

MIDDLESBROUGH COUNCIL



Report of: James Bromiley, Strategic Director of Finance, Governance and Support

Submitted to: Corporate Affairs and Audit Committee – 7 February 2019

Subject: External Audit Recommendations 2017-18 – Follow-up

Summary

Proposed decision(s)
 It is recommended that Members of the Corporate Affairs and Audit Committee note the actions taken.

Report for:	Key decision:	Confidential:	Is the report urgent?
Discussion	No	No	Not applicable

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
The report sets out how the Council has proactively responded to recommendations to further strengthen already strong processes. This will ensure services and processes continue to be fit for purpose and value for money going forward.	The report outlines a further step the Council has taken to manage asset disposals, which can have an impact on the physical regeneration of Middlesbrough.	N/A

Ward(s) affected
 Not applicable

What is the purpose of this report?

1. The purpose of the report is for Members to note the action in response to the recommendations made by Ernst and Young (EY) regarding the 2017/2018 accounts.

Why does this report require a Member decision?

2. It is within the remit of this committee to review external audit reports together with management responses. This report provides progress on management responses to recommendations made by EY in relation to its report on the 2017/18 accounts.

Report Background

3. EY reported an unqualified opinion to the Committee on the financial statements for 2017-18 on 26 July 2018. Following further work in response to additional material that was presented anonymously in late June, EY also reported an unqualified value for money opinion to the Committee on 26 September 2018.
4. The National Audit Office reported on 10 January 2019 that a 19.8% of the value for money conclusions finalised by auditors of single-tier local authorities and county councils for 2017-18 by 17 December 2018 were qualified, which is an increase on previous years, so an unqualified certificate represents a considerable achievement.
5. As is to be expected following an audit, EY made recommendations in their reports on how financial management and governance arrangements could be further improved.
6. The Council accepted those recommendations in full and has worked diligently to ensure their implementation in the spirit of continuous improvement since they were made.
7. The table below sets out the recommendations as published by EY in their audit results reports; the proposed actions for the council and an update of actions taken in response to the recommendations:

	Auditor Recommendation	Proposed Action by Council	Responsible Officer	Status and Update
1	[In relation to asset disposal policy] Our testing of the arrangements identified one recommendation. This relates to establishing a clear definition of the difference between active and pipeline disposals in the Asset Disposal Policy. No other material issues were identified in our testing of this risk.	We agree and will update the asset disposal policy accordingly.	James Bromiley	<i>Complete.</i> The asset disposal policy has been updated to set out criteria for active and pipeline disposals.
2	We recommend that the Council introduce a standard approach to due diligence that details the	Due diligence is an important part of any significant decision making process ensuring that the Council enters into contracts	All Directors	<i>Substantively complete.</i> Due diligence wording has been included in

AGENDA ITEM 8

	<p>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.</p>	<p>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 of the project. It is agreed that the nature of the due diligence carried out and risks identified will be formally reported as part of the Member decision making processes.</p>		<p>guidance for report writers and in advice given to them. Amendments to the Constitution will be proposed in due course to the Constitution and Members' Development Committee, to the effect that due diligence should be considered.</p>
3	<p>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 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>Internal audit will be asked to include the audit of the one-stop shop process in the 2018/2019 workplan for that to be complete and reported on before the end of March 2019. This will allow recommendations to be considered and implemented before the 2018/2019 audit is complete.</p>	James Bromiley	<p><i>In progress.</i> Terms of reference have been agreed and the audit is scheduled to take place in 2019. There will also be a wider project in 2019 to review and improve the process for One Stop Shop.</p>
4	<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 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	<p><i>Complete as far as possible.</i> Officers have confirmed that all members of Leadership Management Team are willing to take part in mediation if required. The LGA have been contacted and are willing to act as mediator. Labour and Conservative parties have indicated they are willing to take part but as groups do not consider they have issues which require mediation; however an individual mediation is being organised between the Chief Executive and two members. No independent member has indicated that they have issues</p>

AGENDA ITEM 8

				<p>which need resolution. The MICA group has stated it is unwilling to take part in mediation until sanctions have been removed from Cllr Rathmell. No further action on the outstanding element of this action is possible at this time as a result. Removal of sanctions is a decision for the Standards Committee which imposed them. Grounds on which the committee would consider removal do not appear to have been met at this time. The proposed arrangements for Monitoring Officer separate out the arrangements for democratic services which should help to improve relationships.</p>
--	--	--	--	--

What decision(s) are being asked for?

8. It is recommended that Members of the Corporate Affairs and Audit Committee note the actions taken.

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(s) of recommended decision(s)

11. Implementation of the External Audit recommendations as far as is possible should help to further improve the financial management and governance arrangements within the Council.

Legal

12. There are no direct legal implications arising as a result of this report.

Financial

13. There are no direct financial implications as a result of this report.

Policy Framework

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

Equality and Diversity

15. Not applicable.

Risk

16. Proactive action in response to the recommendations of EY has positively impacted on a number of risks with in the Council's risk registers including:

- 08-054 – legal compliance, organisational effectiveness and/or achievement of objectives impact by failure to operate an effective corporate governance framework and associate processes.
- 08-071 Breakdown in Senior Members and Senior Officers relationship, through offering mediation, although mediation is not possible at this stage with the MICA group.

Actions to be taken to implement the decision(s)

17. Not applicable – report is for information.

Appendices

18. None.

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Audit results report	26 September 2018
	Response to the Value for Money Judgement	26 September 2018
	Middlesbrough Council Audit Results report year ended 31 March 2018	26 July 2018

Contact: James Bromiley Strategic Director of Finance, Governance and Support.

Email: james_bromiley@middlesbrough.gov.uk