

**CORPORATE AFFAIRS AND AUDIT COMMITTEE**

A meeting of the Corporate Affairs and Audit Committee was held on 30 June 2016.

**PRESENT:** Councillors P Purvis, (Chair), Councillors Branson (As Substitute), C Hobson, Hubbard, Lawton and Shan

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

**OFFICERS:** A Johnstone, S Lightwing, M Padfield, P Stephens, M Taylor

**APOLOGIES FOR ABSENCE** were submitted on behalf of Councillors Blyth and Taylor.

**DECLARATIONS OF INTERESTS**

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

**16/1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 24 MARCH 2016**

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 24 March 2016 were taken as read and approved as a true record.

**16/2 EXTERNAL AUDIT UPDATE REPORT****SUSPENSION OF COUNCIL PROCEDURE RULE NO 5 - ORDER OF BUSINESS**

**ORDERED** that, in accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business as follows: Agenda Item 5, Agenda Item 4, Agenda Item 6, Agenda Item 7, Agenda Item 8, Agenda Item 11, Agenda Item 9, Agenda Item 10 and Agenda Item 12.

The External Auditor presented a report to provide the Corporate Affairs and Audit Committee with an update on the progress of the external audit for the year ended 31 March 2016. The report included a summary of the work undertaken to date, changes to the risk assessment in the Audit Planning Report presented to the Corporate Affairs and Audit Committee on 24 March 2016 and an indication of initial materiality estimates. There were no significant findings arising from the Auditor's interim audit work to report to the Committee.

In the original Audit Plan, the Auditor identified valuation of land and buildings as an 'other financial statement risk'. Following completion of interim work this risk had been reassessed as being significant. The reason for this reassessment was that the fixed asset balance was one of the most significant assets on the Council's balance sheet and the valuation of these assets could be complex. A small movement in the assumptions behind the valuation could have a material impact on the Balance Sheet.

Following the original assessment, the External Auditor noted that a variety of valuation methods were used by the Council's valuers, as the land and buildings owned by the Council were diverse in nature, which required expert knowledge and were inherently judgemental in nature. In addition, the Auditor's review of prior year working papers at other local government bodies had highlighted some errors in valuations that had led to material adjustments in the financial statements. On this basis, the External Auditor sought to change the risk for valuation of land and buildings to a significant risk.

The External Auditor also informed the Committee that at this stage of the Audit, EY considered the most appropriate basis for assessing materiality for the Council to be 2% of the expenditure for the year. Based on 2014/2015 expenditure in the audited accounts, EY anticipated the materiality to be in the region of £7,868,900. EY would report all unadjusted misstatements over £395,500 identified during the course of the audit to the Committee.

It was highlighted that any substantive errors discovered during the audit would be adjusted. A copy of the Draft Accounts would be published on the Council website today and hard

copies would be made available. Member training would be provided during the summer, prior to approval of the Accounts in September 2016.

A Member referred to a concern raised at the previous meeting in relation to the recent implementation of the Agresso financial system and its integrity. The Assistant Director Interim, Finance and Investment, assured Members that appropriate financial controls were in place and that the real issue was employees not using the Agresso system correctly, and not the system itself. It was clarified that through the Middlesbrough Manager scheme, all employees would be trained to ensure adherence to correct procedures in relation to financial control and use of Agresso. Further assurance would be provided through Internal and External audit work.

**AGREED** as follows:

1. The External Audit Plan was amended to change the risk for valuation of land and buildings to a significant risk.
2. Based on 2014/2015 expenditure in the audited accounts, materiality would be in the region of £7,868,900.

16/3 **CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2015/2016**

The Certification of Claims and Returns - Annual Report 2015/2016 had not been provided.

**AGREED** this report was **DEFERRED**.

16/4 **COUNCIL IMPROVEMENT PLAN (CIP) - INITIAL REPORT**

A report of the Head of Performance and Partnerships was presented to explain why the Council Improvement Plan (CIP) had been developed, outline the work undertaken to date to create the Plan and seek approval for the Committee's proposed role in relation to oversight of the Plan.

Following a report on the Corporate Peer Review submitted in March 2016, Executive agreed that an overarching CIP should be created to ensure that the findings from the Corporate Peer Review and other reviews and inspections were captured within one document to ensure a coherent approach was taken on overall improvements to the governance framework.

A copy of the draft CIP was attached at Appendix A to the submitted report and had been submitted to Executive in May 2016. Executive approved the appointment of Deloitte to review the content of the draft plan and recommend any amendments necessary to ensure that proposed actions within the Plan effectively addressed the issues identified by the various reviews and inspections. This work was due to be completed in July 2016 and if changes were required, the CIP would be revised by the end of July.

