

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 29 September 2022.

PRESENT: Councillors B Hubbard (Chair), J Platt (Vice-Chair) and T Higgins

ALSO IN ATTENDANCE: P Jeffrey (Internal Auditor) (Veritau), M Rutter (External Auditor) (Ernst Young) and J Dodsworth (Veritau)

OFFICERS: S Lightwing, C Benjamin, G Cooper, A Johnstone, C Walker and J Weston

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors C Hobson, T Mawston, D Rooney and C Wright

22/27 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

22/28 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

22/29 **PROCUREMENT OVERVIEW 2021/2022**

A report of the Director of Finance was presented to provide the Corporate Affairs and Audit Committee with the annual overview of procurement activity undertaken for the financial year 2021/2022.

The Council had Contract Procedure Rules in place as part of the Council's Constitution and these provided the governance in respect of procurement practices.

Public Procurement Notice (PNN) 10/21 – Threshold & Inclusion of VAT was published on 6 December 2021, which notified all Contracting Authorities of the uplift to thresholds and the inclusion of VAT on contract value from 1 January 2022. The inclusion of VAT is due to Brexit and aligned the UK to all non-members. The table at paragraph 5 of the submitted report showed the thresholds as at 1 April 2021 to 31 March 2022, which all procurement was required to adhere to.

During 1st April 2021 to 31st March 2022 the Procurement Team had been involved and supported service areas with 273 procurement activities that equated to a total of £62 million worth of contracts being awarded in the year. It was confirmed some contracts might be 1 to 2 years in length and others could be longer or have options for extension. A breakdown of activity was shown at paragraph 7 of the submitted report.

There were currently 467 active contracts recorded on the contract register, which was publically available. Work was being undertaken to ascertain how many of the contracts were with local suppliers and this information would be provided to the Committee when completed.

A report was presented to Corporate Affairs and Audit Committee on 9 June 2022, which provided a full overview of exemption activity for 2021/22 and a copy was attached to the submitted report at Appendix A for reference.

The Procurement Team continued to gate keep via Business World for any orders raised over £5k up to £100k which further strengthened understanding of the Council's spend.

The Procurement Team supported service areas with procurement queries and the Specialist Commissioning and Procurement Manager was currently working with the digital and organisational development colleagues in order to review and update the intranet and internet pages and develop some training for the Middlesbrough Learns site. It was anticipated that this work would be completed by the end of the year and with training going live from 1 April 2023.

During 2021/22 the Council spent £8,149,948 via purchasing cards which was 30,446 transactions. The majority of spend was low value with 19,785 (65%) being below £99, 9,875 (32%) was £100 to £1,000 and 787 (3%) was over £1,000. A review of purchasing cards' function in the Council would be undertaken led by the Specialist Commissioning and Procurement Manager.

Rebates for the cards were paid annually each year and were based on spend activity between 1 December to 30 November the previous year. In February 2022 the Council received a rebate of £60,651.27.

It was highlighted that the Council had employed an officer specifically to work on VAT and also stabilise the banking functions. Some more detailed work would take place around VAT over the next 3 to 6 months and this information would be provided to a future meeting of the Committee.

In line with the purchasing card policy staff were responsible for reviewing all spend on cards monthly, which included providing the receipt, detail of expenditure, cost centre and GL codes. Managers with staff who had cards were also responsible for monitoring spend and the team shared monthly reporting and management of cardholders in line with the Council's policies.

Executive approval was given on 7 September 2021 to award and implement the Supplier Incentive Programme (SIP) with Oxygen Finance calling off the North East Procurement Organisation (NEPO) Framework in order to pay suppliers as early as possible in return for a rebate payment.

The SIP programme has now been implemented following a mobilisation period that involved a number of stakeholders from across the Council, including the Finance Accounts Payable (AP) Team, Business World Support Team and the Procurement Team. Some internal practices had been identified that would be improved to ensure that the Council realised the benefits from SIP. In order to understand actions that could assist Middlesbrough, Officers had met with South Tyneside Council who had had SIP in place for nearly 7 years and were seeing rebates over £400k and aiming for this to grow further.

PowerBI was used to produce quarterly reports on local spend which had been really useful. Further work was needed in order to further increase reporting on spend and the Specialist Commissioning and Procurement Manager would be working with the data team over the next year to develop this. A summary of the percentage performance of local spend during 2021/22 was detailed at paragraph 31 of the submitted report.

AGREED that the information provided was received and noted.

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ANNUAL ASSURANCE REPORT ON PARTNERSHIP GOVERNANCE

A report of the Director of Legal and Governance Services was presented to outline the Council's Partnership Governance Policy and set out information on the current levels of compliance with that policy.

