

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 28 July 2016.

PRESENT: Councillors P Purvis, (Chair), Blyth, Hubbard and T Lawton

ALSO IN ATTENDANCE: H Fowler, Tees Valley Audit and Assurance Services
S Kenny and N Wright, EY

OFFICERS: A Johnstone, S Lightwing, M Taylor and I Wright

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors C Hobson, Shan, Taylor.

DECLARATIONS OF INTERESTS

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

1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 30 JUNE 2016

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 30 June 2016 were taken as read and approved as a correct record, subject to the following amendment:

External Audit Update Report

Councillor Lawton referred to Minute 16/1 paragraph 7 and indicated that the concerns he had previously raised were not reflected in the minutes. He again raised concerns in relation to fraud and potential mis-use of the Agresso System, and his concerns were noted.

Annual Internal Audit Report 2015/2016

A Member asked whether any further consideration had been given to the Internal Auditor's initial opinion of Moderate. The Audit and Assurance Manager confirmed that she was due to meet with the Assistant Director Interim, Finance and Investment to discuss the progress made and look at the further evidence provided.

2 RISK IMPROVEMENT PLAN

A report was presented to outline proposals to improve the Council's approach to Risk Management.

In July 2015, the Executive approved the implementation of a revised Risk Management Framework. The Framework was developed to align with the Council's new Performance Management arrangements, built around Balanced Scorecards. The revised Risk Management Framework better integrated the identification, mitigation and review of risks within the Council's performance arrangements. It also took steps to improve the level of internal challenge by ensuring risk registers were considered alongside balanced scorecards when being assessed by senior managers and Overview and Scrutiny Board.

Further actions for improvement were identified within the Corporate Peer Review and in an Internal Audit report on Project Management. The actions were consolidated into one objective contained within the Council Improvement Plan (CIP), which was agreed by the Executive on 10 May 2016. The objective was as follows: To ensure an approach to risk management that was fit for purpose to ensure that risks were effectively managed by the organisation strategically, operationally and as part of good project and programme management. The Risk Improvement Plan was the detail to deliver the improvements that were needed.

Monthly meetings were now being held between officers for the management of Risk and Insurance. Information sharing at these meetings had been used to inform a review of the

existing Risk Register content. The Insurance Manager had committed to sharing insurance trend data with the Corporate Strategy Team along with an analysis of risks in the risk registers to identify which were fully insured, partially insured or not insured. Risk Registers had been created for Levels 1 to 4 of the performance management system and shared with management teams for review. ICT training on the system used to record and organise risks would be rolled out as part of the Risk Improvement Plan.

A copy of the Risk Improvement Plan was attached at Appendix A to the submitted report.

There were three phases in the Risk Improvement Plan which were:

- Fit for purpose - ensuring data and the ICT system was fit for purpose.
- Enabling self-serve - increasing visibility of risk within the organisation.
- Embedding a risk management approach within the organisation.

A number of actions had already been completed within the first phase. Work had been undertaken to re-configure the Risk Management ICT system, Covalent, to enable it to produce Risk Register reports for Levels 1 to 4 of the organisation. Key changes had been made to the Risk Management Toolkit and a copy was attached at Appendix 1 to the submitted report.

As part of the second phase, the Leadership Management Team and Heads of Service would have access to Covalent and would receive training. Refresher training on risk management would also be delivered to each Outcome Area Senior Management Team. Once Covalent was embedded, areas where additional operational risk registers might be required to support service delivery would be identified. A similar process for roll out of project risk management was being followed.

Phase three was about how the risk management approach was embedded within the organisation and the Corporate Strategy Team would provide a quality assurance function against the content of risk registers. The Internal Audit Service would be given full access to the system to enable identification of reviews to be informed by risk register entries. Internal Audit would scrutinise risk entries as part of its review processes.

AGREED as follows that:

1. The Risk Improvement Plan was supported by the Committee.
2. The updated Risk Management Toolkit was endorsed and converted into an e-learning solution.