In addition to reviewing the content of the CIP, Deloitte had also been asked to identify areas where the Council would benefit from additional specialist support in order to achieve improvements to elements of its governance framework. If this was required, it would be reflected in the revised CIP.

Once finalised the CIP would be subject to regular member monitoring to ensure effective oversight. Executive had agreed that this would be undertaken via quarterly progress reports to the Corporate Affairs and Audit Committee (subject to the Committee's diary planning process); and six monthly progress reports to Executive. The first progress reports would be presented to the Corporate Affairs and Audit Committee on 29 September 2016 and the Executive on 6 December 2016.

It was confirmed that the cost of work undertaken to date by Deloitte was £70,000 and that a total of £141,000 had been allocated in the event that further work was required.

In response to a query regarding revision of the Medium Term Financial Plan (MTFP) following the result of the recent EU Referendum, it was confirmed that there were no plans

for a review at the present time. However, work would be undertaken to identify any significant projects or operational plans which relied on EU funding. There was no expectation that current projects would cease, however following the two-year end date there would be no further support from EU funding.

**AGREED** as follows that:

1. The proposed monitoring schedule for implementation of the CIP was approved.
2. Progress to date was noted.

16/5

### **PROGRAMME AND PROJECT MANAGEMENT (PPM) FRAMEWORK**

The Head of Performance and Partnerships presented a report to advise Corporate Affairs and Audit Committee on steps being taken to improve programme and project management within the Council, following issues identified during 2015/16 by Internal Audit and the Council's then External Auditor, Deloitte, which were subsequently reflected in its qualification of the Value of Money element of 2014/15 Statement of Accounts.

A common and consistent framework for the development and management of programmes and projects had been developed, based on the former Office for Government Commerce's Managing Strategic Programmes (MSP) and PRINCE2 frameworks. Under this framework, all programmes and projects had to progress through four stages to completion. The framework was proportionate to the scale and scope of programmes and projects.

A governance framework, headed by Change Programme Board, was currently being implemented to pilot programmes and projects through the four stages and was outlined in the submitted report.

The Council had procured an ICT solution to support the PPM Framework, provide a simple tool to guide users through the PPM Framework methodology and assist with the simple day to day tasks of document production and management. The solution would produce appropriate management information and access would also be provided to Executive Members. The ICT solution would be fully operational by the end of Quarter Two 2016/17. The cost of the ICT solution was £30,000 for the implementation and a further £40,000 for three years' maintenance.

The PPM Officer Steering Group had identified over 160 employees working on projects in some capacity. This cohort would play a collaborative role in developing the framework and embedding it within the Council and a training programme for this cohort was in development and would be delivered by Local Partnerships by the end of Quarter Two 2016/17. £46,000 had been allocated for staff training.

The success of the framework would be evidenced by the number of programmes and projects within the Council delivered to scope, cost, quality and time. If at any point the cost of a project was not justified, it would be closed down. All projects would be evaluated on completion. Regular formal updates would be provided through quarterly Balanced Scorecard reports to the Overview and Scrutiny Board and to Executive.

In addition to the above, the Council was working with Deloitte to understand how it could best lever its staffing resources to support effective delivery of programme and project management within the Council. The conclusion of this work would be presented to a future meeting of the Committee.

**AGREED** that the Committee noted the steps taken to date to improve programme and project management within the Council.

16/6

### **BALANCED SCORECARDS UPDATE**

A report of the Head of Performance and Partnership was presented to advise the Committee on progress in embedding a Balanced Scorecards approach to performance management within the Council and outline the next steps to be taken.

Balanced Scorecards were piloted during 2015/16 on a post-quarter basis, reporting to the Leadership Management Team (LMT) and Overview and Scrutiny Board (OSB). Executive Members were briefed on progress by Executive and Assistant Directors.

Consultation with LMT and OSB had been undertaken to review progress in embedding Balanced Scorecards and potential changes to the current model. The issues identified were detailed in the submitted report.

It was proposed that changes to the Balanced Scorecard model were implemented for 2016/17. The Committee was invited to comment on the changes prior to consideration by the Executive Member for Finance and Governance and presentation of the finalised model to Executive. The changes proposed were as follows:

- Assistant Directors would re-assess measures and targets for 2016/17 Scorecards to ensure that they fully reflected the relevant Outcome and (in the case of targets) the priority attributed by the Council to constituent services.
- A scoring and weighting model would be retained, but would be made much simpler and bespoke to the differing priorities in each Outcome Area. The proposed model (using illustrative data for Outcome 1) was set out at Appendix 1.
- A single, integrated quarterly clinic process would be implemented, resulting in a single report covering performance, financial and risk performance that was reported to LMT, OSB and Executive. The likelihood was that the first such report would be post Quarter Two 2016/17.
- Appropriate training for members, managers and other relevant officers would be developed and implemented in respect of the performance and risk management framework, once the 2016/17 Quarterly performance briefings would be offered by the Head of Performance and Partnerships to Scrutiny Panel Chairs in advance of presentation of the report to Overview and Scrutiny Board. This was in addition to regular briefings already provided to Executive Members by Executive/Assistant Directors.
- A Management Information Improvement Plan, that would move the Council towards 'real-time' and full integration of operational management information and Balance Scorecards, would be developed and presented to LMT, with associated costs, by October 2016.
- A Performance and Risk Management Steering Group would be implemented at an officer level to oversee the embedding of the Balanced Scorecard approach within the Council.

