

## Audit and Governance Committee Agenda

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**Date:** Thursday 29<sup>th</sup> November, 2018 at 10.00 am

**Venue:** Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

**Membership:**

Councillor Nicky Walker – Chair (Middlesbrough Borough Council)  
Councillor Bob Norton (Redcar & Cleveland Borough Council)  
Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)  
Councillor Charles Johnson (Darlington Borough Council)  
Councillor Ann Marshall (Hartlepool Borough Council)  
Paul Bury (Independent member)  
Christopher White (Independent member)  
Jonny Mumby (Independent member)

### **AGENDA**

1. **Introductions**
2. **Apologies for absence**
3. **Declarations of interest**
4. **Minutes**  
Minutes of previous meetings for confirmation and signature
5. **Action Tracker**  
Attached
6. **Corporate Risk Register**  
Attached
7. **Internal Audit Report**  
Attached
8. **External Audit Progress**  
Attached
9. **Treasury Management Strategy 2018/19 Mid-Term Review**  
Attached

## Audit and Governance Committee Agenda

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**10. Forward Plan**  
Attached

**11. Any Other Business**

**Date of the next meeting**  
Thursday 28<sup>th</sup> February  
2019 at 10.00am

**Members of the Public - Rights to Attend Meeting**

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people please contact: Sarah Brackenborough – 01642 524423 – [sarah.brackenborough@teesvalley-ca.gov.uk](mailto:sarah.brackenborough@teesvalley-ca.gov.uk)

## **Tees Valley Combined Authority Declaration of Interests Procedures**

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the [Combined Authority's Constitution](#) under the "Code of Conduct for Members" (Appendix 8).

### **Personal Interests**

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.
3. There are two types of personal interests covered by the constitution:
  - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
    - i. a member of your family;
    - ii. any person with whom you have a close association;
    - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
    - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
    - v. any body as described in paragraph 3 b) i) and ii) below.
  - b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
    - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
    - ii. any body which:
      - exercises functions of a public nature;
      - is directed to charitable purposes;
      - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

### **Declarations of interest relating to the Councils' commercial role**

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

### **Procedures for Declaring Interests**

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

#### **Register of Interests**

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

#### **Declaration of Interests at Meetings**

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.
9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before

leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

**Sensitive Information**

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

These minutes are in draft form until approved at the next Committee meeting and are therefore subject to amendments.

**TEES VALLEY COMBINED AUTHORITY  
AUDIT AND GOVERNANCE COMMITTEE**

**Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY**

**Thursday 27<sup>th</sup> September 2018 at 10.00am**

**MEETING**

ATTENDEES

Members

Cllr Nicola Walker (Chair)	Middlesbrough Borough Council
Cllr Chris Barlow	Stockton Borough Council
Cllr Charles Johnson	Darlington Borough Council
Cllr Ann Marshall	Hartlepool Borough Council
Cllr Bob Norton	Redcar & Cleveland Borough Council
Paul Bury	Independent Member
Christopher White	Independent Member
Jonny Munby	Independent Member

Officers

John Hart	Governance & Scrutiny Officer	TVCA
Andy Bryson	Finance Manager	SBC
Martin Waters	Head of Finance, Resources & Housing	TVCA
Andrew Barber	Audit & Risk Manager	SBC
James Grant	Marketing & Communications Officer	TVCA

Also in Attendance

Gareth Roberts	Senior Manager	Mazars
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Apologies

Cllr Barry Woodhouse	Stockton Borough Council
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<p><b>AGC 11/18</b></p> <p><b>AGC 12/18</b></p> <p><b>AGC 13/18</b></p>	<p><b>INTRODUCTIONS</b></p> <p>Introductions from Committee members and officers were made.</p> <p><b>APOLOGIES FOR ABSENCE</b></p> <p>Apologies for absence were received from Cllr Barry Woodhouse, with Cllr Chris Barlow substituting.</p> <p><b>DECLARATIONS OF INTEREST</b></p> <p>There were no interests declared.</p>	
<p><b>AGC 14/18</b></p>	<p><b>MINUTES</b></p> <p>Consideration was given to the minutes of the meeting held on 25th July 2018.</p> <p>Cllr Charles Johnson inquired whether or not a report on the governance relationship between the Tees Valley Combined Authority and South Tees Development Corporation would be presented at this meeting as requested at the previous meeting. It was agreed that the content and outcome of Agenda Item 10 (South Tees Development Committee Audit &amp; Risk Committee Nomination) constituted such a report.</p> <p>The Chair requested that in future all acronyms featured in reports presented to the Committee be listed in full-length form at their first citation.</p> <p><b>Resolved:</b> The minutes were agreed as a true record.</p>	
<p><b>AGC 15/18</b></p>	<p><b>ACTION TRACKER</b></p> <p>Consideration was given to the Action Tracker, four out of five of the actions listed now being completed.</p> <p>Andrew Barber, Audit &amp; Risk Manager, reported that he had been unable to provide the committee with details of the time spent by the internal audit service on specific tasks as he was continuing to devise an appropriate mechanism for assessing and presenting this information.</p> <p>The Chair requested that this system be presented at the next meeting of the Committee.</p> <p>Cllr Bob Norton requested that consideration being given to a formal induction programme being developed for new committee members be added to the Action Tracker. This was agreed by the Committee.</p> <p><b>Resolved:</b></p> <ul style="list-style-type: none"> <li>• Details of the time spent by the internal audit service on specific</li> </ul>	

**AGC  
16/18**

- tasks be presented at the next meeting.
- Consideration of an induction programme for committee members be added to the Action Tracker.

**INTERNAL AUDIT PROGRESS REPORT**

Andrew Barber introduced a report providing members with an update of the work carried out by the Internal Audit Section and progress made against the Audit Plan 2018/19.

He confirmed that the Service had no recommendations to make with regards to areas where the auditing process has been completed, and that since the production of the report an audit of the Combined Authority Firewall arrangements has achieved full assurance.

He stated that the audit areas for which work had not started were scheduled for Quarter 4 due to the need for feedback to be collated first from other audit areas.

Members then held a lengthy discussion on the subject of improvements they wished to see made to the reporting of the Internal Audit process, with contributions from the Chair, Councillors Barlow, Norton and Johnson, and Chris White.

Members expressing a desire that future reports include:

- Start and End dates for auditing tasks.
- A RAG (red/amber/green) Rating System for indicating on whether progress in these areas was as timetabled.
- Assurance and evidence that auditing tasks related to functions delegated to Xentrall Shared Services related solely to the Tees Valley Combined Authority and not Stockton Borough Council and Darlington Borough Council.
- The relationship between the Internal Audit Report and the Corporate Risk Register.
- Audit Areas being segmented into "Complete", "Underway" and "To Begin".

Martin Waters, Head of Finance, Resources & Housing, proposed that a separate meeting between officers and members take place to discuss these proposals, with the Chair and Chris White representing the Committee.

The Chair queried where responsibility lay for the internal auditing of the South Tees Development Corporation. Martin Waters reported that a private sector provided had recently been appointed. Gareth Roberts, Senior Manager of Mazars, confirmed that this work had previously been undertaken on an interim basis by a Local Authority.

Councillor Bob Norton sought clarification as to cyber and information security arrangements for the Combined Authority, given that IT services are hosted by Stockton Borough Council. The Chair requested that a report on the topic be added to the Committee's Forward Plan.

