

**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on Thursday 14 December 2023.

**PRESENT:** Councillors J Kabuye (Vice-Chair), I Blades, D Coupe, B Hubbard, S Platt and M Storey

**ALSO IN ATTENDANCE:** Councillors N Walker and G Wilson  
M Rutter(Ernst Young), R Tebbs (Ernst Young) and M Kirkham (Mazars)  
**PRESENT VIRTUALLY:** P Jeffrey (Veritau) and J Dodsworth (Veritau)

**OFFICERS:** C Benjamin, M Brown, L Grabham, A Johnstone, S Lightwing, D Middleton, J Tynan and J Weston

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillor J Ewan

23/8 **WELCOME AND EVACUATION PROCEDURE**

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

23/9 **DECLARATIONS OF INTEREST**

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

23/10 **MINUTES- AUDIT COMMITTEE - 6 OCTOBER 2023**

The minutes of the Audit Committee meeting held on 6 October 2023 were submitted and approved as a correct record.

23/11 **CORPORATE GOVERNANCE IMPROVEMENT AND SECTION 24 PROGRESS REPORT**

A joint report of the Chief Executive, Director of Finance and Director of Legal and Governance Services was presented that set out the key activities and progress since an update was last provided. The report also provided an update on activity in response to the Section 24 recommendations made by the Council's External Auditors.

Alongside the activity that had been delivered, the report also set out the impact actions had had on the measures of success that had been identified within the Corporate Governance Improvement Plan. The report also detailed a baseline of measures of success to be used to assess the impact of the Section 24 actions. This information had also been presented to full Council on 29 November 2023.

For the current reporting period, six of the workstreams were on target in terms of activity, as per timescales set out in the corporate Governance Improvement Plan, and four were off target. Seven measures of success had seen positive movement, since initial baselining and one had worsened slightly.

Details of the key activities within the governance improvement plan that had been delivered since progress was last reported to Council, in-line with planned timescales, were provided at paragraph 17 of the submitted report.

At the December meeting of the Independent Improvement Advisory Board it was agreed that the Council would develop a set of targets for the measures of success going forward to assess not only direction of travel but to also set out the goals for each measure of success across both the Corporate Governance Improvement Plan and the Section 24 Measures of Success. Information on these would be included in future reporting.

Detailed delivery milestone plans had been developed to underpin the workstream activities within the improvement plan. Where slippage occurred to individual milestones but the overarching end date for the

workstream activity was not impacted, no escalation or change control would be required and it could be assumed that any required mitigation would be put in place at an operational level. Where there was impact on achieving the intended measure of success or overarching end date of workstream activity, a change control would be proposed for noting. On that basis and for this reporting period, there were no change controls presented.

A Member asked whether minutes of meetings of the Independent Improvement Advisory Board (IIAB) were available for public inspection. It was highlighted that a summary of information requested and major action points arising from the IIAB was attached at Appendix 3 to the submitted report. All Members had also been invited to meet with the IIAB. The first scheduled report from the IIAB would be presented to the Executive on 17 January 2024.

An update on the key activities related to delivery of the Section 24 Action Plan since the last Audit Committee meeting was provided along with some changes to delivery dates.

Appendices 1 and 2 to the submitted report provided details of key performance indicators and measures of success against the Corporate Governance Improvement and Section 24 Reports.

**AGREED** as follows that the:

1. Information provided was received and noted.
2. Progress made in relation to the Corporate Governance Improvement Plan and the Section 24 action plan and the planned next steps was noted.

23/12

## **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORTS**

The Head of Internal Audit presented a report to provide the Audit Committee with an update on the internal audit and counter fraud work undertaken and information on the outcome of Veritau's recent external quality assessment.

To comply with the Public Sector Internal Audit Standards (PSIAS), an External Quality Assessment (EQA) of Veritau's internal audit working practices was required at least every 5 years. The previous assessment was completed in 2018 and a further review was therefore due in 2023. The Chartered Institute of Internal Auditors was commissioned to undertake the EQA, which was completed between June and August 2023.

The outcome of the review was very positive, and the overall opinion was that Veritau's internal audit function 'generally conforms' to the standards. This was the highest opinion that could be provided.

The internal audit progress report was attached at Appendix 1 to the submitted report. This included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

The counter fraud progress report was attached at Appendix 2 to the submitted report. 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.

**AGREED** that the Audit Committee noted the:

1. Latest update on internal audit and counter fraud work.
2. Information provided on the outcome of Veritau's recent external quality assessment.

