

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 29 May 2018.

PRESENT: Councillors Walkington, (Chair), Brady, C Hobson, P Purvis, Storey, Rathmell (As Substitute for Hubbard) and Walters

PRESENT AS OBSERVERS: Councillor D Rooney

PRESENT BY INVITATION: Councillor N J Walker

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

OFFICERS: J Bromiley, G Cooper, S Dorchell, A Hoy, D Johnson, S Lightwing, M Padfield, B Roberts, J Shiel, P Stephens, K Whitmore

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Hubbard.

DECLARATIONS OF INTERESTS

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

1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 22 MARCH 2018

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 22 March 2018 were taken as read and approved as a correct record.

2 PROGRAMME OFFICE UPDATE

A report of the Strategic Director of Finance, Governance and Support was presented which summarised improvements made following the first annual review of the Programme Management Office (PMO) reported to the Committee in December 2017, and included proposals to further embed the principles of effective Programme and Project Management (PPM) within the Council.

The progress made was detailed in the report and covered the following areas:

- Communications.
- Project Documentation.
- Governance Boards.
- PMO Support.
- Software.
- Performance.

A copy of the PMO Improvement Plan was attached at Appendix 1 to the report.

In response to a query it was confirmed that the financial tracker was now used consistently across all projects, as opposed to only capital funded programmes and projects, to ensure consistency of governance and accountability. It was also highlighted that a risk and issue log had been developed for Level 2 projects which matched the corporate framework. Whilst the risk and issue log information was not routinely provided to Members, it was contained within the management system and could be provided on request.

An update of progress against these measures would be provided in future reports to the Committee. It was highlighted that progress to date was evidenced by the reduction in red-rated Level 1 programmes and projects from 13% in November 2016 to 3% in March 2018.

Work would continue to embed the principles of effective project and programme management (PPM) during 2018/2019 including:

- A full review of the suite of standard documentation would be completed by October 2018, to ensure a better user experience, offering structure and guidance to project managers, and providing for decisions to be confidently made.
- A review of the project software system would be undertaken to ensure fit for purpose and value for money.
- Extensive guidance on social value projects would be developed and shared with PPM staff through the PPM framework, best practice group, and the PMO intranet page by October 2018.
- There would be ongoing strengthening of relationships with finance business partners to maintain and improve a joined-up approach.

Give the progress to date, and to allow time for changes to have the proper impact, it was proposed that in future the Corporate Affairs and Audit Committee was updated annually, rather than bi-annually, in line with other assurance updates.

AGREED that:

1. The information provided was received and noted.
2. Future Programme Office Updates would be submitted to the Corporate Affairs and Audit Committee annually.

3 **PROCUREMENT POLICIES, PRACTICES AND FINANCIAL REGULATIONS COMPLIANCE**

The Strategic Director of Finance, Governance and Support presented the report, the purpose of which was to provide an update of the Council's position with regard to procurement activity over the last financial year including compliance with Standing Orders, practice changes, and contract awards.

The Procurement Strategy reflected the Council's initiatives to remove unnecessary complexity from processes and procedures to retain only those that added value to the services delivered. The strategy set out three key themes: Straightforward, Strategic and Develop Local Opportunities, and was accompanied by an action plan identifying how the themes would be progressed.

As part of the Strategy, and where value for money permitted it, the Council had a strategic objective to achieve a target of 25% of all purchasing spend to be with local Tees Valley suppliers and this target had been met and exceeded in 2017/2018. Quarterly figures were set out in the report and in response to a query, the Strategic Director confirmed that the annual achievement was 35%. A challenging target of 43% spend with Tees Valley suppliers had been agreed for 2018/2019.

Officers were congratulated on this achievement and it was noted that whilst local suppliers were being engaged, the wider market was also being tested to ensure value for money was achieved.