Councillor Chris Barlow asked if a fuller version of the report, for



<p><b>AGC 17/18</b></p>	<p>example detailing how individual audit activities were carried out, was provided to the Combined Authority. Andrew Barber confirmed that such as report was circulated to senior managers.</p> <p>Councillor Bob Norton enquired about the testing process for implementation of the new payroll system, as detailed in the report. Andrew Bryson, Finance Manager, confirmed that this work was taking place and undertook to provide further details to the committee.</p> <p><b>Resolved:</b></p> <ul style="list-style-type: none"> <li>• A working group of officers and members be convened to discuss improvements to the reporting of Internal Audit Activities.</li> <li>• A report into Combined Authority cyber-security measures be added to the Forward Plan.</li> <li>• The Committee be provided with details of testing activities undertaken ahead of the implementation of the Authority’s new payroll system.</li> </ul> <p><b>CORPORATE RISK REGISTER</b></p> <p>Martin Waters introduced a report detailing the Tees Valley Combined Authority’s current Corporate Risk Register.</p> <p>The Chair requested that the Register in future include indications of which risks have been added or been otherwise amended since the last time this information was presented to the committee, with an indicator of whether or not the risk level had been elevated or reduced and that risks be grouped in thematic areas in future.</p> <p>Cllr Ann Marshall asked whether the Risk Register was reviewed annually. Martin Waters confirmed that it was a dynamic document, subject to frequent scrutiny by senior leaders.</p> <p>Cllr Charles Johnson requested that members be provided with the thresholds for various levels of risk, allowing members to better assess the severity of identified risks.</p> <p>Jonny Munby asked if the Adult Education Budget Risk Register reported to the committee at its last meeting should be incorporated into this register. The Committee took the view that only corporate level risks be included, but that individual risk registers for Combined Authority projects be periodically received – including devolution of the Adult Education Budget.</p> <p>Chris White requested that the register include details of ownership of the management of the relevant risks, the date of the last amendment to the risk, and a figure for net risk following the implementation of mitigating measures.</p> <p>Councillor Bob Norton requested that a narrative description of the likely outcome for the Combined Authority of the detailed risks being realised be incorporated into the report.</p>	
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<p><b>AGC 18/18</b></p>	<p>Councillor Chris Barlow sought clarification for how risk levels were set, and how much oversight was given for what appear to be subjective decisions.</p> <p>Martin Waters proposed that in light of queries from the committee, a briefing be provided for members ahead of the next committee meeting explaining the Risk Register process and framework in greater detail. Chris White recommended that following that meeting the committee should conduct a deep dive into one or two specific risks identified in the register at each committee meeting.</p> <p><b>Resolved:</b></p> <ul style="list-style-type: none"> <li>• Members receive a briefing on the Combined Authority Risk Register Framework ahead of the next full meeting of the Committee.</li> <li>• Requests for changes to the presentation of the Risk Register be communicated to the relevant officers.</li> <li>• Future committee meetings address individual risks identified on the register in greater detail.</li> </ul> <p><b>EXTERNAL AUDIT ANNUAL LETTER</b></p> <p>Gareth Roberts introduced the Annual Letter by reminding the Committee that although national audit standards required that this letter be presented to the Committee, it contained no new information to that which had been previously provided. He reiterated that the External Auditors were satisfied with Combined Authority financial arrangements in all significant respects.</p> <p><b>Resolved:</b> The Committee received and noted the External Audit Annual Letter.</p>	
<p><b>AGC 19/18</b></p>	<p><b>TREASURY MANAGEMENT ANNUAL REPORT</b></p> <p>Andy Bryson, Finance Manager, introduced the report, drawing the committee's attention to CIPFA requirements that the Combined Authority in future produce an Annual Capital Strategy, and that the Combined Authority's investments had yielded returns of close to £400,000 in the past financial year.</p> <p>He clarified that a compliance breach detailed in the report related to funds placed in the Authority's transactional account in order to cover payments being made using BACS over the Christmas period. Chris White suggested that a mechanism be developed in order to report technical compliance breaches such as this, which are "pre-approved and well-considered".</p> <p><b>Resolved:</b></p> <ul style="list-style-type: none"> <li>• The Committee note the Treasury Management Annual Report.</li> </ul>	
<p><b>AGC 20/18</b></p>	<p><b>SOUTH TEES DEVELOPMENT CORPORATION AUDIT &amp; RISK COMMITTEE: NOMINATION OF REPRESENTATIVE.</b></p>	

<p><b>ACG 21/18</b></p>	<p>John Hart, Governance and Scrutiny Officer, introduced a report detailing the constitutional requirement that the Committee nominate a representative to serve on the Audit &amp; Risk Committee of the South Tees Development Corporation.</p> <p><b>Resolved:</b></p> <ul style="list-style-type: none"> <li>• Councillor Bob Norton was nominated to represent the Committee.</li> </ul> <p><b>FORWARD PLAN</b></p> <p><b>Resolved that:</b></p> <ul style="list-style-type: none"> <li>• Additional items discussed at the meeting to be added to the current forward plan;</li> <li>• The forward plan was noted.</li> <li>• John Hart undertook to diarise future meetings of the committee, and to circulate dates to members.</li> </ul> <p><b>DATE OF NEXT MEETING</b></p> <p>The date of the next meeting to be held at Cavendish House on 29<sup>th</sup> November 2018 was noted.</p>	
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Signed.....Cllr Nicola Walker (Chair)

Date.....

**TEES VALLEY COMBINED AUTHORITY AUDIT & GOVERNANCE COMMITTEE - ACTION TRACKER –2018**

<b>Meeting</b>	<b>Item</b>	<b>Action</b>	<b>Owner</b>	<b>Target Date</b>	<b>Update</b>
1 <sup>st</sup> Dec. 2017	Internal Audit Report	A summary of recommendations and an Exec Summary be included in the future	SBC		Actioned
1 <sup>st</sup> Dec. 2017	Corporate Risk Register	A&G to be included under current controls for Risk Ref CO2	TVCA		Actioned
31 <sup>st</sup> May 2018	Corporate Risk Register	Committee requested that political uncertainty and changes to senior management be added to the Corporate Risk Register	TVCA		Actioned
31 <sup>st</sup> May 2018	Internal Audit Report	Committee requested details of time spent on specific tasks by the Internal Audit Service	SBC	<b>29<sup>th</sup> November 2018</b>	Actioned – new format of report to be presented to committee.
31 <sup>st</sup> May 2018	Annual Financial Statements	Committee requested further details of Authority's approach to investment of resources	SBC		Actioned: Presentation given by SBC Finance Manager at meeting of 28 <sup>th</sup> September.
25 <sup>th</sup> July 2018	Corporate Risk Register	Committee requested further details of governance arrangements for South Tees development Corporation.	STDC		Actioned: Member of committee nominated to serve on STDC Audit & Risk of Committee.
27 <sup>th</sup> September 2018	Action Tracker	Committee requested that consideration be given of a formal introduction program for committee members, detailing TVCA audit framework.	TVCA	<b>28<sup>th</sup> January 2019</b>	
27 <sup>th</sup> September 2018	Internal Audit Report	Committee requested a meeting between officers and members be convened to discuss improvements to the reporting of Internal Audit activities	TVCA/SBC	<b>29<sup>th</sup> November 2018</b>	Actioned – new format of report to be presented to committee.
27 <sup>th</sup> September 2018	Internal Audit Report	Committee requested a report be presented on TVCA cyber-security arrangements	TVCA		<i>Added to the Forward Plan</i>
27 <sup>th</sup> September 2018	Internal Audit Report	Committee requested details of testing activities undertaken before the implementation of the new corporate payroll system.	SBC		Actioned: Details provided to committee by email on Thursday 4 <sup>th</sup> October 2018.

27 <sup>th</sup> September 2018	Corporate Risk Register	Committee requested receipt of the Risk Register for the Adult Education Devolution Plan.	TVCA	<b>29<sup>th</sup> November 2018</b>	
27 <sup>th</sup> September 2018	Corporate Risk Register	Committee requested presentational changes to the Corporate Risk Register received by committee.		<b>28<sup>th</sup> February 2019</b>	<i>To be raised with relevant TVCA officers.</i>

## **AGENDA ITEM 6**

### **REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE**

**29 NOVEMBER 2018**

### **REPORT OF THE HEAD OF FINANCE AND RESOURCES**

#### **CORPORATE RISK REGISTER**

##### **SUMMARY**

This report presents the Tees Valley Combined Authority Corporate Risk Register as at November 2018. The risk register is reviewed on a regular basis by senior management and sets out the key corporate risks that have been identified,

##### **RECOMMENDATIONS**

It is recommended that Audit and Governance Committee:

- a. Consider the risk analysis as set out in Risk Register;
- b. Receive a report at its next meeting from the Head of Finance and Resources that sets out proposals regarding arrangements for assurance on corporate risks.

##### **DETAIL**

1. This report presents the Tees Valley Combined Authority Corporate Risk Register as at November 2018. The risk register is prepared in accordance with the adopted Risk Management Strategy and is reviewed on a regular basis by senior management. The risk register sets out the:
  - key corporate risks that have been identified;
  - type of risk e.g. legal, reputational, financial;
  - consequences if the risk is realised;
  - risk owner;
  - controls in place to manage the risk;
  - net risk score determined by probability and impact;
  - additional controls to be put in place and tracking implementation.
2. An issue previously raised by Audit and Governance Committee is the extent of assurance in place regarding the corporate risks faced by the Combined Authority.

