

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on 26 September 2019.

PRESENT: Councillors Hubbard, (Vice Chair), J Hobson, Rooney, Walker and Nugent (As Substitute)

PRESENT BY INVITATION: Councillor C Hobson

ALSO IN ATTENDANCE: Councillors Coupe, Hill
H Fowler, Tees Valley Audit and Assurance Service (TVAAS)
N Wright, Ernst Young (EY)

OFFICERS: J Bromiley, A Johnstone, S Lightwing, J Shiel, A Wilson

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Higgins, Rathmell.

DECLARATIONS OF INTERESTS

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

1 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 25 JULY 2019

The minutes of the meeting of the Corporate Affairs and Audit Committee held on 25 July 2019 were taken as read and approved as a correct record.

The Vice Chair referred to the previous minutes where it was stated that EY had not provided information requested by MICA. The Vice Chair wished to place on record his apologies, and confirmed that the information requested had been provided by EY.

2 ANNUAL ANTI FRAUD REPORT

The Audit and Assurance Manager presented a report, the purpose of which was to update Members on the impact of fraud on the UK by summarising the main national fraud risks facing the public sector. The report also considered the potential impact of these national fraud risks on Middlesbrough Council and its residents, the existing counter fraud arrangements in place at the Council and any further action that could be taken to safeguard the Council from fraud and loss. The report outlined the number and type of investigations undertaken by Tees Valley Audit and Assurance (TVAAS) since the previous report to the Committee on Counter Fraud activity in September 2018.

The Audit and Assurance Team maintained a register of the main fraud risks to the Council which had contributed to the content of the annual audit plan for each year. A summary extract of the latest version of the register was attached at Appendix 1 to the submitted report.

The investigation of housing benefit and tax fraud credit was carried out by the Department of Work and Pensions (DWP). In relation to blue badge misuse, the Council retained 13 badges during 2018/2019 and had retained 7 badges so far during 2019/2020.

During the financial year 2018/2019, the Whistleblowing and Special Investigations Log records 13 issues that came to the attention of the Audit and Assurance Service during the year. Most of the issues did not relate to fraud or corruption but were regarding information security, governance and process or which were more appropriately dealt with under the complaints or HR processes. None of the cases reported during 2018/2019 financial year had, so far, required Police involvement.

The data matching results for the Council from the 2018/2019 NFI initiative resulted in 94 reports which identified 13,763 matches with 2,179 of those matches being recommended for investigation across a variety of service areas. In total, 836 matches had been processed so far with a further 37 in progress. This matching exercise to date had not resulted in identifying

any errors or frauds. The remaining recommended matches would be checked over the forthcoming months and therefore it was possible that fraud or error might be identified following those checks.

AGREED that the information provided was received and noted.

3 **OVERVIEW OF THE STRATEGIC RISK MANAGEMENT**

Members received a presentation on an overview of the strategic risk management.

The Council had a process in place to identify and manage risk. Risk was managed at the lowest level possible and risks were escalated where they had wider impacts. Identified risks were recorded on risk registers for the management. There were registers for Heads of Service, Departments, Projects and Programmes. The Strategic Risk Register was the overarching risk register.

The Corporate Affairs and Audit Committee had an assurance role, ensuring the governance around risk management was fit for purpose, rather than scrutinising how individual risks were managed and also had oversight of the Council's Risk Management Framework.

The Committee had received presentations on individual risks in the Strategic Risk Register over the last year including:

- Clinical Commissioning Group.
- General Data Protection Regulations.
- Transition from Elections.

This provided assurance that appropriate governance was in place. Other mechanisms in place to oversee risk included an Internal and External Audit programme of reviews, Overview and Scrutiny Board and the inclusion of risks within the performance, risk and finance clinic process.

A copy of the current Strategic Risk Register was included in the presentation for Members' information. It was noted that No Deal Brexit was currently the top risk and two reports had been taken to Council on this risk.

AGREED that the information provided was received and noted.

4 **PROCUREMENT AND PRACTICES ANNUAL ASSURANCE REPORT**

The Procurement and Practices Annual Assurance Report was presented 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.

As part of its Constitution, the Council had Contract Procedure Rules in place that provided governance in respect of procurement practices. From October 2019, the lower financial threshold would be changing from £15,999 to £10,000 in order to try and increase contract opportunities for local suppliers as well as further challenging value for money.