The Strategic Director also highlighted that quarterly monitoring of all spends in respect of Standing Orders had been introduced and quarterly reports linked with spend from the financial system against the contract register. This work had helped raise awareness of the team and procurement processes that needed to be followed, which had resulted in an increase of networks and contacts from other service areas.

Since quarterly reports were introduced, the following improvements/actions had been implemented:

- Identified frameworks that 'off contract' spend could be moved to, resulting in it becoming 'on contract' spend.
- Savings identified from moving to 'on contract' spend.
- Publishing of tender or quotations where no other procurement route available resulting in more opportunities for the market.
- Identified training needs.
- Identified gaps in the market.
- Identified areas where an exemption from Standing Orders is required and supported to get these in place.
- Increased networks across the Council and ability to promote and educate service areas about the financial thresholds.

It was noted that an area for development for the Commissioning and Procurement team in 2018/2019 was to develop a system to provide monitoring data in relation to any breaches of Standing Orders. In answer to a query on progress on this issue, the Strategic Director agreed to provide further detail.

AGREED that:

1. the information provided was received and noted.
2. further detail would be provided in relation to progress on developing a monitoring system for breaches of Standing Orders.

4 **ANNUAL INTERNAL AUDIT PLAN 2018/2019**

The Audit and Assurance Manager presented a report which sought Members' final views on the priorities for the Internal Audit 2018/2019 programme of work.

Appendix 1 to the submitted report provided a summary of the key ways in which the Plan aimed to provide assurance and some possible audit assignments that had already been identified based on consultation to date. Where applicable, Appendix 1 demonstrated the links between the planned audits and the Council's Strategic Plan and how the assurance work would be aimed at supporting the Mayor's Vision and the Council's priorities. Links were also made to the Council's strategic Risk Register where applicable. Appendix 1 included a summary of the Plan and the detailed list of individual assignments. The Tees Valley Audit and Assurance Service's performance measures were also included.

Consultation had been ongoing with the Leadership and Management Team, all Departmental Management Teams, External Audit and the Section 151 Officer and all comments collated and considered. A RAG rating was applied to the suggestions with all reds and ambers transferred into the final version of the Plan.

The summary and detailed Plan, as set out in Appendix 1, listed the audits and the planned number of days in total, and for each assignment. Progress against the Plan would be reported to the Corporate Affairs and Audit Committee throughout the financial year. The Plan included contingency time to be allocated to events as they emerged during the year. Details of any audits that were deferred would be reported to the Committee. The overall annual budget for internal audit was circa £180K.

Responding to a question from a Member of the Committee, the Audit and Assurance Manager confirmed that there had not been any significant changes to the Plan since the draft was presented to the Committee at its last meeting on 22 March 2018.

Reference was made to the hot topics identified nationally for internal auditors for 2018 and in particular Corporate Culture. A Member asked whether that topic could be expanded to include other areas such as challenge and scrutiny by Elected Members. It was clarified that the Terms of Reference for all audits were agreed at the time it was undertaken.

AGREED as follows that:

1. The information provided was received and noted.
2. The Internal Audit and Assurance Plan 2018/2019 was approved.

5 BEST VALUE INSPECTION OF NORTHAMPTONSHIRE COUNTY COUNCIL

A report of the Strategic Director of Finance, Governance and Support was presented which outlined findings from the recent government Best Value inspection of Northamptonshire County Council (NCC), which had received national media attention and would potentially result in local government reorganisation in that area.

The report compared the position in Middlesbrough Council with that of NCC and highlighted learning in order to support continued improvement in the Council's corporate governance arrangements. Further similar reports would be brought to the Corporate Affairs and Audit Committee throughout the year to provide information to ensure the Committee was provided with sufficient information to ensure it was able to keep the Council's arrangements for corporate governance under review, in line with its terms of reference.

In February 2018, NCC's Executive Director of Finance issued a Section 114 Notice to Members. This was the first time in twenty years that a Section 151 Officer had issued a notice.

