formed part of the Member Development Programme and had been provided to the Committee prior to the meeting.

A successful pilot had been undertaken to roll out the Council's Petana risk software to officers which would enable individuals to self-serve and increase the visibility of risk management processes. The full roll out of the software across the organisation was ongoing.

Horizon scanning was carried out every six months to identify significant emerging risks and their impact on the organisation. The information collected was considered by the Leadership and Management Team with the outcome reflected within risk registers as appropriate.

Links with Internal Audit had been further strengthened by enabling items to be placed on the Council's Risk Management Group agenda and receiving the minutes of the meetings.

An Internal Audit of the Council's Risk Management arrangements was conducted in 2018 and concluded that the Council had a good control environment for Risk Management.

A list of the key actions planned for 2019/2020 was included at paragraph 21 of the submitted report.

AGREED that the Annual Risk Management Assurance Report and summary of the Strategic Risk Register were received and noted.

19/14

INTERNAL AUDIT ANNUAL REPORT 2018/19

The Audit and Assurance Manager presented the Internal Audit Annual Report 2018/2019.

The report provided a summary of the internal audit work performed in the year 2018/2019 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 2018/2019 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 2018/2019 Audit Plan at a meeting in May 2018 and the total number of planned audit days for 2018/2019 was 855 days.

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2018/2019 was that they provided Good Assurance. This opinion was based on the work performed by the internal audit team during the year 2018/2019 as detailed in the full annual report, a copy of which was attached at Appendix 1 to the submitted report.

The opinion of Good for 2018/2019 considered that assurance could be obtained by the number of reports where the overall opinion was Strong or Good and the action taken to implement recommendations where cause for concern or moderate opinions had been given.

No priority one actions had been raised during the year and none were outstanding from previous years. The Council's number of outstanding actions of all priorities (that had passed their due date) was consistently kept low as the Council closely monitored the number of actions that needed implementing.

During 2018/2019, Internal Audit raised three reports with a cause for concern opinion: S117 Healthcare Costs, Purchasing Cards and Children's Services Financial Management.

In response to a query regarding outstanding actions relating to an audit on purchasing cards, the Auditor agreed to provide further details. It was confirmed that the number of purchasing cards held by the Authority was approximately 500. The Auditor would be carrying out further work on purchasing cards during 2019/2020.

The Auditor commented that it was a good report and Council had demonstrated a very positive response to following up on internal audit actions.

The Chair thanked the Auditor for the work completed throughout the year as well as some items that were in addition to the original agreed audit plan.

AGREED that the report was received and noted.

19/15 **INTERNAL AUDIT CHARTER AND PSIAS SELF ASSESSMENT**

A report of the Audit and Assurance Manager, Tees Valley Audit and Assurance Services (TVAAS) was presented to seek Members' comments and approval on the revised Internal Audit Charter and the 2017/2018 self-assessment of the internal audit service against the Public Sector Internal Audit Standards (PSIAS).

The Internal Audit Charter was reviewed annually and approved by senior management and the Corporate Affairs and Audit Committee. A copy of the revised Charter was attached at Appendix 1 to the report, with the proposed minor changes highlighted in the document.

The summarised self-assessment for 2018/2019 was attached to the submitted report at Appendix 2. The self-assessment was subject to external review once every 5 years and a review had been carried out last year which reported that TVAAS was complying with the standards with only minor issues for consideration.

The TVAAS needed to increase the number of qualified auditors and several staff were undertaking the required course at the current time.

AGREED that:

1. The information provided was received and noted.
2. The revised Internal Audit Charter and the 2017/2018 self-assessment of the internal audit service against PSIAS were approved.

19/16 **EXTERNAL AUDIT – AUDIT RESULTS REPORT (INCORPORATING THE VFM JUDGEMENT)**

The External Auditor presented the Audit Results Report for the year ended 31 March 2019. The report summarised EY's conclusions in relation to the audit of Middlesbrough Council for 2018/2019.

Using the draft 2018/2019 financial statements, EY had updated the planning materiality assessment and also reconsidered the risk assessment. Based on EY's materiality measure of gross expenditure on provision of services, the overall materiality assessment had been updated from £8.1 million in the planning report to £8.8 million. This resulted in updated performance materiality, at 75% of overall materiality, of £6.6 million. The threshold for reporting audit differences to the Corporate Affairs and Audit Committee remained unchanged at £0.4 million.