The Partnership Governance Policy had been in place since it was approved by Executive in February 2020 and had not been reviewed until now. Lead Officers had completed a self-assessment for each of the 16 significant partnerships that existed during 2021/22 and the outcomes were shown at paragraph 7 of the submitted report.

While partnerships were assessed as being generally in a sound state by the Lead Officers who self-assessed compliance with governance standards, some marked performance as amber, where outcomes were less able to be articulated or because performance was below target or below national average. The position in relation to each of the partnerships identified as amber for performance and planned actions to address that status were set out in the submitted report at paragraph 8.

In relation to those partnerships that had previously had no Key Performance Indicators (KPIs) in place to measure delivery, it was clarified that these had been identified and added although it would take some time for them to embed.

A minimum standard was to be developed as part of the supporting policy. During 2022/23

this would be completed, and the next annual assessment would include an assessment against that, as well as an overall governance assessment of the health of partnerships.

As part of the completion of the annual assessment it was identified that there was a requirement to develop a complementary governance structure to assess wholly or partly owned Council companies that would provide a framework to consider:

- When a part or wholly owned company should be considered for establishment.
- The required content of any business case to establish one, for example: clear evidence that the required business to be conducted could not be completed as effectively within the Council.
- The minimum standard any company that is established should comply with for the purposes of demonstrating its effectiveness back to the Council.

During 2022/23 a governance framework and supporting minimum standard will be developed for the Executive's consideration. An action to deliver this had been included in the draft 2021/22 Annual Governance Statement.

AGREED as follows that the:

1. current position of the Council in relation to compliance with the Partnership Governance policy was noted.
2. planned inclusion of an assessment against the minimum standard for partnerships in the next annual assessment was noted.
3. planned actions to strengthen governance in relation to performance Management were noted.
4. proposal to create a governance framework to assess wholly and partly owned arm's length local authority companies was endorsed.

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2021/2022 DRAFT STATEMENT OF ACCOUNTS

A report of the Director of Finance (Section 151 Officer) was presented for Members of the Corporate Affairs and Audit Committee to note and review the draft Statement of Accounts (SOA) for the 2021/22 financial year.

The report presented the draft SOA for the 2021/22 financial year, commented on the main movements in the organisation's financial position during the year and set out the legal processes that underpinned the SOA process and the responsibilities that needed to be undertaken.

This report was presented two months behind last year's draft SOA and four months later than in financial years pre-Covid-19. The Committee were aware of the reasons for delay on the audit process (from previous reports in 2019/20 and 2020/21).

The draft SOA was a highly technical and complex document and the main form of external financial reporting provided by local authorities. Its format and content was prescribed by the CIPFA Accounting Code of Practice with the aim of giving a high level of visibility and transparency over the Council's financial affairs.

The SOA comprised:

- A narrative report from the Director of Finance that provided an explanation on the financial position of the Council and described the key activities/highlights for the Council during the year. The report also contained performance-based information that illustrated what had been achieved by the use of these funds during the financial year.
- The Council's financial statements. These were the core elements of the SOA and included the movement in reserves statement, the income and expenditure statement, the balance sheet and the cash flow statement for 2021/22.
- Notes to the accounts which included detailed narrative and figures that supported the key totals within the financial statements and other issues that were of interest to local authority stakeholders.
- The Collection Fund, covering Council tax and business rates activities and the

accounts of the Teesside Pension Fund for which Middlesbrough Council was the administering authority. For the first time this year, the Council had produced a set of group accounts (financial statements and notes) which consolidated the wholly owned subsidiary, Middlesbrough Development Company, into the Council's own accounts. This was due to the size of assets and liabilities associated with the company exceeding the Council's materiality threshold during the financial year.

- The Annual Governance Statement that set out how the Council had complied with best practice governance arrangements and any key issues that had arisen from it. Due to the governance issues identified by Ernst & Young (EY) during the audit of the 2020/21 accounts, this document was not finalised at present. It would be added into the draft SOA once the Statement had been considered by Members at a subsequent meeting.

The timetable for the approval of the SOA was set out at paragraph 13 of the submitted report and it was highlighted that the timescale for the audit and approval of accounts was outside of this statutory timeframe. This was not uncommon in recent years and a CIPFA survey showed that only 9% of local authorities had their 2020/2021 Accounts audited by the legal date of 30 September 2021. It was also highlighted that the target date of 2 March 2023 for the Committee's approval of the audited accounts was based on there being no significant delays or issues. The period available for inspection of the Accounts had been extended by one day due to the recent additional public holiday for Queen Elizabeth II's funeral.