23/13

## **ANNUAL ASSURANCE REPORT ON PARTNERSHIP GOVERNANCE**

A report of the Director of Legal and Governance Services was presented, the purpose of which was to outline the results of the annual assessment of the key partnerships that Middlesbrough Council was a member of, against the Council's Partnership Governance Policy and supporting minimum standard.

The Partnership Governance Policy had been in place since it was approved by Executive in February 2020.

Within the first annual assurance report on Partnerships governance in September 2022, a number of activities were outlined for delivery in the following year to strengthen the

governance of four partnerships. The table at paragraph 9 of the submitted report provided an update on that activity (excluding one action which was set out in the table in paragraph 11 as it was not due for delivery until December 2023).

Lead officers had completed a self-assessment for each of the 13 significant partnerships that existed during 2022/23. Whilst 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/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 11. All four were also identified as “Amber” when last reported to the Audit Committee in September 2022. An update on the planned actions that were to be delivered during 2023/4 was also included.

During 2024, the Council’s Partnership Governance Policy would be refreshed to ensure it aligned with a forthcoming Partnerships Strategy that would be developed to support delivery of the Council’s transformation agenda in order to ensure the Council was working effectively with partners to maximise impact on the priorities of the town, as set out in the forthcoming Council Plan.

**AGREED** that the Audit Committee noted the:

1. Current position of the Council in relation to compliance with the Partnership Governance policy.
2. Planned actions to strengthen governance in relation to performance Management.

23/14

#### **ANNUAL ASSURANCE REPORT ON PROCUREMENT ACTIVITY**

A report of the Interim Director of Finance was presented to provide a summary of the Council’s procurement activity over the last financial year including compliance with Standing Orders, practice changes and contract awards.

During 1st April 2022 to 31st March 2023 the Procurement Team had been involved and supported service areas with 240 procurement activities that equate to approximately £99,865,680 worth of contracts being awarded in the year.

There were currently over 400 active contracts recorded on the Council’s contract register, and this information was available to the public.

The North East Procurement Organisation (NEPO) was an established public sector procurement organisation that worked in partnership with all 12 North East Councils and the wider public sector to procure goods, services and works of high value and strategic importance. The 12 authorities collectively oversee the governance framework for NEPO.

In 2022/23, 25% of Middlesbrough Council’s procurement solutions utilised NEPO framework arrangements. Without this, investment would be required within the procurement team to meet the demands of the procurement activity of the local authority. Middlesbrough Council had annual conversations with NEPO to review the available frameworks and discuss opportunities for future commissioning plans.

In addition to procurement solutions NEPO managed and delivered the e-tendering portal and work was nearing completion of the introduction of a new dynamic portal called Open, which would be rolled out in early 2024 to all 12 members. This was a significant project led by NEPO and the Local Authorities in trying to develop a unique and innovative e-tendering system that could support the entire commissioning process. It was essential that all authorities operated the same processes to mitigate impacts of procurement on the suppliers across the North East. Consistency in approach ensured they were more cost effective within their bidding and costing processes.

Further work with NEPO was progressing in regard to the introduction of North East Social Value TOMs (themes, outcomes, measures). Middlesbrough Council already had social value within its procurement practice however work was being undertaken to strengthen this aspect of procurement for 2024/25.

Middlesbrough Council requested an audit of purchasing cards as part of Internal Audit

programme of assurance. This was requested as monitoring of spend was undertaken within Directorates and assurance was required regarding the sufficiency of the processes for review and monitoring of transactions, and use of the cards. Internal Audit had provided a limited assurance opinion regarding the utilisation of purchase cards. The detailed findings were published in the Internal Audit report, a copy of which was attached at Appendix 3 to the submitted report.

A number of areas of concern were noted, including non-recording of VAT, processes linked to reviewing and approving spend, the lack of quality descriptors for the spend and required updates to policy. Linked to the Internal Audit Report on the use of purchase cards a programme of improvement activity was currently being rolled out in quarter 3 of 2023/2024, to amend the practice linked to purchase card activity. Historically purchase cards were considered to be one of the primary mechanisms for payment as they reduced the administrative and cost burden of processing invoices and were a solution that met the requirements across a number of Directorates.

Following the recent review from Internal Audit, along with the communication of reducing all non-essential spend, the strategic direction was to reduce and review levels of spending associated with purchase cards. Furthermore, with the introduction of the Supplier Incentive Programme (SIP), expenditure should be routed through formalised channels in Business World in order to maximise the opportunities SIP presented and support suppliers engaging with the scheme.

A programme of activities was outlined in the submitted report and within the action plan for the Section 24 recommendations. Internal Audit reported that there were no resulting fraud investigation concerns linked to the work they appraised.

Currently the number of cards was being reduced from 313 to 171, and this would be kept under review.