In March 2018, the National Audit Office (NAO) published a report that highlighted the forecast reduction in funding from government to local government, excluding council tax, for 2010/11 to 2019/20 was 56.3%. In comparison, Middlesbrough Council forecast a reduction of 66.2% during the same period.

The Secretary of State for Housing, Communities and Local Government commissioned a Best Value Inspection of the Authority. The inspection found that NCC failed to comply with its legal duty to achieve best value in the delivery of its services.

Middlesbrough Council Officers had analysed the NCC Best Value inspections report, assessed the Council's current performance in the same areas, and identified lessons that could be learnt. It was found that generally, Middlesbrough Council's position was demonstrably stronger than NCC, particularly around corporate governance.

Whilst Middlesbrough had experienced continuing pressures in Children's Care, transformation activity to address this was underway and additional resources had been allocated to the Directorate in the Revenue Budget, Council Tax, Medium Term Financial Plan and Prudential Indicators 2018/2019 Report to Council of 7 March 2018. The Report to Council also provided an assessment of the adequacy of the Council's reserves and a recommendation from the Section 151 Officer to maintain a minimum reserve of £9.4 million over the medium term.

The analysis of the NCC position identified a number of areas in which Middlesbrough Council should undertake further work which included:

- Continued improvement of demand forecasting within Adult Social Care and (in particular) Children's Care, now linked to Change Programme 3.1.
- Conclusion of the review of current utilisation of Public Health Grant and forecasting of future needed to provide assurance and to identify future commissioning priorities.
- Development of medium-term Directorate Plans to demonstrate line of sight from the Strategic Plan to team level performance and communicate objectives to all employees.
- Continued development of the Council's approach to Programme and Project Management, in particular developing business cases in respect of projects with purely or majority social value.
- Development of overarching partnership arrangements linked to the Mayor's Vision and Public Sector Reform, linked to the Social Regeneration Prospectus.
- A review of local scrutiny arrangements in line with the Government's response to the recommendations of the Communities and Local Government Committee on the Effectiveness of Local Authority Overview and Scrutiny Committees.
- Implementation of a new approach to complaints including quarterly management

information and lessons learned reports.

It was confirmed that all of this work was currently underway or planned to be undertaken in 2018/2019. Where relevant, actions had been included in the Action Plan within the 2017/2018 Annual Governance Statement.

An issue was raised in relation to the application of the Council's Constitution in respect of recent examples of scrutiny and challenge by Elected Members. The Monitoring Officer confirmed that with regard to the issues raised by the Member, appropriate procedures had been followed in accordance with the Constitution.

AGREED that the report was received and noted.

6 **DRAFT ANNUAL GOVERNANCE STATEMENT 2017/2018**

The Strategic Director of Finance, Governance and Support presented the Draft Annual Governance Statement (AGS) 2017/2018.

The Council's Code of Corporate Governance aligned with the latest CIPFA/Solace guidance which set out the principles of good governance. The purpose of the AGS was to assess the extent to which the Council complied with its Code of Corporate Governance, how it had monitored and improved the effectiveness of its governance arrangements during the past year, and identify actions to strengthen those arrangements.

The Strategic Director highlighted the progress made against the actions agreed by the Corporate Affairs and Audit Committee in the AGS 2016/2017, which was detailed at paragraph 9 of the submitted report.

Following the 'except for' judgement on value for money in relation to the Council's governance arrangements for property disposals in 2016/2017, it was noted that the asset disposal process was now well embedded. There were regular meetings of the Board established to oversee the process, supported by an amended asset disposal policy reflecting Internal Audit recommendations, as well as robust procedures including oversight by the Section 151 Officer and audits of compliance by staff and Internal Audit. Training on asset disposals had also been delivered to relevant officers.

A list of audits undertaken by Internal Audit during 2017/2018 were included in the AGS together with the assurance opinions and recommendations. There were a number of audits completed during 2017/2018 where work was still ongoing and the draft opinions were to be concluded.