3 **ANTI FRAUD AND CORRUPTION POLICY - INTERNAL AUDITOR**

The Audit and Assurance Manager presented a report to provide the Corporate Affairs and Audit Committee with the updated Anti-Fraud, Bribery and Corruption Policy for information and comment.

The Policy had been reviewed and the main drivers behind the revised document were as follows:

- To include a draft statement from the Leadership Management Team (LMT) setting out their commitment to preventing fraud, bribery and corruption.
- To update the Policy to reflect organisational and job title/contact changes.
- To reflect changed responsibilities eg transfer of welfare benefits fraud investigation to the Department of Work and Pension's Single Fraud Investigation Service.

It was highlighted that fraud cost the public sector an estimated £20.6 billion per year and local government over £2 billion. The prevention and detection of fraud was therefore crucial to all Councils.

A copy of the revised Policy was attached at Appendix 1 to the submitted report and had been

significantly updated. Appendix 2 to the submitted report was the Anti-Fraud, Bribery and Corruption Response Plan which was one of a series of policies and procedures the Council had introduced to prevent, deter and detect fraudulent or corrupt acts and reinforce a culture of integrity and accountability. Appendix B to the submitted report was a flow chart which set out the investigation approach,

Councillor Lawton reiterated the concerns he had raised previously with regard to the Agresso system and the potential for fraudulent activity. The Audit and Assurance Manager confirmed that the Agresso system was currently being audited and that further investigations would take place if any issues were highlighted. The External Auditor explained that where suspicion of fraud was reported, they would be looking for specific examples to investigate. It would not be possible to investigate every single transaction and therefore some evidence would need to be provided.

In response to a query in relation to benefit fraud, it was confirmed that any information or concerns should be reported to the Department for Work and Pensions (DWP). However, if such fraud was raised with the Auditors, it would be passed on to the DWP to investigate. A Member also asked whether there was any information in relation to the areas where the greatest amount of fraud was committed. The Audit and Assurance Manager stated that she intended to present a Counter Fraud Report to the next meeting of the Committee. There had not been any instances of fraud internally during the year within the Council to the Manager's knowledge.

AGREED as follows that:

1. The information provided in relation to the updated Anti-Fraud, Bribery and Corruption Policy and supporting procedures was received and noted.
2. The Anti-Fraud, Bribery and Corruption Policy and Procedures were approved.
3. The Audit and Assurance Manager would provide statistical information in relation to the main areas of fraud nationally.

4

COUNCIL DEBTORS UPDATE

A report of the Deputy Chief Finance Officer was presented to provide an update to the Committee on the value and composition of the debts owed to the Council.

The Corporate Affairs and Audit Committee had previously requested detailed information as to the amount of debtors that had been reported in the Balance Sheet of the Statement of Accounts for 2014/2015.

The report provided a detailed analysis and comparison of the debtors figures provided in the 2014/2015 audited accounts and the draft accounts for 2015/2016.

The Assistant Director Interim, Finance and Investment, explained that all public sector and private organisations had money owed to them for services they had provided and for which they were yet to be paid. This constituted normal business activity. In relation to neighbouring Tees Valley Councils, all had comparable amounts of short term debtors at 31 March 2016.

Included in the Balance Sheet there were two figures for debtors: long term and short term. Long term related to monies owed to the Council which were not due to be paid within less than one year, whilst short term debtors related to monies that were due to the Council within one year.

The majority of the amount in long term debtors for Middlesbrough Council related to the hotel loan which was £5.8 million. The loan would be repaid to the Council over the next nine years, with interest payable at a commercial rate, as well as repayment of the initial advance of £5.8 million. The Council was able to borrow money at a cheaper rate and loan at commercial rates and therefore on full repayment of the hotel loan there would be net benefit to the Council.

In terms of the Council's short term debtors, more money had been collected in 2015-2016 than in previous years, so the overall position on debt was improving. In addition the creditor

balance had also been reduced. Details of the four largest areas of service included within the short term debtors were included in the report.