This paper recommends to the Committee that a paper is prepared by the Head of Finance and Resources to be presented to the next meeting. It is intended that the paper will review the existing assurance framework for key risks and make recommendations as appropriate. This will include a review of where the Committee currently receives assurances and which areas need to be strengthened.

### **FINANCIAL IMPLICATIONS**

3. There are no direct financial implications arising from this report.

### **LEGAL IMPLICATIONS**

4. There are no direct legal implications arising from this report.

### **RISK ASSESSMENT**

5. This content of this report is categorised as low to medium risk.

### **CONSULTATION**

6. None required.

**Name of Contact Officer: Martin Waters**  
**Post Title: Head of Finance and Resources**  
**Email: [martin.waters@teesvalley-ca.gov.uk](mailto:martin.waters@teesvalley-ca.gov.uk)**  
**Telephone Number: 01642 526527**

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C01	Failure to secure agreement on the future investment priorities. (DELIVERY)	<ul style="list-style-type: none"> <li>• Delay in agreeing and approving projects to go into Investment Programme, potentially affecting spend</li> <li>• Impacts TVCA's reporting on progress to Government</li> <li>• Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding for projects</li> <li>• Failure to achieve SEP targets and outcomes</li> <li>• Reputational damage</li> </ul>	Investment Director/ Managing Director	<ul style="list-style-type: none"> <li>• TVCA Cabinet has overall responsibility for developing &amp; delivery of SEP, investment decisions and allocation of resources.</li> <li>• Proposals developed at early stage with Leaders &amp; Mayor, LEP members, chief officers, partners and Government departments</li> <li>• Agreement to Investment Plan</li> <li>• Investment report on every Cabinet agenda as standing item</li> <li>• First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed</li> <li>• Additional EOIs reviewed as received</li> <li>• Oversight by TV Management Group</li> <li>• 6 month review of Investment Plan undertaken</li> <li>• Investment Plan reviewed as part of budget process - approved at Cabinet spring 2018</li> <li>• Reviewed current commitments and future pipeline, discussed prioritisation of spend to 2021, discussion ongoing.</li> </ul>	5	4	20	+11	<ul style="list-style-type: none"> <li>• Conclusion of prioritisation discussion and agreement of programme</li> <li>• Preparation of 10 year Investment Plan</li> <li>• Terms of Reference of Tees Valley Management Group under review along with Terms of Reference of Thematic Groups</li> </ul>	Nov-18 Nov-18	Prioritisation discussions held, revised pipeline being prepared pending final decisions and 10 year Investment Programme in preparation. Action plan in preparation for when programme has been agreed, to make sure projects are developed and come forward for approval as efficiently as possible.	Feb-19
C02	Impact of Brexit including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy; in particular uncertainty on UK successor regime to ESIF funding (UKSPF) and the loss of Local Growth Funding. (FINANCIAL)	<ul style="list-style-type: none"> <li>• Loss of funding for Tees Valley compared to previous ESIF position</li> <li>• Failure to maximise opportunities for funding for Tees Valley under replacement arrangements</li> </ul>	Strategy Director/ Investment Director	<ul style="list-style-type: none"> <li>• Ongoing engagement with Leaders &amp; Mayor, Chief Officers and Government departments</li> <li>• Continuation of focus on TVCA delivery of objectives and SEP</li> <li>• Secured ESIF guarantee from Government</li> <li>• Engagement with Government on future funding plans post Brexit, including tracking progress with development of proposed UK Shared Prosperity Fund</li> </ul>	4	3	12	+3	<ul style="list-style-type: none"> <li>• Liaison with other CAs/LEPs</li> <li>• Keep under review</li> </ul>	Ongoing	Regular liaison with Government on progress with UK Shared Prosperity Fund.	Feb-19



Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C03	Failure to secure sufficient additional resources to fund proposed activity. (FINANCIAL)	<ul style="list-style-type: none"> <li>Impacts ability to deliver SEP targets and outcomes</li> <li>Reputational damage</li> </ul>	Investment Director/ Managing Director	<ul style="list-style-type: none"> <li>Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Cabinet</li> <li>Submission of high calibre bids for external funding</li> <li>Identifying opportunities for efficiency and greater impact</li> <li>Ongoing review of EZ income potential</li> <li>Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits</li> <li>Investment prioritisation exercise undertaken</li> </ul>	4	3	12	+3	<ul style="list-style-type: none"> <li>Mayor to meet with Government Ministers as required/on specific projects</li> <li>Investments identified in Local Industrial Strategy need to feed into Investment Plan and other external sources</li> <li>Progress with external funding bids to be reported regularly to TVMG</li> </ul>	Ongoing	Prioritisation exercise under way and 10 year Investment Plan in development.	Feb-19
C04	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation. (FINANCIAL)	<ul style="list-style-type: none"> <li>Delay to delivery of STDC planned development</li> <li>Potential effect on TVCA's other funding priorities</li> <li>TVCA cannot itself meet funding requirements</li> <li>Loss of potential inward investment into Tees Valley, and other opportunities to meet SEP objectives</li> <li>Reputational damage</li> </ul>	Managing Director (Finance Director of STDC)	<ul style="list-style-type: none"> <li>STDC established as legal entity 1st Aug 2017</li> <li>Official launch 23rd August 2017</li> <li>STDC Constitution requires significant financial matters to be referred to TVCA Cabinet</li> <li>TVCA FD is also FD of STDC</li> <li>STDC Board meeting regularly</li> <li>Continued dialogue with Government</li> <li>£123m funding secured in 2017 Budget</li> <li>£14m in 2018 budget</li> </ul>	4	3	12	-	<ul style="list-style-type: none"> <li>New Chief Exec of STDC to be recruited</li> </ul>			Feb-19
C05	Failure to provide sufficient capacity to deliver TVCA functions. (DELIVERY)	<ul style="list-style-type: none"> <li>Delays in terms of TVCA business being transacted, decisions being made and funding being defrayed</li> <li>Potential loss of investment into Tees Valley</li> <li>Delays in achieving SEP outputs and outcomes</li> <li>Potential effect on ability to bid credibly for additional funding</li> <li>Key staff may decide to leave organisation</li> <li>Reputational damage</li> </ul>	Managing Director	<ul style="list-style-type: none"> <li>Oversight by Senior Management Team</li> <li>Reviews being implemented</li> <li>Recruitment under way in key areas (eg AEB devolution)</li> <li>Review as part of budget work 2019/20</li> </ul>	4	3	12	+3	<ul style="list-style-type: none"> <li>New Chief Executive to review capacity &amp; functions once appointed</li> </ul>	Mar-19	Recruitment process underway.	Feb-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C06	Failure to build and maintain relationships with key partners. (REPUTATIONAL)	<ul style="list-style-type: none"> <li>Potential impact on LEP and its operation</li> <li>More difficult to maximise opportunities to access significant external funding which requires a partnering approach</li> <li>Delays to agreement and delivery of Investment Programme</li> <li>Risk to achievement of SEP targets and outcomes</li> <li>Reputational damage</li> </ul>	Managing Director/ Senior Leadership Team	<ul style="list-style-type: none"> <li>Regular Cabinet meetings (including LEP Board members)</li> <li>Regular portfolio holders meetings and briefings</li> <li>Directors/Heads meeting LA officers regularly</li> <li>MOU agreed with Teesside University</li> <li>Regular liaison with other key partners eg. CPI, MPI, TWI, Digital City</li> <li>Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF, TfN etc</li> </ul>	4	3	12	+3	<ul style="list-style-type: none"> <li>Review of TV Management Group architecture, terms of reference and membership</li> <li>Design and commission a perception study</li> <li>Clarify TVCA's "key customer account management" approach</li> </ul>	Dec-18 Nov-18	MOU being developed with Durham University.  Visions and values work underway.	Feb-19
C07	Uncertainty within the economy and/or the political environment (DELIVERY)	<ul style="list-style-type: none"> <li>Potential delay to agreement of TVCA priorities and approval of any additional funding</li> <li>Potential delay in delivering SEP targets and outcomes</li> <li>Reputational damage</li> </ul>	Managing Director	<ul style="list-style-type: none"> <li>Engagement with local MPs</li> <li>Engagement with local authorities</li> </ul>	4	3	12	+2	<ul style="list-style-type: none"> <li>Engagement with national opposition party</li> </ul>	Ongoing		Feb-19
C08	Failure to pass the first Gateway Review. (FINANCIAL) See sub risks A & B below	<ul style="list-style-type: none"> <li>Increased workload/resources required to address issues</li> <li>Affects ability to plan going forward</li> <li>Risk to future funding of organisation</li> <li>Risk to delivery of Investment Programme and SEP targets/outcomes</li> <li>Significant reputational damage</li> </ul>	Investment Director/ Strategy Director	<ul style="list-style-type: none"> <li>Bi-monthly meeting with Government officials and on-going dialogue</li> <li>Assurance framework (monthly conversation with BEIS)</li> <li>Internal Audit arrangements</li> <li>Devolution deal proposals</li> <li>Annual conversations with Government</li> </ul>	5	2	10	-	<ul style="list-style-type: none"> <li>Mayor to meet with Government Ministers</li> <li>Funding cannot progress to final approval unless it meets the Assurance Framework process. To be signed of by Investment Director</li> <li>Staff to be trained on the Assurance Framework to ensure it is being adhered to</li> <li>Staff to be fully engaged in development of logic models and the evaluation plan</li> <li>Assurance Framework being reviewed - awaiting guidance from Government</li> <li>SQW (Government consultants) to prepare Tees Valley baseline</li> </ul>	Ongoing  Nov-18 Sep-18	Linked to C06, C07, C08.  TVCA is currently providing information to SQW on completed projects and projects in delivery that are spending devolution funds - facilitating SQW review.	Feb-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C08-A	<ul style="list-style-type: none"> <li>Failure to deliver the existing pipeline of funding commitments and achieve targeted spend. (DELIVERY)</li> </ul>	<ul style="list-style-type: none"> <li>Impacts TVCA's reporting on progress to Government</li> <li>Adverse effect on 5 year Government conversation &amp; ability to bid successfully for other funding</li> <li>Failure to achieve SEP targets and outcomes</li> <li>Reputational damage</li> </ul>	Investment Director	<ul style="list-style-type: none"> <li>Creation and utilisation of Development Fund to provide upfront investment in feasibility work; also advance funding mechanism on appropriate projects</li> <li>Programme monitoring and review</li> <li>Assurance Process in place</li> <li>Strengthened capacity with addition of new Finance Director and Legal &amp; Commercial Manager posts</li> <li>Investment Plan Risk Register operational</li> <li>Regular Investment Panel meetings</li> <li>Investment Plan reviewed as part of budget process - approved at and regularly reported to Cabinet</li> <li>Regular liaison with BEIS</li> <li>Monthly spend reviews in place</li> </ul>	5	2	10	+1	<ul style="list-style-type: none"> <li>Assurance Framework to be revised - Government guidance now received</li> <li>Revised EOI and business case process/documentation review</li> <li>Role of TVMG in approval cycle/process is being strengthened</li> <li>Prioritisation exercise under way - focus on projects with greatest potential to deliver SEP outcomes</li> <li>Processes review under way - including agreement/assurance of activity at programme level, with lighter-touch call off of smaller projects</li> </ul>	Autumn-18 Nov-18	<ul style="list-style-type: none"> <li>Work ongoing on Assurance Framework compliance - Government guidance received.</li> <li>On target to achieve spend this financial year - keep under review</li> </ul>	Feb-19
C08-B	<ul style="list-style-type: none"> <li>Failure to manage funding in order to deliver maximum value for money. (FINANCIAL)</li> </ul>	<ul style="list-style-type: none"> <li>Impacts TVCA's reporting on spend to Government - added VFM requirement is specifically referenced in Devolution Deal</li> <li>Investments not targeted to deliver outputs and outcomes required by SEP</li> <li>Adverse effect on 5 year Government funding conversation and ability to bid successfully for other funding</li> <li>Reputational damage</li> </ul>	Investment Director/ Head of Finance, Resources & Housing	<ul style="list-style-type: none"> <li>Investment Plan agreed and operational (with regular reporting to Cabinet)</li> <li>Creation and utilisation of Assurance Framework</li> <li>Interim Head of Finance in post</li> <li>Strategic Investment Team monitoring in place</li> <li>Investment Panel in place</li> <li>Investment Plan reviewed as part of budget process - approved at Cabinet</li> <li>Strategic Investment Team review - additional capacity in place</li> </ul>	4	2	8	+4	<ul style="list-style-type: none"> <li>Revised EOI and business case process/documentation review</li> <li>Assurance Framework under review - revised Government guidance received</li> <li>Role of TVMG in approval cycle/process is being strengthened</li> <li>Prioritisation exercise under way - focus on projects with greatest potential to deliver SEP outcomes</li> <li>Processes review under way - including agreement/assurance of activity at programme level, with lighter-touch call off of smaller projects</li> </ul>	Nov-18 Autumn-18	<ul style="list-style-type: none"> <li>Development of programme call-off processes is under way - to be discussed at TVMG in December</li> </ul>	Feb-19
C09	<ul style="list-style-type: none"> <li>Failure to detect fraud. (FINANCIAL)</li> </ul>	<ul style="list-style-type: none"> <li>Loss of funds that cannot be recovered and applied to required spend objectives</li> <li>Staff resources required to manage any instances</li> <li>Reputational damage</li> </ul>	Head of Finance, Resources & Housing	<ul style="list-style-type: none"> <li>Internal audit arrangements</li> <li>External audit arrangements</li> <li>Internal expenditure approvals process</li> <li>Assurance Framework for Investment</li> </ul>	5	2	10	-	<ul style="list-style-type: none"> <li>Review of internal expenditure process</li> <li>Additional staff training where appropriate</li> <li>Staff induction to be developed</li> <li>Review need for particular controls on specific new funding programmes</li> </ul>	Oct-18		Feb-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C10	Failure to deliver commitments entered into in the Tees Valley devolution deal (See C07 for delivery of projects which were part of devo deal) (DELIVERY)	<ul style="list-style-type: none"> <li>Impacts TVCA's reporting on progress to Government</li> <li>Adverse effect on 5 year Government conversation &amp; ability to bid successfully for other funding</li> <li>Reputational damage</li> </ul>	Managing Director	<ul style="list-style-type: none"> <li>Implementation Plan agreed with Government</li> <li>Annual Conversation with Government</li> <li>Bi-monthly meeting with Government officials and on-going dialogue/reporting</li> <li>Management of Business Plan</li> <li>Most activities from the devolution deal now form part of TVCA's day to day work eg transport priorities</li> <li>Undelivered/partially delivered devolution deal elements are subject to ongoing discussions with Government</li> <li>Investment Plan agreed and operational (with regular reporting to Cabinet)</li> <li>Creation and utilisation of Assurance Framework</li> <li>Investment plan reviewed as part of budget process - approved at Cabinet</li> </ul>	5	2	10	+1	<ul style="list-style-type: none"> <li>Revised Business Plan in preparation</li> <li>Revised EOI and business case process/documentation review</li> <li>Assurance Framework under review - revised Government guidance received</li> <li>Role of TVMG in approval cycle/process is being strengthened</li> </ul>	Dec-18	See C07 & C08 Investment projects specifically named in the Devolution Deal are either now in delivery or on the forward plan to come forward in the next few months.	Feb-19
C11	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed. (REPUTATIONAL)	<ul style="list-style-type: none"> <li>Confusion is possible in terms of relations with partners, businesses and residents</li> <li>Reputational damage</li> </ul>	Head of Communication	<ul style="list-style-type: none"> <li>Head of Communication &amp; Marketing appointed</li> <li>Communications plan in place</li> <li>Regular liaison with Mayor's office on Comms issues &amp; opportunities</li> </ul>	3	3	9	-	<ul style="list-style-type: none"> <li>Communication &amp; engagement strategy being developed</li> <li>Address through vision &amp; values work</li> </ul>	Nov-18	Draft strategy circulated for comment to be agreed by end Nov18	Feb-19
C12	Senior Officers leave the organisation. (DELIVERY)	<ul style="list-style-type: none"> <li>Insufficient senior resource to lead and manage the workload over a critical period</li> <li>Delays to delivery of Investment Programme</li> <li>Risk of not delivering against SEP targets and outcomes</li> <li>Loss of confidence by Government funding departments</li> <li>Resource not available to lead on funding bids</li> <li>Reputational damage</li> <li>Reduction in TVCA team morale</li> </ul>	Managing Director	<ul style="list-style-type: none"> <li>Interim MD appointed</li> <li>Regular SLT meetings</li> <li>Regular management one to ones</li> </ul>	2	4	8	-1	<ul style="list-style-type: none"> <li>Chief Executive to be appointed</li> <li>Vision &amp; values work underway - action plan to be developed</li> <li>New Chief Executive to review capacity &amp; functions once appointed</li> </ul>	Dec-18 Mar-19	Replacement for Head of Transport to be recruited. Recruitment of Chief Executive underway.	Feb-19

