

AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee was held on 25 March 2014.

PRESENT: Councillors Junier, (Chair), C Hobson, P Khan, Loughborough, McPartland, Taylor and I Hope (Independent Member)

ALSO IN ATTENDANCE: N Cooke, D Wilkinson, Deloitte LLP

OFFICERS: H Fowler, S Harker, T Parkinson, E Pout, J Shiel, J Sinclair, K Whitmore

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Hudson.

DECLARATIONS OF INTERESTS

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

13/22 APPOINTMENT OF INDEPENDENT MEMBER

The Chair proposed that an open application process should be undertaken to fill the current vacancy for a second Independent Member on the Audit and Governance Committee.

AGREED that an open application process would be undertaken to recruit an Independent Member to the Audit and Governance Committee.

13/23 MINUTES - AUDIT AND GOVERNANCE COMMITTEE - 13 FEBRUARY 2014

The minutes of the meeting of the Audit and Governance Committee held on 13 February 2014 were taken as read and approved as a correct record.

13/24 CORONER'S SERVICE - UPDATE

Following a review of the Coroner's Service undertaken by the Community Safety and Leisure Scrutiny Panel and a subsequent review by an independent person appointed by the Police, a series of recommendations were made. The Assistant Chief Executive provided an update on the actions taken to date to address those recommendations as follows:

It was recommended that the Coroner's Service should be located in one place. Staff previously based at two separate locations had now been brought together and located in a single office within the Town Hall.

Teesside had previously been in a unique position in that the administrative staff were directly employed by the Coroner. All administrative staff had now been transferred via TUPE conditions to the employment of Middlesbrough Council, with all the benefits of nationally agreed terms and conditions of contract as well as entry to the Pension Scheme.

The Service's IT equipment and software packages needed upgrading. New PCs had been installed to coincide with the staff moving to the Town Hall. A new Case Management System for managing the Coroner's workload had been purchased and installed and would be fully operational by mid April 2014.

In 2008/2009 an Internal Audit report recommended that the SAP purchasing system should be implemented. The SAP system would be installed and operational by the end of April 2014.

New legislation was introduced in July 2013, referred to as the 2009 Act, which provided a range of powers including the right for Local Authorities to negotiate the Coroner's Service fees. Middlesbrough had since re-negotiated a daily fee with the Coroner and as part of that funding agreement, a full-time Assistant Coroner had been appointed to deal with the backlog of inquests. The previous backlog of 404 cases had been reduced to just over 200.

One of the main recommendations of the reviews was that a new operating model for the Service should be put in place. The new model was partially in place and would be fully implemented from 1 May 2014.

As part of an Internal Audit, the Auditor had requested further information on long inquest fees, however the Coroner had only provided partial information. As a result, the Council was now in a position where long inquest fees would not be paid until the full details were provided by the Coroner. Internal Audit was now reviewing financial management within the Coroner's Service and an update would be presented to the Audit and Governance Committee at a future meeting.

The Coroner had announced his retirement with effect from 30 April 2014. In accordance with legislation, the Council had informed the Lord Chancellor. The Lord Chancellor would take a decision as to whether the Service would continue in its present form, or whether consultation would be undertaken with regard to merging with another Coroner's Service. An interim Senior Coroner would be appointed from within the existing four Assistant Coroners and would be in post by mid April 2014.

AGREED that the information provided was received and noted.

13/25 **FRAUD PREVENTION - UPDATE**

The Chair reminded the Committee that at the last meeting Members requested an update on whether fraud was increasing, decreasing or static within the Council and what measures and resources were being applied to prevention and recovery. Whilst a report had been prepared it was still in draft form and further information gathering was required in order to provide a complete and accurate update. The Chair suggested therefore, that the item was deferred to the next meeting of the Committee.

AGREED that the report on Fraud Prevention would be **DEFERRED** and presented to the next meeting of the Audit and Governance Committee.

13/26 **CERTIFICATION OF CLAIMS AND RETURNS 2012/2013 - ANNUAL REPORT - DELOITTE**

The External Auditor presented the report which was a summary of the Grants work carried out during 2012/2013.

Only four items had required certification and these were: the Housing and Council Tax Benefit Subsidy Claim, the National Non-Domestic Rates Return (NNDR), Teachers' Pensions Return and the Tees Valley Bus Improvement Network Return. Going forward, the Council Tax subsidy and NNDR would no longer exist and there would be no requirement to audit those items.

The NNDR was certified with no matters to report.

The Tees Valley Bus Improvement Network return was certified with a minor correction, which had no impact on the value of the claim.

