

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 28 September 2017.

PRESENT: Councillors D Rooney, (Chair), Brady, C Hobson, Hubbard and Lewis

PRESENT AS OBSERVERS: Councillors Higgins, Lawton, McTigue, Rathmell

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

OFFICERS: J Bromiley, S Lightwing, M Padfield, B Roberts, J Shiel, P Stephens, J Weston

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

DECLARATIONS OF INTERESTS

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

17/7 MINUTES - 29 JUNE 2017 - CORPORATE AFFAIRS AND AUDIT COMMITTEE

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 29 June 2017 were taken as read and approved as a correct record.

17/8 MIDDLESBROUGH COUNCIL AUDIT RESULTS REPORT - YEAR ENDED 31 MARCH 2017

Following a proposal by the Chair, it was **AGREED** that Agenda Items 4 and 5 would be considered together.

The External Auditor presented the Middlesbrough Council Audit Results Report - Year Ended 31 March 2017.

The Audit had been carried out in accordance with the Audit Planning Report presented to Corporate Affairs and Audit Committee on 9 March 2017. The procedures were planned using a materiality of £8,800,000. However this was reassessed using the actual year-end figures which had increased the amount to £10,400,000. The threshold for reporting audit differences had remained at £440,000.

There were no unadjusted audit differences arising from the audit and it was anticipated that the management representation letter would be signed by the Chair at the end of the meeting.

The areas of audit focus included the following risks:

- Revenue and Expenditure Recognition.
- Management of Override Controls.
- Valuation of land and buildings and investment properties.
- Accounting for Pension Obligations.
- Implementation of a new payroll system.

The Auditor confirmed that no significant issues had been identified as part of their testing.

The Council had correctly applied the changes to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017 including changes in financial statement presentation, to reflect new reporting requirements. The Auditor had noted that the Expenditure and Funding Analysis note included values that were inconsistent with other areas of the financial statements and these had now been amended.

The Auditor confirmed that there were no uncorrected misstatements and all the corrected

misstatements had been amended in the final set of accounts.

With regard to Value for Money (VFM), progress had been made by the Council in project management and the capital programme monitoring reports compared to 2015/2016, and as a result the auditor did not propose any qualification in respect of these areas. The Council had also strengthened governance arrangements for property disposals in year, including the introduction of a new asset disposal policy in December 2016. However, as at 31 March 2017, these changes were not sufficiently embedded and the Auditor proposed to issue an "except for" modified opinion in relation to the governance arrangements for property disposals.

One issue had arisen from the assessment of control environment regarding payments to Teesside Pension Fund relating to the early retirement of the former Chief Executive. Under the terms of the Council's Pay Policy there was no requirement for this to be approved by full Council as the policy only required redundancy payments over £100K to be approved. The External Auditor recommended that the Pay Policy was reviewed to bring consistency and transparency around this process.

With the exception of the governance arrangements for property disposals, the Auditor confirmed that Middlesbrough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

AGREED that the Middlesbrough Council Audit Results Report for the Year Ended 31 March 2017 was received and noted.

17/9

STATEMENT ON THE VFM CONCLUSION - STRATEGIC DIRECTOR FINANCE AND GOVERNANCE

The Strategic Director stated that he was pleased that the financial statements were unqualified and also that the payroll system was successfully implemented this year, as this was a significant risk to any organisation.

The Strategic Director was also pleased that the qualification had been removed on Project Management and Capital Monitoring. This illustrated the progress made since the Council Improvement Plan (CIP) was introduced.

Whilst EY had identified good progress in the decision-making processes overall, they had maintained a "qualified-except for" opinion in respect of the decision-making process for asset disposals. The Strategic Director stated that whilst this was disappointing, he accepted the conclusions that the changes required were not fully implemented by the end of the financial year. The Strategic Director added that he was determined to maintain the focus on progress with the aim of ensuring the qualification was removed for the 2017-2018 financial year.