During 2022/23 the Council spent £7,938,163 via purchasing cards which was 23,119 transactions. The majority of spend was low value with 16,856 (73%) being below £99, 5,571 (24%) were £100 to £1,000 and 692 (3%) were over £1,000. Rebates for the cards were paid annually each year and were based on spend activity between 1st December to 30th November, rebate received was £60k.

It was acknowledged that the Council required purchase cards for some aspects of transactional activity, however review work continued to close down channels of spend and merchant categories to ensure spend and transactions on cards met the strategic aims.

Members were informed that all card holders had to complete mandatory training and if cards were not used appropriately or reviewed within timescales, this would be investigated and cards would be removed when appropriate. Where staff were provided with purchase cards as part of their role, if the appropriate guidance was not followed, the card would be reviewed. The service area would then need to consider other mechanisms for payment or whether that card could be allocated to another member of staff. Inappropriate use of purchase cards could ultimately lead to disciplinary procedures.

It was confirmed that all cardholders now had to review spend by 28th of each month and scan all receipts into the system. From 1 January 2024, the VAT receipt would be a mandatory field on the system. It was acknowledged that there would be some elements that were not VAT and Central Procurement would need to check and process those transactions. Significant work had been undertaken with banks to so that VAT receipts and detailed description of spend could not be by-passed. This information would also feed into monitoring arrangements ensuring the process was far more robust.

According to the report, the VAT Officer had raised concerns regarding incomplete claims and a Member asked what action management had taken to address those concerns. The Head of Finance and Investment explained that guidance and advice was being provided and the VAT Officer was involved with the staff training. Discussions were also taking place with HMRC to review what VAT from previous years could be reclaimed.

A Member suggested that it would be useful to measure the impact of the changes made and it was suggested that a further report could be produced in six months' time to demonstrate

the actions taken and the impact.

Internal Audit was currently reviewing the use of purchasing cards across the rest of the Council and would also be reviewing Children's Services to follow up on the actions from the Audit Report.

The Supplier Incentive Programme (SIP) with Oxygen Finance was an early payment programme which gave suppliers the opportunity to be paid earlier than standard practice. The programme gave suppliers the option to be paid as soon as the invoice was authorised. The aim was to complete this within 10 days, normally the payment term was 30 days. Suppliers paid a small pre-agreed rebate which was applied as the invoice was paid. The rebate was proportionate to the number of days the authority accelerated the payment by. The rebate was only applied if the invoice was paid earlier than 30 days. The SIP programme had been operational since May 2022 and the Council had achieved savings of over £25k to date.

Middlesbrough Council had a strategic direction for ensuring spend remained local and this was monitored quarterly. The quotation process allowed for more targeting spend to local suppliers and practice linked to quotations was encouraged to ensure suppliers that were local and offered value for money were requested to quote. The local spend continued to be monitored and a summary of the percentage performance of local spend during 2022/23 was detailed at paragraph 4.4 of the submitted report. The overall performance for 2022/23 was 39.5% which was slightly below the target of 40%.

**AGREED** that the information provided was received and noted.

23/15

#### **AUDIT PLANNING REPORT FOR THE 2022/2023 TEESSIDE PENSION FUND AUDIT**

The External Auditor presented the provisional Audit Plan for the 2022/23 financial year, which set out how EY intended to carry out its responsibilities as auditor.

The purpose of the report was to provide the Audit Committee with a basis to review EY's proposed audit approach and scope for the 2022/23 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It was also to ensure that the audit was aligned with the Committee's service expectations.

This plan summarised EY's initial assessment of the key risks driving the development of an effective audit for the Council, and outlined the planned audit strategy in response to those risks. Revised ISA 315 (Identifying and Assessing the Risks of Material Misstatement) was a new area of audit focus for the 2022/2023 audit. The Provisional Audit Plan summarised EY's initial assessment of the key risks driving the development of an effective audit for the Pension Fund and outlined the planned audit strategy in response to those risks.

The External Auditors' planning procedures remained ongoing and the Audit Committee would be informed if there were any significant changes or revisions once these procedures had been completed. An update would be provided to the next meeting of the Audit Committee and a finalised planning report would be issued on completion of the all the detailed procedures. No areas of concern had been identified as yet.

A Member highlighted the importance of ensuring that previous Pension Fund accounts were approved and closed as quickly as possible. Discussions were underway with the Department for Levelling Up, Housing and Communities (DLUHC) for potential solutions to expedite closure of previous Pension Fund accounts, which formed part of Middlesbrough Council's main accounts.

**AGREED** that the information provided was received and noted.

23/16

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

None.

