

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Report title	Response to the Value for Money Judgement
Chief Executive or Director	Strategic Director of Finance, Governance and Support
Date	26 th September 2018
Purpose of the report	The purpose of the report is for Members to note and approve the Council's response to the recommendations made by Ernst Young regarding the unqualified value for money judgement relating to 2017/2018 accounts.
Summary of the report	The value for money judgement confirms that the external auditor has identified no significant governance or value for money issues in relation to 2017/2018 and has removed their qualified judgement from previous years. As would be expected, the external auditor does provide a number of recommendations to strengthen the Council's governance. This report sets out how the Council supports those recommendations and the actions which it intends to take to implement those recommendations.
If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.
Decision(s) asked for	It is recommended that Members of the Corporate Affairs and Audit Committee note and approve the proposed response and actions in relation to the unqualified value for money judgement.
Impact of decision(s)	The actions in the recommendations of the report should help strengthen governance processes within the Council and help to improve relationships between officers and some Members.
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What is the purpose of this report?

1. The purpose of the report is for Members to note and approve the Council's response to the recommendations made by Ernst Young regarding the unqualified value for money judgement relating to 2017/2018 accounts. An unqualified judgement essentially means that the auditor believes that the Council has met the expected standards. The Council has met those standards for both its financial statements and its arrangements to secure value for money for 2017/2018.

Why is this report necessary?

2. The auditor's unqualified value for money judgement for 2017/2018 makes 3 recommendations regarding issues which were raised with them anonymously during the period of the 2017/2018 audit. The Council acknowledges the issues raised and this report sets out how the Council intends to respond to those recommendations.

Report detail

3. At the Corporate Affairs and Audit Committee meeting on the 26th July 2018, Ernst Young, the Council's statutory external auditor, presented their Audit Results Report for 2017/2018.
4. That report confirmed that the auditors expected to have no matters to report in relation to property disposal governance arrangements, but they were considering information in relation to other governance arrangements at the Council, that may impact on their value for money conclusion. This information was only made available to them in late June 2018, and they were still considering the impact of this additional information on their risk assessment and work programme relating to value for money. As a result, at the date of issuing their report on the 26th July, they were unable to fully conclude their value for money procedures.
5. As Members are aware from the report presented by Ernst Young at this meeting, that work and consideration is now complete, and an unqualified judgement in relation to the Council's overall arrangements for value for money has been issued. There is confirmation that the auditors are satisfied with the governance around property disposals. And Ernst Young have stated that "In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Middlesbrough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018. The Council is delighted with that judgement and welcomes the findings which the auditor is making as part of that consideration.
6. The Council has had an 'except for' value for money judgement qualification for the past three years. Since then it has put in a programme of governance improvements, starting with the Council Improvement Plan, which has reduced

the items of qualification over the period to the point at which there are now no items of qualification.

7. It is understood that the auditors were presented with a very high volume of material which challenged the governance arrangements of the Council. Those who presented the material asked to remain anonymous. The auditors have a duty to consider this material in detail and as a result of this they were unable to make their value for money judgement at the same time as giving their unqualified opinion on the financial statements at the meeting on the 26th July. Officers and Members of the Council do not know who presented the material or what its detailed content was, though we have engaged several times with the auditors to answer their queries in relation to system-related issues and provided full information on a prompt basis.

8. The Council is committed to continuous improvement and its statutory officers welcome constructive suggestions on how governance arrangements within the Council can be improved and strengthened. The Council accepts the recommendations of the auditors in full and sets out below an action plan in response to the recommendations:

	Auditor Recommendation	Proposed Action by Council	Responsible Officer
1	We recommend that the Council introduce a standard approach to due diligence that details the minimum due diligence procedures that the Council is expected to complete, as well as who is required to review and approve the due diligence procedures that have been completed and how these are communicated as part of the formal reporting process.	Due diligence is an important part of any significant decision making process ensuring that the Council enters into contracts having taken reasonable care in doing so. There is no one size fits all approach to due diligence, as its can take many forms and require varying levels of detail depending on the complexity and risk assessment of the project. It is agreed that the nature of the due diligence carried out and risks identified and who has reviewed this will be formally reported as part of the Member decision making processes.	All Directors
2	We recommend that the Council undertakes an Internal Audit of the One Stop Shop process in order to identify improvements in the controls and processes. It is our view that the performance of this	The Council has experienced a major increase in the volume and complexity of enquiries from some members in recent years, which has placed significant	James Bromiley

	<p>review will strengthen the processes, helping to ensure that no requests go unanswered, and also providing assurance on the operation of the system. This review should consider:</p> <ul style="list-style-type: none"> • Response times and how these are monitored; • Monitoring of unanswered requests; and • Processes where information is not provided and documentation of why this has occurred, ensuring an audit trail is kept. 	<p>pressure on the current One Stop Shop (OSS) system. TVAAS will be asked to incorporate an audit of the Council's current OSS approach within its 2018/19 workplan to ensure that lessons are learned and incorporated where necessary into the development of the new system, which currently being developed in conjunction with members themselves. This audit will be completed and reported before the end of March 2019. In the interim, officers currently involved in OSS administration will continue to regularly review progress on unanswered requests, and escalate issues where appropriate.</p>	
3	<p>We recommend that an action plan is developed to address the cultural and relationship issues that exist. It is for the parties involved to decide how they wish to proceed, however we recommend externally facilitated sessions with experts in conflict management, where the concerns of both parties can be discussed and resolutions identified.</p>	<p>Council officers welcome further action to improve the trust and relationships with the small number of members where the relationship can be improved. The details of the process can be developed with those Members, however as a start it is suggested that Officers approach the leaders of each of the political groups plus the single independent Members to ask if they would like to nominate members of their groups or themselves to be involved in externally facilitated mediation sessions. It is suggested that the Local Government Association could be that external organisation who could facilitate those sessions to help improve the trust and relationships.</p>	James Bromiley

Why is this being recommended?

9. The Council and its officers are committed to high standards of corporate governance and are happy to implement suggestions and recommendations which will enhance and improve governance processes within the Council.

Other potential decisions and why these have not been recommended

10. Not applicable.

Impact of recommended decision

11. Approval of the recommendations should help to further improve the governance arrangements within the Council and support the unqualified value for money judgement now and going forward.

Legal

12. There are no direct legal implications.

Financial

13. There are no significant financial implications to the recommendations in the report. There may be some costs associated with the mediation programme but these will be met from existing budgets.

The Mayor's Vision for Middlesbrough

14. The report forms part of the governance framework that ensures the Council's corporate governance arrangements are fit for purpose, ensuring the Council is best placed to support delivery of the Mayor's vision.

Policy Framework

15. This report will not result in an amendment to the policy framework.

Wards

16. There are no specific financial or ward implications arising from this report.

Equality and Diversity

17. There are no direct implications arising from this report on equality and diversity.

Risk

18.If the Council chose to ignore the auditor's recommendations then it would put future value for money judgements at risk of qualification and would risk not being committed to continuous improvement in its governance processes.

Actions to be taken to implement the decision(s)

19.Following approval, the proposed actions set out by in the report will be implemented by the responsible officers.

Appendices

20. None

Background papers

21. None.

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