In response to a query, it was clarified that the weighting for each quadrant would be directly related to each Outcome Area, reflect prioritisation set out in the Strategic Plan and be approved by the appropriate Executive Member.

**AGREED** that the information in relation to progress in embedding the Balanced Scorecard approach was received and noted.

**16/7 FORWARD WORK PROGRAMME 2016/2017**

A copy of the proposed Forward Work Programme 2016/2017 for the Corporate Affairs and Audit Committee had been circulated for information.

The External Auditor indicated that she would be proposing some changes to the Programme.

**AGREED** that the information provided was received and noted.

**16/8 INTERNAL AUDIT – 2016/17 ANNUAL INTERNAL AUDIT PLAN**

The Audit and Assurance Manager presented the 2016/2017 Internal Audit Plan for Middlesbrough Council for Members' approval.

Since the draft plan was presented to the Corporate Affairs and Audit Committee, it had undergone some revision to focus on current risks and previous issues.

A summary of the assignments was detailed in the submitted report which listed each of assignments linked to the Assurance Category and Priority. Many of the areas were linked to supporting issues discussed by the Committee at today's meeting and other areas included financial systems, internal control and counter fraud. In addition, where appropriate, audits were linked to the Risk Register.

The available budget for 2016/17 internal audit was just over £180,000 and 855 audit days would be delivered. The Audit and Assurance Manager commented that it was inevitable that there would be less time allocated to focus on the audits because like many other service areas, TVAAS was having to do things differently as a result of reduced resources.

A Member requested that the £180,000 allocation was linked to inflation.

With regard to physical assets, it was explained that regular checks were arranged by the Head of Property Services and that an Asset Management Register was in place.

**AGREED** that the Internal Audit Plan 2016/17 was approved.

**16/9 ANNUAL INTERNAL AUDIT REPORT 2015/2016**

The Audit and Assurance Manager presented the Annual Report of Internal Audit which provided a summary of the internal audit work performed during 2015/16 and expressed an opinion on the overall internal control environment in place within Middlesbrough Council. A copy of the Annual Report was attached at Appendix 1 to the submitted report.

The Annual Report also considered the internal audit performance outturn for 2015/16 and the performance of Tees Valley Audit and Assurance Services (TVAAS) against the Public Sector Internal Auditing Standards (PSIAS).

The total number of planned audit days for 2015/16 was 1118 days.

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council, based on the audit work performance and the audit reports issued was that they provided Moderate Assurance. The overall level of Moderate Assurance was based on the individual opinions of the internal audit reports issued from the 2015/2016 Audit Plan.

The opinion for 2015/2016 had been assessed as Moderate due to the higher number of reports issued with a Cause for Concern and the significance to the Council's overall governance and control environment of those areas where a Cause for Concern opinion had been identified.

The Assistant Director Interim, Finance and Investment, commented that he would be working closely with the Internal Auditor to provide evidence to try to demonstrate that the initial opinion could be moved from Moderate to Good.

The Audit and Assurance Manager highlighted the appendices to the Audit Plan which provided summaries of the final audit reports issued, type of recommendations made, reports with Cause for Concern, Priority 1 recommendations, variations to the Plan and an assessment of TVAAS and performance outturn for 2015/2016.

Following queries from Members, it was confirmed that actions from the IT Governance and Ayresome Industries Audits were being closely monitored by the Leadership and Management Team (LMT).

**AGREED** as follows that:

1. The information provided was received and noted.
2. The Assistant Director Environment, Property and Commercial Services would be invited to a future meeting to provide an update on Ayresome Industries.

16/10 **LOCAL GOVERNMENT AUDIT BRIEFING**

A copy of the Local Government Audit Briefing produced by EY had been circulated for Members' information.

**AGREED** that the information provided was received and noted.

16/11 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

Referring to the minutes of the previous meeting, a Member asked whether further details of the debt of £45 million owed to the Council had been provided. The Assistant Director Interim confirmed that a formal report would be provided for a future meeting of the Corporate Affairs and Audit Committee.

**NOTED**