Further progress had been made since the end of the year and the Strategic Director had commissioned a full review of all the transactions in 2017/2018 to date.

The Strategic Director added that he was supportive of the External Auditor's recommendation in relation to the Pay Policy and confirmed that a review would be undertaken.

NOTED

17/10

STATEMENT OF ACCOUNTS 2016/2017

A report was presented for Members of the Corporate Affairs and Audit Committee to review and approve Middlesbrough Council's Statement of Accounts for the 2016/2017 financial year.

The 2016/2017 Statement of Accounts had been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. The Code was based on International Financial Reporting Standards (IFRSs) and had been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The draft accounts were presented to the Committee on 29 June 2017. As was usual during the audit process, EY identified several issues that required changes to be made to the draft accounts and these had been reflected in the revised final accounts. Details of the adjustments that had been made to the accounts were contained in EY's Audit Results report. None of the adjustments were the result of any wrong doing or a lack of understanding of the requirements of the Code of Practice and had no impact on the Council's overall financial position.

The Accounting Services Manager highlighted one further amendment in relation to Senior Employees' Remuneration and the presentation of the accounts relating to an entry for the Executive Director for Wellbeing Care and Learning.

Members could take assurance on the accuracy of the accounts from the work undertaken by the Council's Auditors, EY, who expected to give an unqualified opinion on the financial statements and confirmed that the accounts gave a true and fair view of the financial position of the Council as at 31 March 2017 and had been prepared in accordance with the CIPFA code of practice. Assurance could also be taken from the Internal Audit report on Main Accounting. The overall opinion was that there was a good control environment.

From next year, starting with the 2017/2018 Statement of Accounts, the Accounts and Audit Regulations 2015 required draft accounts to be published by 31 May and final audited accounts by 31 July. The Council was already planning on this basis and a revised closure of accounts timetable was being drawn up to ensure these deadlines were achieved.

Notice was given in the local press and on the Council's website for any interested person to inspect and make copies of the Statement of Accounts and other supporting documents between 3 July and 11 August 2017. There were two interested persons this year.

Overall the accounts showed a sound financial position for the Council with the level of balances being in line with the Council's Medium Term Financial Plan.

AGREED that the Statement of Accounts 2016/2017 were approved.

17/11

ANNUAL RISK MANAGEMENT ASSURANCE REPORT

A report of the Strategic Director Finance, Governance and Support was presented to provide an annual review of the corporate approach to Risk Management and propose changes to improve the effectiveness of Risk Management within the Council.

During 2016/2017 level one to four risk registers had been put in place and were held within the Risk Management software tool used by the organisation (Covalent) with the appropriate level of ownership allocated to each risk.

Risk Management training had been provided to Heads of Service, Assistant Directors and Elected Members. An e-learning tool had been developed for Risk Management and this required further work prior to going live.

Horizon scanning had been implemented, which identified any emerging risks that the Council should be aware of and how they impacted on the organisation. The information from this was then reflected within risk registers as appropriate.

Use of the Risk Management software had been expanded to provide direct access to more risk register owners and there was further work planned during 2017/2018 to increase this.

In order to embed Risk Management further in Programme and Project Management, QA Risk sessions were now in place in which peers challenged the risk identified on selected projects on a quarterly basis. These sessions focussed on identifying additional risks to projects, sharing lessons learnt and agreeing improvement actions. This supported the project managers with their risk registers and provided them with a wider view of the risk exposure on the projects. Also sessions had been held on new project risks such as the Local Plan, to identify the risks at the beginning of the project. The findings from each session were shared

with all Project Managers.

Feedback from the recent Peer Review follow up visit had acknowledged that risk management was still developing and frameworks were now in place to embed it within the organisation. It was recommended that the Council should consider further defining its risk appetite and also assess how well the risk management process was helping it actively manage its key strategic risks.