The Teachers' Pensions Return was qualified due to the Authority being unable to provide a clear audit trail and adequate working papers fully reconciling the return to underlying records. The core Finance Team had not been involved in the claim and Mouchel staff had submitted the claim form. It was confirmed that procedures had been put in place to ensure that this did not happen again in the future.

The Housing and Council Tax Benefit Subsidy Claim testing had revealed errors of both underpayment and overpayment of benefit across all three types of benefit. Individual unadjusted errors ranged from a few pence to £1,142 and error rates ranged from 0.01% and 2.1%. Overall the claim was adjusted by £2,706 and a qualification letter was submitted to the Department for Work and Pensions setting out the unadjusted errors found.

The External Auditor commented that given the nature of the Benefits system, with a high volume of low value transactions, there would always been an element of human error. The errors noted in 2012/2013 primary occurred in similar areas in the prior year and were detected via Cumulative Audit Knowledge and Evaluation (CAKE) testing. The findings highlighted a series of human errors which appeared to indicate pressure on resources, rather than lack of knowledge or skills.

Prior to completion of next year's return, it was recommended that training should be delivered to emphasise some of the issues identified in order to avoid similar errors occurring again.

Details of the value of the claims were shown at Section 3 of the submitted report. It was confirmed that all deadlines had been met. Observations and recommendations arising from the certification work were detailed in Section 4 of the submitted report.

The External Auditor thanked the Internal Audit Service for support and assistance with the Housing Benefit Claim.

AGREED that the information provided was received and noted.

13/27

DRAFT INTERNAL AUDIT PLAN 2014/2015

The draft Internal Audit Plan set out the proposed programme of internal audit and counter fraud work for the Council for 2014/2015.

A summary of days by Assurance Category was included at Section A of the submitted report. Since the previous year there had been a reduction of 25% in the total number of audit days. There were 994 days included in the Plan for 2014/2015. It was highlighted that the 25% reduction had been applied to the total audit days rather than reducing each category of assurance individually, to ensure that the main risks and priorities were still subject to assurance.

The External Auditor commented that the biggest focus was on the high risk areas and she was comfortable that the number of audit days allocated to The Change Programme had reduced as it had now moved on. A slight concern was in relation to counter fraud, where there had been the largest reduction in percentage terms.

A Member queried whether a current vacancy within the Tees Valley Audit and Assurance Service (TVAAS) would be an issue. The Internal Auditor explained that it was anticipated that the position could possibly now be filled. However, the Audit Team was working more efficiently and effectively and a lot of non-productive time had been reduced. It was inevitable however, that the reduction in the number of audit days would have some impact on the level of assurance that could be provided to the Council. During the past year, a number of days had been allocated from contingency for work on counter fraud. Since that contingency was now reduced, any additional days required would either have to be charged to the Council or planned assignments would have to be replaced.

In response to a query regarding how the Auditor determined which aspects of an area to audit, the Internal Auditor explained that this would generally be a joint decision. The Internal Auditor would meet with the relevant service area Manager or an Assistant Director and discuss which aspects of the topic to audit.

It was also queried whether Internal Audit made comparisons with other Authorities. Generally, Internal Audit did not undertake bench-marking. However there was liaison with other Authorities about audits and ideas were shared.

The External Auditor added that Deloitte had previously carried out a fees and charges benchmarking exercise across all the Authorities in the north east. The disparity across a wide range of services was huge with some Authorities charging nothing for some services and others charging a large amount. The focus of the exercise was on encouraging Authorities to generate more income, rather than cutting costs.

AGREED as follows:

1. that the information provided was received and noted.
2. Members would forward any suggested amendments to the Plan to the Internal Audit Manager.
3. the final Plan would be presented to the Audit and Governance Committee for approval at the next meeting.

13/28 **INTERNAL AUDIT - PROGRESS REPORT**

The Audit Manager presented a report to update Members on the main findings arising from internal audit work carried out to date in accordance with the 2013/2014 Audit Plan. The total number of planned audit days was 1,325 and the performance target for the Tees Valley Audit and Assurance Services (TVAAS) was to deliver 100% of the agreed Audit Plan.

The current status as at 26 February 2014 against each of the performance measures was detailed at Appendix 1 to the submitted report. In terms of the percentage completion of the plan, 60% was quite healthy compared to previous years. The Audit Manager confirmed that as of today, the completion figure was now approximately 70%.

Appendix 2 of the submitted report provided a summary of the Final Audit Reports issued to date. Of the Final Reports issued since the last meeting of Audit and Governance Committee, only one had received limited assurance. Patron Edge, the theatre management system, had received nine Priority 2 recommendations and one Priority 3 recommendations. A complete review of the system was being undertaken in order to ensure the control environment was effective.