A review of the issues scrutinised by the Corporate Affairs and Audit Committee and Overview and Scrutiny Board during 2017/2018 as well as local and national governance related events was also included.

The Council had completed a position statement against its Code of Corporate Governance for 2017/2018 and a copy was appended to the AGS. The Council considered that it demonstrated good governance in all areas. A number of actions had been identified to further improve the Council's approach during 2018/2019 and these were summarised in the report.

The Internal Audit opinion would be added to the final version of the AGS. However, the Strategic Director was pleased to report that where issues had been raised by Internal Audit, their recommendations had been implemented promptly on the whole.

A Member requested that all audit reports with P1 actions were circulated to Members of the Corporate Affairs and Audit Committee. The Strategic Director confirmed that all audit actions were reported to the Committee in summary form throughout the year.

Responding to a query with regard to the asset disposal process, the Strategic Director clarified that the Board established to oversee the process was an Officer group and the Executive Sub Committee for Property was the Members' group.

A Member commented on the complex and very successful project for the Town Hall restoration, noting that it had been given a strong assurance rating by the Internal Auditor.

AGREED that the draft Annual Governance Statement 2017/2018 was received and noted.

7 **DRAFT STATEMENT OF ACCOUNTS 2017/2018**

The Strategic Director Finance, Governance and Support gave a brief introduction to the Draft Statement of Accounts 2017/2018.

This year, the timeframe for completing the accounts had changed, with the Draft Accounts prepared by the end of May instead of the end of June, and the audit completed by the end of July, instead of September. The Strategic Director acknowledged that the Draft Accounts had been issued to Councillors with short notice and that this was not ideal. However, it had been a very challenging time due to shortening of the period in which the accounts were produced. In addition, several changes had been made to the format of the Draft Accounts to make them more user friendly. The Strategic Director paid tribute to the staff who had worked on the Draft Accounts in Finance Department and the preparatory work that Internal and External Auditors had completed.

There were no major accounting changes from the previous year and no major changes to the statutory format. The budget outturn showed an underspend of 287K on budget of approximately £130 million. The capital outturn was within 5% of the revised budget and within less than that of the original capital budget, which was an extremely accurate outturn against the financial budget. The Balance Sheet continued to be strong. Overall, the Strategic Director stated that the Council was in a relatively strong financial position given the demand pressures as a Council; as well as external pressures nationally.

The Head of Financial Governance and Revenues gave a detailed presentation of the Draft Statement of Accounts 2017/2018 covering the following elements:

- Narrative Report.
- Statement of Responsibilities.
- Audit Opinion.
- Movement in Reserves Statement.
- Comprehensive Income and Expenditure.
- Balance Sheet.
- Cash Flow Statement.
- Expenditure and Funding Statement.
- Notes to the Accounts.
- Collection Fund Account
- Teesside Pension Fund Accounts.

The Draft Statement of Accounts provided an overview of the Council's financial position at 31 March 2018 and a summary of its income and expenditure during 2017/2018. The Draft Statement of Accounts was a technical publication containing accounting statements and notes prepared in accordance with requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018, and Internal Financial Reporting Standards.

The final Statement of Accounts 2017/2018 were expected to be approved by the Corporate Affairs and Audit Committee on 26 July 2018 and the Independent Auditor's Report would confirm whether the accounts provided a true and fair view of the Council's financial position at that time.

Councillor Rathmell proposed that, due to the late circulation of the Draft Statement of Accounts 2017/2018, consideration of the document was deferred to a later date. This proposal was seconded by Councillor C Hobson. Following discussion, and the provision of

legal advice by the Monitoring Officer, a vote was taken and it was agreed not to defer consideration of the Draft Statement of Accounts 2017/2018.

The Head of Financial Governance and Revenues stated that he was happy to arrange a further meeting for Members to answer any questions in relation to the Draft Statement of Accounts 2017/2018 either informally or formally as a Committee.

AGREED that the Draft Statement of Accounts 2017/2018 were noted and approved.