During 2017/2018 work would be undertaken to build on the progress made within the previous year in the following areas:

- Further embed Risk Management within the Annual Governance Statement.
- Improve communication of Risk Management with officers and exploration of solutions to strengthen the approach to risk mitigation.
- Challenge sessions to review the Risk Register content with directorates.
- Review the current software solution.
- Further develop Risk Management guidance in relation to projects to support officers in the identification of common project risks.
- Strengthen the links between Risk Management and Internal Audit to ensure findings are reflected included within the risk registers where appropriate.

AGREED as follows that:

1. Members noted the progress made in Risk Management activities in 2016/2017 and the planned activities for 2017/2018.
2. Members of the Corporate Affairs and Audit Committee would receive risk management guidance in relation to projects and attend regular training.

17/12

DEVELOPING THE ROLE OF CORPORATE AFFAIRS AND AUDIT COMMITTEE

A report was presented which set out proposals to widen the current set of assurance reports received by the Corporate Affairs and Audit Committee to ensure that it received reports on the full range of issues within its remit.

It was proposed that the future work programme would include annual assurance reports on the following corporate governance themes:

- Health and Safety.
- Freedom of Information.
- Information Governance.
- Organisational Development.
- Financial Regulations Compliance.
- Decision Making.
- Procurement Policies and Practices.

The proposed scope of each of the themes was detailed at Appendix 3 to the submitted report.

In addition the Committee would receive a bi-annual report on Project Management from the Chief Executive and oversight of Strategic Risk.

AGREED as follows:

1. The proposed additions to the Committee's Work Programme detailed at Appendix 3 were approved.
2. The Committee would receive a bi-annual report on Project Management from the Chief Executive.
3. Strategic Risk sessions would be developed for the Committee during 2017/2018.

17/13

INTERNAL AUDIT – INTERNAL AUDIT CHARTER

In accordance with the revised Public Sector Internal Audit Standards (PSIAS), the Audit and Assurance Manager presented the updated Internal Audit Charter to Members of the Corporate Affairs and Audit Committee for comment and approval.

The Internal Audit Charter had been in place for a number of years and was reviewed and updated annually as required. The Charter included various statements relating to the scope of internal audit activity, its responsibilities, objectives, independence and reporting lines.

This year's review of the Charter had resulted in a number of minor changes and a revised version was attached at Appendix 1 to the submitted report.

AGREED that the revised Internal Audit Charter was endorsed by the Committee.

17/14

INTERNAL AUDIT – FINAL ANNUAL REPORT OF INTERNAL AUDIT

The Audit and Assurance Manager presented the final annual report from Internal Audit which provided a summary of the internal audit work performed in the year 2016/17 and expressed an opinion on the overall internal control environment in place within Middlesbrough Council. A copy of the Internal Audit Annual Report 2016/2017 was attached at Appendix 1 to the submitted report. The Annual Report also considered the internal audit performance outturn for 2016/17 and the performance of Tees Valley Audit and Assurance Services against the Public Sector Internal Auditing Standards (PSIAS).

Due to the number of audit reports still in draft at the time of the Corporate Affairs and Audit Committee meeting in June 2017, a draft version of the Internal Audit Annual Report was presented. Most of those reports had now been issued as final versions. Three reports on Asset Management, Cultural Services and Counter Fraud Policy Framework were still in draft and were not yet finalised. The additional work completed since the draft version of the Annual Report had not resulted in a change to the overall audit opinion on the control environment.

The total number of planned audit days for 2016/17 was 855 days.

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council, based on the audit work performed and the audit reports issued (as detailed in Appendix A) was that they provided Good Assurance. The overall level of Good Assurance was based on the individual opinions of the internal audit reports issued from the 2016/17 Audit Plan and other audit investigations.

Additional work carried out during the year related to a detailed investigation into concerns raised by a whistle blower regarding historic land and property disposals. These transactions had been the subject of a previous audit report issued in 2015/2016. The final report summarising the findings was issued on 22 June 2016 and confirmed the original opinion of Cause for Concern. A copy of the full report had been issued to Members of the Corporate Affairs and Audit Committee at Agenda Item 11 for today's meeting.