The balance sheet for the Council had improved significantly during the financial year from a negative net worth of £44.9m to a positive position of £64.5m. An improvement of £109.4m. This predominantly related to the net pensions liability and the position in relation to International Accounting Standard (IAS) 19. Further analysis of this movement was contained within Note 39 to the accounts. This change was also reflected in the movement in reserves statement as part of unusable reserves and in the income and expenditure statement as an actuarial gain.

Members' attention was drawn to other areas of interest outside of the Core Financial Statements including:

- The narrative report.
- The going concern disclosures for the Council in Note 1 to the accounts.
- Note 7 on Earmarked Reserves.
- Note 12 on Grant Income.
- Note 14 on Officers' Remuneration.
- The various notes on non-current assets (notes 21-28).
- The various notes on Financial Instruments (notes 29-31).
- The new section on Group accounts.

A query was raised in relation to the increase in audit fees from 2021 to 2022. It was clarified that issues around Children's Services and governance had taken more audit time. It was also noted that the figures for both years were the Finance Team's assessments and not the actual fees. The External Auditor would report the final fees through the audit report once the audit was completed.

Discussion took place regarding the provision of additional training for Committee Members in relation to the Accounts which would provisionally take place before the December meeting.

AGREED that the draft Statement of Accounts for the 2021/22 financial year, published by the Director of Finance on 8 August 2022, representing a true and fair view of the Council's financial position as at 31 March 2022, was received and noted.

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

A report of the Head of Internal Audit, Veritau, was presented to provide Members with an update on progress with the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update report to the Corporate Affairs and Audit Committee.

A copy of the Internal Audit progress report was contained at Appendix 1 to the submitted report. It reported on progress against the internal audit work programme and included a

summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

In relation audit reports with Priority 2 recommendations, the Chair highlighted the P2 definition which was: “A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.” Responding to a request, the Internal Auditor suggested that any Audits with Priority 2 recommendations could be added at Appendix 3 to the update report and provided to the Committee Members if required.

The Counter Fraud progress report was attached at Appendix 2 to the submitted report. It reported on progress against the counter fraud work programme. A range of work was detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.

The Committee’s attention was drawn to the following:

- The Counter Fraud Team raised awareness of whistleblowing on World Whistleblowers’ Day in June. It was important that workers were aware that they should raise concerns that were in the public interest and that there were protections in place if they did so. It was equally important that managers responded to whistleblowing concerns in the correct way.
- Counter fraud training was delivered to the Council’s finance team to address a form of cybercrime that had been increasing in terms of sophistication, frequency, and success over the past 12 months. This crime was mandate fraud, which was also known as payment diversion fraud. The training provided an update on the latest tactics and tools used by criminals to commit this type of fraud.
- The National Fraud Initiative (NFI) was a large-scale data matching exercise that involved all councils and other public sector bodies in the UK. The work of the NFI was overseen by the Cabinet Office. The 2020/21 exercise had now concluded and there was ongoing work in preparation for the 2022/23 exercise. Data would be securely gathered from council systems at the end of September, processed, and then securely sent to the NFI in October.

AGREED that the reports on progress of internal audit and counter fraud work in 2022/23 were received and noted.

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COUNTER FRAUD FRAMEWORK REPORT

A report of the Head of Internal Audit, Veritau, was presented to update Members on the impact of fraud nationally and in particular on local authorities. The Council’s Counter Fraud Policy Framework had been reviewed and the Counter Fraud Strategy Action Plan and the Fraud Risk Assessment had been updated for 2022/23.

The UK was currently experiencing a cost of living crisis and early indications were that fraud would rise and affect more local authorities. Cybercrime was 95% human error – so whilst robust procedures and processes might be in place, if systems were not followed fraud could occur. Internal Audit would continue to raise awareness and had set out objectives the action plan attached to the submitted report.

The review had identified that the Council’s Anti-Fraud, Bribery, and Corruption Policy required updating to reflect changes in legislation. The Police, Crime, Sentencing and Courts Act 2022 had removed Councils’ ability to offer simple cautions as an alternative to prosecution. A new process was proposed which could be used to offer offenders a formal written warning when it was not in the public interest to prosecute. The policy had also been revised to make it more readable and up to date.

AGREED that the updated Counter Fraud Strategy Action Plan, Fraud Risk Assessment and Anti-Fraud, Bribery, and Corruption Policy were received and noted.

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

Teesside Pension Fund Provisional Audit Results Report – Year Ended 31 March 2021

At the Corporate Affairs and Audit Committee meeting held on 23 September 2022, the External Auditor had informed Members that the 2021/2022 audit work was almost completed and a matter around recording of income had been identified. This had the potential to reach back into 2020/2021 and management were looking into this issue as a priority. The External Auditor confirmed that this issue had now been resolved.