Corporate Risk 2018/19

Ref	Risk description/ Category	Consequences	Owner	Current Controls	Net Risk Score			Change since last Q	Further Controls Required	Deadline	Comments	Review Date
					Impact (1-5)	Probability (1-5)	Score (1-25)					
C13	Failure to agree a Local Industrial Strategy with Government. (REPUTATIONAL)	<ul style="list-style-type: none"> <li>• Failure or delay causes reputational damage</li> <li>• Potential impact on ability to bid for national funding</li> <li>• Potential impact on regeneration of STDC site</li> <li>• Potential impact on SEP delivery as a consequence</li> </ul>	Strategy Director	<ul style="list-style-type: none"> <li>• Detailed planning/timetabling for the development of the Local Industrial Strategy is being undertaken</li> <li>• Partners to support development of Local Industrial Strategy are being identified</li> </ul>	4	2	8	-	<ul style="list-style-type: none"> <li>• Workshops with LEP and Leaders to take place throughout process</li> <li>• Comms engagement to be planned</li> </ul>	Nov-18	Deadline for locally agreed draft - May19	Feb-19
C14	Failure to operate within TVCA constitution. (LEGAL)	<ul style="list-style-type: none"> <li>• TVCA decisions are ultra vires</li> <li>• Risk of legal challenge, leading to delay to delivery of TVCA programme(s) and costs</li> <li>• Reputational damage</li> </ul>	Managing Director/ Monitoring Officer	<ul style="list-style-type: none"> <li>• Updates and reports to TVCA Board</li> <li>• Briefing and engagement with Constituent Authorities' members</li> <li>• Public Consultation undertaken</li> <li>• A&amp;G Committee in place and meeting regularly</li> <li>• O&amp;S Committee in place and meeting regularly</li> <li>• Additional independent members recruited to A&amp;G Committee</li> <li>• Involvement of Monitoring Officer at Cabinet and in review of papers/decisions</li> <li>• Recruitment of in-house legal resource (Legal &amp; Commercial Manager)</li> </ul>	5	1	5	+1	<ul style="list-style-type: none"> <li>• Legal &amp; Commercial Manager to see draft Cabinet reports in all cases</li> </ul>			Feb-19
C15	Failure to maximise influence at regional/national level. (REPUTATIONAL)	<ul style="list-style-type: none"> <li>• Missed opportunities to influence national and regional agendas to benefit Tees Valley</li> <li>• Potential impact on ability to bid for and get additional funding</li> <li>• Potential impact on delivery of SEP</li> </ul>	Managing Director/ Strategy Director	<ul style="list-style-type: none"> <li>• LEP Meetings</li> <li>• LEP Network representation</li> <li>• Mayoral role</li> <li>• Membership of Transport for the North</li> <li>• Membership of NP11</li> </ul>	2	2	4	-	<ul style="list-style-type: none"> <li>• Continue scanning for potential issues &amp; opportunities to influence</li> <li>• Continue lobbying</li> <li>• Keep under review</li> </ul>	Ongoing	Head of Transport has left TVCA - new appointment needed and cover in the interim in terms of TfN and other arrangements	Feb-19

## AGENDA ITEM 7

### REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

29 NOVEMBER 2018

### REPORT OF THE CHIEF FINANCIAL OFFICER

## INTERNAL AUDIT PROGRESS REPORT

### SUMMARY

This report provides members with an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2018/19.

### RECOMMENDATIONS

It is recommended that:-

1. The current position as identified in the attached update report is noted.

### DETAIL

#### Background

1. Stockton-on-Tees Borough Council Internal Audit Services provide assurance to the Tees Valley Combined Authority and is an independent appraisal function established to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Authority has adequate accounting records and control systems.
2. This is managed through a Service Level Agreement which states SBC will provide an internal audit service to the combined authority at a cost which enables 20 audit days to be provided which forms part of a wider audit plan of 1,260 days.
3. It is a requirement of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015 that coverage should be sufficient to provide an opinion on the entire control environment.
4. To facilitate being able to provide sufficient coverage within the number of days provided for, assurance work on behalf of TVCA is delivered alongside wider assurance work for SBC & DBC which is determined by an audit risk assessment. Specific samples are tested for the combined authority. The time agreed for in the SLA equates to the additional time spent looking at these specific samples within the wider audit plan.

5. In addition to providing assurance through the wider audit plan risks specific to the combined authority are considered separately and a proportion of the 20 days is allocated to specific TVCA risks with the focus in this year's plan on the assurance framework plus an additional 15 days reviewing the management of the concessionary travel scheme.
6. Details of how each audit provides assurance against the combined authority's strategic risk register are detailed within the attached report.
7. A number of key support functions to the combined authority are delivered via SLAs by Xentrall Shared Services a public public partnership between Stockton Borough Council and Darlington Borough Council.

### **Current Position**

8. A plan of work was agreed with this committee on 28 February 2018. The service has in place an audit charter which outlines how the service will be delivered to the combined authority and was also agreed on 28 February 2018. Services are being delivered to the combined authority in-line with this charter.
9. The attached update report shows the current position in respect of the progress against the 2018/19 audit plan and the results of the work that has been completed. The plan is currently on schedule to be achieved, the work around the assurance framework was previously considered as amber with some difficulties being experienced in providing evidence to support the audit, this information has now been received and the audit is progressing.

### **FINANCIAL AND LEGAL IMPLICATIONS**

None

### **RISK ASSESSMENT**

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

### **COMMUNITY STRATEGY IMPLICATIONS**

None

### **CONSULTATION**

N/A

**Name of Contact Officer: Andrew Barber, Audit & Risk Manager**

**Telephone No: 01642 526176**

**Email Address: a.barber@stockton.gov.uk**

Background Papers (Unpublished documents that have been relied on, to a material extent in preparing the report and do not include sensitive information. If there are any such documents, which is likely to be rare, the author of the report should arrange for any such document(s) to be published on behalf of the TVCA and be available for inspection at the TVCA Offices)

- PLEASE NUMBER EACH PAGE OF THE REPORT AND ANY APPENDICES.
- EACH APPENDIX SHOULD BE REFERRED TO IN THE REPORT AND HIGHLIGHTED IN **BOLD PRINT**.
- ON COMPLETION OF THE REPORT PLEASE ENSURE THAT ALL TEXT IS BLACK AND THIS PAGE IS DELETED

**Members' Interests** (the text below is fixed and should not be altered by the author).

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

### **Disclosable Pecuniary Interests**

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 20** of the code.

Members are required to comply with any procedural rule adopted by the TVCA which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 21** of the code)



# **INTERNAL AUDIT AUDIT COMMITTEE UPDATE REPORT**

**2018/19**

# 1 AUDIT PROGRESS

1.1 The tables below show the summary position in respect of the audits delivered for the combined authority:

Status	No	%	Progress	No	%
Not Started	7	28	Red	0	0
On-Going	14	56	Amber	0	0
Complete	4	16	Green	25	100
	25	100		25	100

Opinion	Definition	No.	%
Full Assurance	A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.	4	100
Substantial Assurance	Overall there is a sound system of internal controls that are operating effectively. The system should achieve its objectives but there are areas where internal controls need to be improved.	0	0
Moderate Assurance	A reasonably sound system of internal controls is being applied, however, there are weaknesses which may put some of the system objectives at risk.	0	0
Limited Assurance	There is either a limited system of internal controls being applied, or there are significant weaknesses in the controls in place, which are posing a substantial risk to the achievement of system objectives.	0	0
No Assurance	The system of internal controls in place is failing and system objectives are not being met. Urgent management attention is required.	0	0
N/A	This classification covers audit work within a small part of a system. Providing an opinion on this work would misrepresent the system as a whole.	0	0
<b>Total</b>		<b>4</b>	

Priority	Definition	No.	%
Critical	Actions that must be taken immediately to manage significant risks that are likely to prevent the Authority achieving one or more of its corporate objectives.	0	0
High	Actions that should be taken as a matter of priority due to the issues identified posing a substantial risk to the achievement of service/system objectives.	0	0
Medium	Required actions to reduce the risk of systems failing to achieve their objectives.	0	0
Low	Beneficial to the improvement of internal controls, which will support the achievement of objectives.	0	0
<b>Total</b>		<b>0</b>	

1.2 Shown below is a list of all the audit engagements undertaken during the year together with an update on progress and the results of completed assignments.