Following the presentation of the Audit Planning Report to the Corporate Affairs and Audit Committee, a further inherent risk was identified relating to the upgrading of the General Ledger during the year.

The audit of the Council's financial statements for the year ended 31 March 2019 was substantially completed. Subject to satisfactory completion of the outstanding items, EY expected to issue an unqualified opinion on the Council's financial statements. It was noted that until the work was complete, further amendments might arise.

It was highlighted that usually when the Auditor signed the financial statements they certified that the accounts were complete and finished. The Auditor would sign the opinion but leave the certificate until the accounts were closed.

There were no unadjusted audit differences arising from audit, however there were some changes made to the financial statements and these were summarised at Section 4 of the submitted report. The Auditor highlighted that all Local Government Pension Scheme scheduled and admitted bodies had been asked to consider the impact of the recent McCloud judgement on the pension valuations as at 31 March 2019. This had added £11 million to the pension liability. It was noted that this was an accounting estimate rather than cash.

No significant weaknesses in controls had been identified that the Auditor wished to bring to the Committee's attention.

Two significant risks were identified in relation to value for money arrangements as part of the audit planning work which were:

- Prior Year Value for Money Recommendations.
- Financial Sustainability.

In relation to the recommendations to improve governance at Middlesbrough Council, only one recommendation had not been implemented which related to Councillor/Officer relationships. However, the Auditor was satisfied that things had moved on and there was nothing more to consider. Financial Sustainability was a risk in a number of Local Authorities and the Auditor had carried out a programme of work on the Council's plans and confirmed there was no impact on the Value for Money conclusion.

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.

The Management Representation Letter was set out at Appendix D of the report, which the Chief Finance Officer and Chair of the Corporate Affairs and Audit Committee were required to sign.

The Vice Chair referred to a list of items and concerns on value for money on the accounts that had been raised by MICA (Middlesbrough Independent Councillors Association) with EY. The Vice Chair asked the Auditor to explain what work had been done in relation to those items and what evidence was used to assess the concerns raised. The Auditor explained that further information had been requested from MICA but had not, to date, been received. The Auditors had worked through each of the concerns and looked at the ones where they had information and also discussed them with management.

AGREED that the Middlesbrough Council Audit Results Report for the Year Ended 31 March 2019 was received and noted.

19/17

STATEMENT OF ACCOUNTS 2018/19 REPORT

The Council's Statement of Accounts 2018/2019 were presented for Members' approval.

The draft Statement of Accounts 2018/2019 were presented to the Committee on 6 June 2019 and the draft accounts had subsequently been reviewed by the Council's Auditors, Ernst and Young, (EY) who expected to give an unqualified opinion on the financial statements.

During the audit process, EY had identified several issues that required changes to the draft accounts and these had been reflected in the revised final accounts. Details of the adjustments made to the accounts had been included in EY's audit results report. None of the

changes had an impact on the Council's revenue or capital outturn position for 2018/2019.

There were three key changes to the draft accounts to draw to the Committee's attention as follows:

- Pensions Liabilities.
- Schools transferring to Academies.
- Officers Remuneration.

The Pension Liabilities was the biggest adjustment to the final Accounts as it had added £11.1 million to the liabilities. The transfer of schools to Academies had taken approximately £60 million worth of assets out of the Council's Balance Sheet as well as an adjustment to the cash balances of £622,000. The Officers Remuneration item related to a voluntary redundancy exit package of £183K and this had been built into the disclosures on pay with a note to that effect.

The Statement of Accounts was consistent with the Council's Medium Term Financial Plan and its assumptions regarding its reserves and balances.

Although there had been a number of technical adjustments to the notes of the Accounts, none of the adjustments affected the primary statements. Technical adjustments could still be applied until 31.7.19.

The Chair thanked the Strategic Director of Finance, Governance and Support and his team for their work in producing the Accounts and requested that the Committee's thanks were forwarded to all those involved.

AGREED that the Statement of Accounts 2018/2019 was approved.