It was noted that Appendix C to the submitted report highlighted those reports with an opinion of moderate or less. One of the reports related to the implementation of Agresso and the Audit and Assurance Manager agreed to provide an update with regard to the actions that had been implemented at the next meeting.

The main area of governance that Internal Audit raised as requiring further attention related to land and property disposals. An internal audit recently carried out in this area had given an opinion of Moderate Assurance. Management had acknowledged that there was still further progress to be made. Given that the Internal Audit opinion on this area was a cause for concern in 2016/2016, it was encouraging to note that progress had been made.

AGREED as follows:

1. The information provided was received and noted.
2. An update on implementation of actions with regard to the Agresso Audit Report would be provided at the next meeting by the Audit and Assurance Manager.

17/15 INTERNAL AUDIT WHISTLEBLOWER CONCERNS REPORT

A joint report of the Strategic Director Finance, Governance and Support and the Monitoring Officer/Head of Legal Services was presented to inform Members of the findings of an Internal Audit Report in relation to Whistle blower Concerns regarding Land and Property Disposals.

Internal Audit had carried out a number of audits in relation to the Council's previous land and property disposals. Those audits resulted in a number of recommendations in relation to how the process to be followed in property disposals could be improved from a transparency and record-keeping perspective. Those recommendations were incorporated into the Council Improvement Plan (CIP), the implementation of which was overseen by the Performance and Partnerships team and supported by Deloitte, and which had now been embedded.

Internal Audit's overall conclusion was that taking all three of the disposals together, the overall opinion from the additional work carried out would be a cause for concern bordering on significant concern. No evidence of criminal activity had been identified.

The content of the Audit Report had been considered by the Strategic Director Finance, Governance and Support and the Monitoring Officer to determine whether any specific actions were required to investigate either deliberate malpractice or fraudulent activity. While the conclusion stopped short of an absolute guarantee, as might be expected, the conclusion was that there was no evidence of such practice. It was therefore not considered necessary to take these matters further since the issues of systematic weakness had already been addressed through the CIP.

The recommendation that Internal Audit should continue to have a focus on land and property disposals in their Annual Plan was fully supported by the Strategic Director Finance, Governance and Support and the Monitoring Officer.

The Chair reminded Committee Members that the report was presented for information and that processes were now in place to address the concerns raised. The role of the Corporate Affairs and Audit Committee was to seek assurance that the new processes were working effectively to prevent any weaknesses in the system. A Member queried the recent developments in relation to Centre Square and the Chair agreed that it would be useful for the Committee to receive information on the governance process.

Questions were also posed regarding the content of the Internal Audit report in relation to the conclusion, due diligence checks, state aid, best value for the TAD Centre, and criminality. The Strategic Director Finance, Governance and Support, Monitoring Officer, Internal and External Auditors provided responses as appropriate.

A Member proposed that the Committee recommended that a police investigation was undertaken into the land and property disposals detailed in the Internal Audit report. It was clarified, however, that such a recommendation was not within the remit of the Corporate Affairs and Audit Committee and it was re-iterated that the Internal Audit report was presented for information only.

AGREED as follows:

1. that the report was received and noted.
2. an update on the Centre Square development would be provided to the Corporate Affairs and Audit Committee.

17/16 DATES OF FUTURE MEETINGS

The Chair informed Members that additional meetings of the Corporate Affairs and Audit Committee would be scheduled during the current municipal year to consider the items of business agreed at Agenda Item 8.

NOTED

17/17 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The Chair informed Members that Martin Padfield, Accounting Services Manager, would be leaving the Authority at the end of the month. The Chair, on behalf of Members, thanked Martin for over thirty years' service to Middlesbrough Council and wished him well for the future.

NOTED