### 2018/19 Audit Plan Current Position as at 05 November 2018

ID	Dept	Name	Status	RAG	Risk	Expec'd Start	Expec'd End	Estimated Hrs	Actual Hrs	Assurance	L	M	H	C
2660	Corporate	Officer Payments - Mileage	Complete	Green	3.1	05/03/2018	29/03/2019	4	4	Full Assurance	0	0	0	0
2651	Corporate	Anti-Fraud Management	On-Going	Green	15.2	01/04/2018	31/03/2019	4	1		0	0	0	0
2674	Xentrall	Payroll & Absence Recording	On-Going	Green	6.7	01/04/2018	30/03/2019	8	6		0	0	0	0
2617	Xentrall	Creditors	On-Going	Green	7.0	02/04/2018	31/03/2019	8	5		0	0	0	0
2634	Xentrall	Debtors	On-Going	Green	6.2	02/04/2018	29/03/2019	6	4		0	0	0	0
2665	Finance	VAT	On-Going	Green	4.8	02/04/2018	29/03/2019	5	3		0	0	0	0
2672	Xentrall	Firewalls	Complete	Green	0.4	04/06/2018	19/07/2018	3	3	Full Assurance	0	0	0	0
2663	Xentrall	Pension Payments/Early Retirement	Complete	Green	9.0	01/07/2018	31/08/2018	4	4	Full Assurance	0	0	0	0
2623	Xentrall	Change Control	Complete	Green	2.4	02/07/2018	24/08/2018	3	3	Full Assurance	0	0	0	0
2683	Investment Fund	Investment Plan	On-Going	Green	15	16/07/2018	21/12/2018	60	25		0	0	0	0
2633	Xentrall	Remote Access	On-Going	Green	0.6	06/08/2018	23/11/2018	2	1		0	0	0	0
2657	Xentrall	Virtualisation	On-Going	Green	1.0	06/08/2018	30/11/2018	3	2		0	0	0	0
2606	Corporate	Absence Management	On-Going	Green	3.6	01/10/2018	31/12/2018	6	2		0	0	0	0
2605	Finance	Concessionary Travel Scheme	On-Going	Green	4.2	22/10/2018	25/01/2019	100	9		0	0	0	0
2611	Xentrall	Cloud Computing	Not Started	Green	4.0	05/11/2018	22/02/2019	3	0		0	0	0	0
2645	Xentrall	Hardware Controls	On-Going	Green	0.3	13/11/2018	31/01/2019	3	1		0	0	0	0

2628	Xentrall	ICT Project Management	Not Started	Green	1.6	01/12/2018	31/12/2018	3	0		0	0	0	0
2667	Corporate	Recruitment Services	Not Started	Green	5.4	01/12/2018	28/12/2018	5	0		0	0	0	0
2664	Finance	Treasury Management	Not Started	Green	3.2	05/12/2018	25/01/2019	5	0		0	0	0	0
2661	Xentrall	Network Management	Not Started	Green	3.4	01/01/2019	31/03/2019	3	0		0	0	0	0
2613	Corporate	Business Continuity & Emergency Planning	On-Going	Green	15.0	01/01/2019	31/01/2019	3	1		0	0	0	0
2652	Xentrall	Bank Reconciliation	Not Started	Green	17.6	01/02/2019	31/03/2019	4	0		0	0	0	0
2637	Corporate	Information Management	Not Started	Green	16.0	04/02/2019	30/03/2019	4	0		0	0	0	0
2669	Corporate	Performance Management Framework	On-Going	Green	15.0	04/02/2019	29/03/2019	5	1		0	0	0	0
2602	Finance	Financial Management	On-Going	Green	15.4	01/03/2019	31/03/2019	5	2		0	0	0	0
								259	77					
								Days	35	10				

### 1.3 Audit Links to the Strategic Risk Register

Ref	Risk description	Current assessment			Current Controls	Audits Where Controls Will Be Tested
		Impact (1-5)	Probability (1-5)	Score (1-25)		
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	3	3	9	<ul style="list-style-type: none"> <li>On going engagement with Leaders &amp; Mayor, Chief Officers and Government departments</li> <li>Continuation of focus on TVCA delivery of objectives and SEP</li> <li>Secured ESIF guarantee from Government</li> <li>Engagement with Government on future funding plans post Brexit</li> </ul>	Financial management Business Continuity Planning

C02	Failure to operate within TVCA constitution	4	1	4	<ul style="list-style-type: none"> <li>• Updates and reports to TVCA Board</li> <li>• Briefing and engagement with Constituent Authorities members</li> <li>• Public Consultation undertaken</li> <li>• A&amp;G Committee in place and meeting regularly</li> <li>• O&amp;S in place and meeting regularly</li> <li>• Additional independent members recruited to A&amp;G Committee</li> </ul>	Features across all audits
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	<ul style="list-style-type: none"> <li>• STDC established as legal entity 1st Aug 17</li> <li>• Official launch 23rd August</li> <li>• Board meeting regularly</li> <li>• Continued dialogue with Government</li> <li>• £123m funding secured in Budget</li> </ul>	
C04	Failure to deliver commitments entered into in the devolution deal (See C07 for delivery of projects which were part of devo deal)	3	3	9	<ul style="list-style-type: none"> <li>• Implementation Plan agreed with Government</li> <li>• Annual Conversation with Government</li> <li>• Bi-monthly meeting with Government officials and on-going dialogue/reporting</li> <li>• Management of Business Plan</li> <li>• Most activities from the devolution deal now form part of TVCA's day to day work eg transport priorities</li> <li>• Undelivered/ partially delivered devolution deal elements are subject to ongoing discussions with Government</li> </ul>	Performance Management Framework
C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	<ul style="list-style-type: none"> <li>• Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board</li> <li>• Submission of high calibre bids for external funding</li> <li>• Identifying opportunities for efficiency and greater impact</li> <li>• Ongoing review of EZ income potential</li> <li>• Ongoing review of commercial potential of individual projects and TVCA borrowing potential/limits</li> <li>• Investment prioritisation exercise undertaken</li> </ul>	Financial Management Individual Grant Audits

C06	Failure to manage funding in order to deliver maximum value for money	2	2	4	<ul style="list-style-type: none"> <li>• Investment Plan agreed and operational (with regular reporting to Cabinet)</li> <li>• Creation and utilisation of Assurance Framework</li> <li>• Interim Head of Finance in post</li> <li>• Strategic Investment Team monitoring in place</li> <li>• Investment Panel in place</li> <li>• Investment plan reviewed as part of budget process - approved at Cabinet</li> <li>• Strategic Investment Team review - additional capacity</li> </ul>	Investment Plan Audit
C07	Failure to deliver the existing pipeline of funding commitments and achieve targeted spend	3	3	9	<ul style="list-style-type: none"> <li>• Creation and utilisation of Development Fund to provide upfront investment in feasibility work</li> <li>• Programme monitoring and review</li> <li>• Assurance Process in place</li> <li>• Strengthened capacity with addition of new Finance Director and Legal &amp; Commercial Manager posts</li> <li>• Investment Plan Risk Register operational</li> <li>• Regular Investment Panel meetings</li> <li>• Investment plan reviewed as part of budget process - approved at and regularly reported to Cabinet</li> <li>• Regular liaison with BEIS</li> <li>• Monthly spend reviews in place</li> </ul>	Investment Plan Audit

C08	Failure to secure agreement on the future investment priorities	3	3	9	<ul style="list-style-type: none"> <li>• TVCA Board has overall responsibility developing &amp; delivery of SEP, investment decisions and allocation of resources.</li> <li>• Proposals developed at early stage with Leaders &amp; Mayor, LEP members, chief officers, partners and Government departments</li> <li>• Agreement to Investment Plan</li> <li>• Investment report on every Cabinet agenda as standing item</li> <li>• First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed</li> <li>• Additional EOIs reviewed as received</li> <li>• Oversight by TV Management Group</li> <li>• 6 month review of Investment Plan undertaken</li> <li>• Investment plan reviewed as part of budget process - approved at Cabinet spring 2018</li> <li>• Reviewed current commitments and future pipeline, discussed prioritisation of spend to 2021.</li> </ul>	Performance Management Framework Investment Plan Audit Financial Management
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	<ul style="list-style-type: none"> <li>• Head of Communication &amp; Marketing appointed</li> <li>• Communications Plan in place</li> </ul>	
C10	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	<ul style="list-style-type: none"> <li>• Oversight by Senior Management Team</li> <li>• Reviews being implemented</li> </ul>	Absence Management Recruitment
C11	Failure to pass the first Gateway Review	5	2	10	<ul style="list-style-type: none"> <li>• Bi-monthly meeting with Government officials and on-going dialogue</li> <li>• Assurance framework</li> <li>• Internal Audit</li> <li>• Devolution deal proposals</li> <li>• Annual conversations with government</li> </ul>	Investment Plan Audit
C12	Failure to maximise influence at regional/national level	2	2	4	<ul style="list-style-type: none"> <li>• LEP Network representation</li> <li>• Mayoral Role</li> <li>• Membership of Transport for the North</li> <li>• Membership of NP11</li> </ul>	