Appendix 2b of the submitted report provided an analysis of the recommendations made by the Auditor in the current year. There had been 78 recommendations made to date and graph showing the areas they fell into was also provided. Thirty six of the recommendations had not yet been confirmed as implemented, however the agreed dates for implementation for the majority of these had not yet passed.

It was highlighted that in the current year no Priority 1 recommendations had been made to date. The Internal Auditor stated that this did not necessarily indicate a stronger and more effective control environment since the number of Priority 2 recommendations was still quite high. It was highlighted that whilst a Priority 1 recommendation indicated a fundamental issue, Priority 2 and 3 recommendations were important too.

The only Priority 1 recommendation outstanding was in respect of the Foster Carers' Payment Module. Implementation of the CHARMS system was still ongoing and was now due to go live during April 2014.

Details of the main variations to the 2013/2014 Internal Audit Plan were shown at Appendix 4 to the submitted report. The variations were completed partially from contingency time and partially from time where other planned audits had been replaced. It was highlighted that in the coming year, due to the reduction in audit days, there would not be the same scope for variations to the Plan unless the Council paid for additional days or replaced existing planned audits.

Appendix 5 to the submitted report detailed the TVAAS Opinion Methodology which would be slightly different next year because of a new system. There would be five opinions rather than four but the priority recommendations would remain the same.

AGREED that the information provided in relation to progress on the 2013/2014 Audit Plan was received and noted.

13/29 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

Deloitte Governance Review

The Director of Transformation presented a report to inform Members of the Deloitte Governance Review. Following the restructure of the Corporate Management Team during 2013, Deloitte were commissioned to review the Council's governance arrangements. The scope of the review was divided into backward and forward looking considerations of the arrangements at the Council.

The backward looking reviews covered the following areas:

- Mapping of the governance structures to show the links and information flows between Members, Committees of the Council and Senior Council Officers.
- Reviewing a selection of significant decisions made by the Council to determine whether the levels of Senior Officer and Member involvement were appropriate.
- Reviewing cost improvement plans to confirm the savings generated.
- Reviewing the revenue budget monitoring processes to consider its timeliness and accuracy.
- Reviewing the arrangements for debt management and the write-off of low value debt.

The forward looking reviews covered:

- Reviewing the new Senior Management structure including the role of the Section 151 Officer.
- Reviewing the principles of the Middlesbrough Manager Scheme.
- Reviewing the Change Programme Board and its role.
- Reviewing the position of the Head of Internal Audit.

A copy of the final report issued by Deloitte in December 2013 was attached at Appendix A to the submitted report and the summary of the findings of the review were included. The findings had been agreed by the Director of Resources and an Action Plan was under construction in response. The Plan would be reported to a future meeting of the Audit and Governance Committee. A number of specific recommendations had already been implemented.

The External Auditor commented that one of the reasons that the report was commissioned was the restructure of the leadership team which led to the Section 151 Officer no longer sitting on the Chief Executive's Management Team (CEMT). The Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines recommended that the Section 151 Officer should be a member of the CEMT.

Informal processes had been developed with the aim of ensuring that the Director of Resources, in his role as Section 151 Officer, had access to, and was able to influence, the leadership team. These arrangements now needed to be formalised to ensure they were understood by all parties, and also documented, as they would need to be disclosed in the Council's Annual Governance Statement to accompany the 2013/2014 Statement of Accounts.

In addition, the Council's budget monitoring reports showed significant variances between each quarter's reporting and there was a time lag in terms of reporting to Senior Officers. In future, the Council would aim to produce high-level budget monitoring reports for Members of CEMT within two weeks of the month end. Managers would receive a monthly update on their individual budgets, and a twice yearly projected outturn, rather than the currently quarterly reports.

The External Auditor also highlighted that one of the themes that came out of the review was training and communication. With the roll-out of the Middlesbrough Manager Programme, a cultural shift needed to take place in terms of levels of accountability and communication between departments.

Reference was made to future agenda setting for the Audit and Governance Committee and the Chair stated that the Committee was happy to accept draft reports if necessary, and equally, when appropriate, to exempt the press and public when commercially sensitive material needed to be discussed.

AGREED as follows:

1. that the Audit and Governance Committee noted the outcome of the Deloitte Governance Review and the actions taken to date in response to the recommendations made.
2. a full response, in the form of an action plan would be presented to a future meeting of the Audit and Governance Committee.

Audit and Governance Committee - Joint Training

The Chair extended thanks to the Internal Audit Manager for arranging the recent joint training session with Members of the Redcar and Cleveland Audit Committee.