If the UK left the EU without a deal, the public procurement regulations would remain broadly unchanged after Brexit. The legal framework for public procurement and the different procedures available to contract authorities and entities would remain the same for the most part.

Local commissioning continued to be monitored via the balanced score card and summary of performance during 2018/2019 was included at paragraph 7 of the submitted report. Overall performance had been good with an average annual achievement of 3%. The actual spend with Tees Valley suppliers was £20,918,845, with £10,607,933 of that amount being spend directly with Middlesbrough based suppliers. For 2019/20 the target was being increased from 25% to 40%.

The Buy Boro campaign would be strengthened during 2019/20 to assist the Council to spend as much as possible with Middlesbrough and Tees Valley based suppliers. A website would be developed aimed at local suppliers and procurement events to support the local market would also be held. The Tees Valley Combined Authority were working with the Heads of Procurement across the area to further promote and monitor local spend.

Quarterly reports of all spend from the financial system against the contract register were completed by the Procurement Team and used to highlight any items where Standing Orders had not been adhered to. This enabled the Procurement Team to increase contact with all areas of the Council and helped identify areas for improvement or tendering opportunities.

In accordance with the Contract Procedure Rules, dispensation from Standing Orders could be authorised where criteria was met. During 2018/19, 60 exemptions were approved. Currently there were 350 contracts on the Council's public contracts register and 71 contracts had been awarded during 2018/19. It was highlighted that these were contracts and not individual suppliers. Some contracts had multiple suppliers.

The Council continued to utilise purchasing cards and the annual rebate this year was £41,760 which covered the period August 2018 to July 2019. The Commissioning and Procurement Team would be undertaking a review to ensure that purchasing cards continued to be used effectively and also to strengthen process and procedures.

AGREED that Procurement and Practices Annual Assurance Report was received and noted.

5 **PROVISION OF THE INTERNAL AUDIT SERVICE**

The Strategic Director, Finance Governance and Support presented a report setting out options for the provision of the internal audit service. Since 2010, the internal audit function of the Council had been provided by Tees Valley Audit and Assurance Services (TVAAS), which was a shared service with Redcar and Cleveland Council. Redcar and Cleveland Council were no longer able to provide this service largely because of difficulties recruiting and staffing the service to provide the required level of internal audit for both Councils.

Discussions with other Tees Valley Councils had indicated there was no appetite for any new joint arrangements. Bringing the service back in-house was not feasible as the current problems relating to the scale of the service and recruitment issues would only be magnified. Outsourcing to a large audit firm would be feasible but prohibitively expensive within existing resources.

The proposal therefore was to join a company named Veritau, which was a shared internal audit service set up by North Yorkshire County and York City Councils in 2009. Veritau employed approximately 60 staff who provided internal audit and assurance services across their councils and many other district councils in North Yorkshire. Veritau was able to successfully recruit and retain high quality auditors at an affordable cost to local authorities.

The hourly rate would be approximately 20% higher than currently and as such the annual audit hours would reduce. This would not have a significant impact on the service provision as the effectiveness was expected to improve and the rolling programme of non-key audits could be extended and accommodated within the current budget of £180,000. It was clarified that the Section 151 Officer could use his delegated power to increase the budget if deemed necessary, or this could be done as part of the budget setting process.

The Internal Audit Team would be TUPE transferred to a new company, as part of the Veritau group. The company would be owned 25% by Middlesbrough, 25% by Redcar and Cleveland and 50% jointly by North Yorkshire and York City Councils. It was anticipated that the arrangement would be in place for ten years, although it would be possible for parties to withdraw before that after giving suitable notice. It was envisaged that the new service would be operational from 1 January 2020 and that this year's internal audit plan would be delivered as it stood.

Middlesbrough Council would have its own Relationship Manager at Veritau, who would have at least a part-time presence in Middlesbrough.

Whilst the provision of suitable internal audit arrangements was the Section 151 Officer's responsibility, the Executive would need to approve the new arrangements and a shareholding investment in the new company of £20,000. As a key stakeholder, the Corporate Affairs and Audit Committee members' views and comments were invited.

AGREED as follows that:

1. The information provided was received and noted.
2. The Corporate Affairs and Audit Committee supported the proposed new arrangements for provision of the internal audit service by Veritau.

6 **CHIEF OFFICER APPOINTMENTS COMMITTEE**

In the absence of the Chair, it was **AGREED** this item was **DEFERRED**.