C13	Failure to build and maintain relationships with key partners	3	3	9	<ul style="list-style-type: none"> <li>• Regular Cabinet meetings (including LEP Board members)</li> <li>• Regular portfolio holders meetings and briefings</li> <li>• Directors/ Heads meeting LA officers regularly</li> <li>• MOU agreed with Teesside University</li> <li>• Regular liaison with other key partners eg. CPI, MPI, TWI, Digital City</li> <li>• Regular liaison with other key government agencies (and others) eg. Homes England, Highways England, HLF, Arts Council, BLF, TfN etc</li> </ul>	Performance Management Framework
C14	Failure to detect fraud	5	2	10	<ul style="list-style-type: none"> <li>• Internal audit</li> <li>• External audit</li> <li>• Internal expenditure approvals process</li> <li>• Assurance Framework for Investment</li> </ul>	Counter Fraud Management Audit Reviews in General
C15	Political uncertainty	5	2	10	<ul style="list-style-type: none"> <li>• Engagement with local MPs</li> <li>• Engagement with local authorities</li> </ul>	
C16	Senior Officers leave the organisation	3	3	9	<ul style="list-style-type: none"> <li>• Interim MD appointed</li> <li>• Regular SLT meetings</li> <li>• Regular management one to ones</li> </ul>	Business Continuity Planning
C17	Failure to agree a Local Industrial Strategy with Government	4	2	8	<ul style="list-style-type: none"> <li>• Detailed planning/ timetabling for the development of the Local Industrial Strategy is being undertaken</li> <li>• Partners to support development of Local Industrial Strategy are being identified</li> </ul>	

#### 1.4 Progress against the Quality, Assurance & Improvement Programme

Risk	Objective	Control	Measure/Action	Responsibility	Current Position
Coverage is inadequate to enable an opinion on the	Ensure adequate audit coverage to enable an opinion on the entire	Audit portfolio covering all areas of council activity	Portfolio reviewed including head of service by 31 December	Audit & Risk Manager	Full review complete by 31 December 2017



entire control environment to be given.	control environment to be given	Audit Committee agree plan and charter based on risk	An audit plan and charter for a one year period agreed by 31 March.	Audit & Risk Manager	Audit Plan Agreed February 2018.
		Unqualified Annual Audit Opinion	Annual report produced by 30 June giving an independent audit opinion supported by sufficient, reliable, relevant and useful information.	Audit & Risk Manager	Annual report presented May 2018, opinion had no qualifications.
		Regular reporting to Audit Committee	Take an update report to each Audit Committee meeting	Audit & Risk Manager	Reports presented in March 2018
		Sufficient Audit Coverage	Percentage of audit portfolio covered in year – Target 45%	Audit & Risk Manager	86/150 = 57%
	To lead on the management of fraud risk within the authority	Maintain the Anti-fraud and corruption strategy	Reviewed and published by 30 June	Audit & Risk Manager	Published March 2018
		Review of matches identified by the National Fraud Initiative	High Priority matches reviewed within 3 months.  Remainder within 9 months.	Audit & Risk Manager	

	Understand the ethical framework of the organisation and contribute to the management of the framework	Auditors Conduct themselves appropriately	Auditors signed up to the Audit Code of Conduct – Target 100%	Audit & Risk Manager	100%
Audit work does not add value/improve processes for stakeholders.	The scope of audit work provides value to stakeholders	Clients satisfied with outcome	Overall Satisfaction rating – Target 90%	Audit & Risk Manager	100%
		Recommendations are implemented	3*/4* implemented by original due date – Target 90%	Audit & Risk Manager	
		Cost of assurance is appropriate	Cost of assurance audit completed within 15% of budgeted time – Target 90%	Audit & Risk Manager	
		Staff are suitably trained/qualified	Staff that have completed a minimum of 20 Hrs CPD – Target 100%	All	All recorded minimum of 20 Hrs during 2017/2018
	Maintain a high standard of communication	Reports are issued in a timely manner	Time to issue draft following completion of fieldwork – Target 14 Days	Audit & Risk Manager	

			Time to issue final following response by client – Target 3 days		
		The final report is accurate	Number of Final Reports re-issued – Target : < 5	Audit & Risk Manager	0 Reports Re-issued
Management of the audit process is ineffective.	Compliance with our agreed standards is maintained	Peer Review undertaken annually to assess compliance with PSIAS	Assessed as complying with the standards by a group of peers	Audit & Risk Manager	Compliant – Assurance provided by TVAAS
		Annual Training Day	Training day to be delivered by 31 December	Audit & Risk Manager	February 2018
		The SBC appraisals process is used to manage staff performance.	Appraisals to be conducted by 30 July each year and a review at least every 6 months.	Audit & Risk Manager	Appraisals all complete.
		Management team meetings	Minimum every 2 months	Audit & Risk Manager	Last Meeting: 5 November 2018
		Audit team meetings	Minimum every 2 months	Audit & Risk Manager	Last Meeting: 5 November 2018
		Audit manual is maintained	Annual review by 31 March	Audit & Risk Manager	On-going due to be revised processes as a result of system upgrade.

# Internal Audit Report

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Audit Name	Page
Change Control	1
Officer Payments - Mileage	2
Pension Payments/Early Retirement	3
Firewalls	5



### Change Control Executive Summary

The audit work undertaken covered appropriate aspects of ICT change control for Xentrall Shared Services ICT. Sample records selected for the audit work included changes undertaken for Stockton Borough Council and Darlington Borough Council, as well as changes to core ICT infrastructure designated as Xentrall changes.

The corporate controls in place for ICT Change Control have not been subject to a specific audit recently. Consequentially there were no previous audit recommendations to consider.

The scope of the audit work undertaken was as follows:

- Consider whether appropriate documented change control standards/procedures have been established.
- Establish whether responsibility for change control has been clearly assigned and an appropriate authorisation process has been put in place.
- Ascertain whether changes are adequately documented.
- Consider whether change control requests are effectively managed.

### Summary of Conclusions

The points identified during audit testing can be summarised as follows:

- Appropriate and comprehensive documented change control standards/procedures were considered to have been established.
- All appropriate parties have access to the standards/procedures and relevant training in their use is available to all appropriate parties as required.
- Responsibility for change control has been clearly assigned.
- There is an appropriate authorisation process in place for change requests.

The level of documentation specified for change control records was considered to be adequate. Change control requests were considered to be effectively managed.

### Audit Opinion:

**FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.**

### Recommendations

The following recommendations (where applicable) have been made to management all of which have been agreed and an action plan produced to implement.

No Recommendations Made

## Internal Audit Summary Report

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### Officer Payments - Mileage Executive Summary

The audit work undertaken covered aspects of the controls in place for the payment of mileage allowance claims to TVCA employees/officers.

The scope of the audit work undertaken in the current year was as follows:

- Consider the responsibilities for important aspects of the mileage allowance payment process and ascertain whether these responsibilities have been appropriately assigned and have been communicated to appropriate parties.
- Ascertain whether appropriate mileage allowance rates are in use and have been communicated to claimants and other appropriate parties.

Other aspects of the controls in place for the payment of mileage allowances to TVCA employees will be covered in future years in a rolling programme of audit work.

Two recommendations were made in the 2017/18 audit of Officer Payments - Mileage. Both of these recommendations are now considered to have been implemented as follows:

- The first recommendation related to splitting SBC/TVCA journeys over 75 miles to higher and lower rates. This recommendation has been implemented by the creation of an online tutorial video.
- The second recommendation related to system issues in the calculation of mileage claimed in excess of 8500 miles. This recommendation has been implemented via a fix provided by the system supplier.