With regard to the collection of Council Tax the overall collection rate remained at 98%. In year collection rates, at around 94/95%, had fallen due to the introduction of Council Tax Reduction which had imposed a requirement on people who had not previously had to pay Council Tax, to pay 20% of their total Council Tax bill. It was noted that whilst some residents chose not to pay their Council Tax, others were simply unable to pay. The Assistant Director Interim, explained that the Council's Council Tax Reduction (CTR) Scheme would be revised with the aim of creating a hardship fund to assist those people who did not have the means to pay their bill. The revised CTR Scheme would be presented to Council for approval.

The debt outstanding on the debtors system at 30 June 2016 of £11.7 million represented 1.36% of the total debt raised over the period from 2004/2005 to 2016/2017 of £862 million. If the most recent debt for 2015/2016 and 2016/2017 was excluded, the amount of outstanding to total debt raised reduced to 0.25%.

The Council's policy for bad debt provision was to provide a 50% provision for any debt aged between one and two years old and 100% for debts over 2 years old and this provision was reviewed annually at the end of each financial year. The Council continued to chase payment to recover amounts owed and would only write debt off when it was deemed to be un-recoverable.

The Assistant Director Interim confirmed that Middlesbrough's debtor provision and processes for collection were comparable with other local authorities. Whilst Middlesbrough perhaps did not make as much use of bailiffs as other authorities, this was in line with the policy not to add further debt to those people who could not afford to pay.

A Member queried the amount owed to the Council by Central Government departments under the short term debtors heading. The Assistant Director Interim explained that the Council had to spend the money first and then submit a claim to the Government. It was anticipated that the claims would be paid within two or three months but sometimes they were not paid before the year end. Sometimes the Council had not provided the right information at the right time but there was usually no penalty for late repayment. The Assistant Director Interim was not aware of any claims not having been recovered.

In relation to Council Tax and unpaid Council Tax it was highlighted that with the implementation of four year budgets the Government had set some parameters for Council Tax to suggest a 2% annual increase along with a 2% levy for Adult Social Care. The Assistant Director Interim explained that whilst this formed the basis for the Council's claim to Central Government for the next four year's funding, Council would still have the opportunity to approve Council Tax setting on an annual basis.

AGREED as follows that:

1. The Committee noted the report and the improvement in the short term debtor's position between 31 March 2015 and 31 March 2016.
2. The Assistant Director Interim, Finance and Investment, agreed to provide details of the top ten largest areas of service within the Others section in the Council's short term debtors.

5 **EXTERNAL AUDIT - UPDATE**

The External Auditor presented a report, the purpose of which was to provide Members of the Corporate Affairs and Audit Committee with an update on progress on the external audit for the year ended 31 March 2016. The report covered a summary of the work undertaken to date and the proposed audit approach.

The External Audit team had been on site for four weeks and the Audit was progressing well. No concerns had been highlighted as yet but the Audit would be on site until mid- September. A review of the draft statutory accounts against the requirements of the CIPFA Code of Practice on Local Authority Accounting had commenced. The Audit was focussing on

significant risks in the accounts, property, plant and equipment and the evaluation of land and buildings and this work was still in progress.

The External Auditor confirmed that there had been no change to the Audit approach outlined since the start of the audit.

A Member asked whether the Audit considered the Council's reasons for selling properties to outside purchasers. The External Auditor confirmed that the audit looked at the actual transactions and whether they met the contract but not necessarily the decisions as to why a property was sold.

With regard to the issues previously raised about Agresso, the External Auditor confirmed that they were working with Internal Audit to ensure that balances were moved across and that the accounts were materially correct. The External Auditor reiterated that if further investigation into potential fraud was requested, specific evidence would need to be provided. The External Auditor confirmed that the Agresso system was identified as a significant risk in the Audit Plan. It was also noted that Middlesbrough Council took part in the National Fraud Audit exercise on an annual basis.

AGREED that the information provided was received and noted.