### Summary of Conclusions

The points identified during audit testing can be summarised as follows:

- The responsibilities for important aspects of the mileage allowance payment process were considered to have been appropriately assigned and communicated to appropriate parties.
- It was considered that the mileage allowance rates currently in use are correct with reference to relevant documentation, authorisation and legislation.

### Audit Opinion:

**FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.**

### Recommendations

The following recommendations (where applicable) have been made to management all of which have been agreed and an action plan produced to implement.

No Recommendations Made

### Pension Payments/Early Retirement Executive Summary

#### Background & Scope

Xentrall HR are responsible for the administration in respect of payments made on behalf of employees and employers with regards to the DBC, SBC, TVCA, Teachers and NHS Pension Schemes.

#### The scope of the audit was to ensure the following:-

- To ensure that there are documented procedures and policies in place which are available to all appropriate officers so that agreed processes are followed when undertaking critical activities, in order to prevent placing people and service delivery at risk.
- To ensure that all employees and employers pension contributions & early retirement calculations are correct based on current, accurate and complete information, which complies with all relevant criteria.
- To ensure that all relevant information is easily accessible, safeguarded and shared appropriately.

#### Executive Summary

Overall a sound system of controls was found to be in place and no recommendations have been made.

#### Summary of Conclusions

The points identified during audit testing can be summarised as follows:

- Xentrall Payroll procedures for both DBC and SBC are in place but are both out-of date and will require bringing up-to-date, in accordance with the implementation of the new Payroll and HR system Resource-Link which is due to go 'live' in November 2018.
- All officers involved in the audit displayed a good knowledge of the procedures in place for pension deductions and retirement benefits to ensure continuity in the absence of key staff.
- Employee and employer contributions are being deducted at the correct rate.
- Pensionable pay is calculated correctly, based on the PSE element the type of payment was for.
- Early retirement notifications are processed accurately and timely submissions are made to the relevant pension fund administrator.
- Monthly employee and employer contributions paid to the relevant pension fund administrator are accurately calculated and submitted in a timely manner.
- Following guidance received from the pensions administrator, automatic enrolment as part of the transitional delay process was not applied to staff in October 2017, who had previously 'opted-out' of joining a pension scheme.
- For additional voluntary contributions and miscellaneous payments made by officers, these are accurately made and supporting correspondence was sighted for each, wherever possible.
- Electronic and manual information is held securely, with access restricted to appropriate officers only.
- Information published to provide guidance to staff in respect of early retirement and pension payments is well presented and easily understood.
- Staff are aware of the LGPS set retention period in respect of relevant information and adhere to this.
- The sharing of information with relevant parties is undertaken in accordance with appropriate data protection protocols.

#### Audit Opinion:

**FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.**

### Recommendations

The following recommendations (where applicable) have been made to management all of which have been agreed and an action plan produced to implement.

No Recommendations Made



## Internal Audit Summary Report

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### Firewalls

#### Summary of Conclusions

The points identified during audit testing can be summarised as follows:

- Overall, adequate and appropriate controls are considered to be in place in relation to the management and administration of the significant firewalls that are in place to protect the internal networks.

#### Audit Opinion:

**FULL ASSURANCE - A sound system of internal controls is currently being applied which will ensure the system achieves its objectives. Whilst not essential there may still be scope for these controls to be enhanced in some areas.**

#### Recommendations

The following recommendations (where applicable) have been made to management all of which have been agreed and an action plan produced to implement.

No Recommendations Made



# Audit progress report

## Tees Valley Combined Authority

November 2018





## CONTENTS

- 1. Audit progress**
- 2. National publications**

This document is to be regarded as confidential to Tees Valley Combined Authority. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 1. AUDIT PROGRESS

## Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor.

## Audit progress

**This is our first progress report** in respect of the 2018/19 audit year.

Since the Committee last met, we have:

- continued with our regular meetings with senior management and review of agenda papers and minutes, to inform our risk assessments for our 2018/19 audit.

We will present our Audit Strategy Memorandum to the Committee for discussion at its next meeting.

Our planning work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

## 2. NATIONAL PUBLICATIONS

	Publication/update	Key points
<b>National Audit Office (NAO)</b>		
1.	<b>Exiting the EU</b>	The NAO has published a number of reports on the exit from the EU during 2018.
2.	<b>Departmental overview – Ministry of Housing, Communities and Local Government</b>	Focus on three key areas: financial sustainability; housing and homelessness; and devolution and reorganisation.
3.	<b>Departmental overview – Local authorities</b>	The main body of the report covers: financial sustainability, housing and homelessness, and adult social care.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>		
4.	<b>Statement expressing concerns with Councils funding commercial investment through borrowing</b>	CIPFA statement and link to article.
5.	<b>Local Authority Leasing Briefing 3</b>	Key issue for local authorities and statement of accounts.
<b>Public Sector Audit Appointments Ltd (PSAA)</b>		
6.	<b>Report on the results of auditors' work 2017/18: Principal local government and police bodies</b>	Tees Valley Combined Authority (and Group) met the deadline. Report notes encouraging results across the country.
7.	<b>Consultation on 2019/20 scale of fees for opted-in bodies</b>	2019/20 fees proposed to remain the same as 2018/19 for Tees Valley Combined Authority.
8.	<b>Oversight of audit quality, quarterly compliance reports</b>	No significant issues.

1. Audit progress

2. National publications

## 2. NATIONAL PUBLICATIONS

### 1. Exiting the EU, National Audit Office

The National Audit Office has produced a number of publications on the UK's exit from the EU, including:

- The UK border: preparedness for EU exit;
- Department for Environment, Food and Rural Affairs;
- Department for Transport;
- Consumer protection, competition and state aid; and
- Exiting the EU: the financial settlement.

[https://www.nao.org.uk/search/pi\\_area/exiting-the-eu/type/report](https://www.nao.org.uk/search/pi_area/exiting-the-eu/type/report)

### 2. Departmental overview: Ministry of Housing, Communities and Local Government (MHCLG), National Audit Office

The Departmental Overview is designed to provide a quick and accessible overview of the Department and its performance over the last year. The report focuses on the Department's responsibilities setting out how it is structured, how it spends its money, and its major programmes. It also covers key developments in its areas of work, including exiting the European Union, and findings from recent NAO reports.

The main body of the report focuses on three key areas: financial sustainability; housing and homelessness; and devolution and reorganisation. The report concludes by setting out future developments, risks and challenges impacting on MHCLG.

The report also includes a section on the Department for Exiting the EU (pdf page 8).

<https://www.nao.org.uk/report/departmental-overview-ministry-of-housing-communities-and-local-government-2017-18/>

### 3. Departmental overview: local authorities

The report summarises the work of local authorities, including:

- what they do and how they are organised;
- the system of accountability;
- where they get their funding and how they spend their money; and
- major programmes and developments across local authorities' main business areas and services.

The main body of the report covers: financial sustainability; housing and homelessness; and adult social care.

The overview addresses further developments in the sector, including those on 'fair funding', empty homes and the government's new Rough Sleeping Strategy will be driven by local authorities. It draws attention to the synergies required across local authorities and with MHCLG for the successful implementation of these programmes.

<https://www.nao.org.uk/report/departmental-overview-local-authorities-2017-18/>

## 2. NATIONAL PUBLICATIONS

### 4. Statement expressing concerns with Councils funding commercial investment through borrowing, CIPFA

The Committee may be interested to note the CIPFA statement issued recently expressing concerns around commercial investment. The statement raises concerns with potential practices related to borrowing to fund commercial investment. CIPFA confirm in the statement that they will be issuing further guidance on the issue shortly.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/statement-from-cipfa-on-borrowing-in-advance-of-need-and-investments-in-commercial-properties>

<https://www.publicfinance.co.uk/news/2018/10/cipfa-warns-councils-over-serious-commercial-activity-concerns>

### 5. Local Authority Leasing Briefing 3, CIPFA

This briefing focuses on discount rates, lessor accounting, disclosure requirements, concessionary leases – lessees and the measurement of the service concession arrangement (PFI/PPP) liability.

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/local-authority-leasing-briefings>

## 2. NATIONAL PUBLICATIONS

### 6. Report on the results of auditors' work 2017/18: Principal local government and police bodies, Public Sector Audit Appointments Limited

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers at 495 principal local government and police bodies for 2017/18.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 87 per cent of audited bodies received an audit opinion by the new deadline.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The most common reasons for auditors issuing non-standard conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates – 16 bodies;
- corporate governance issues – 12 bodies;
- financial sustainability concerns – 6 bodies; and
- procurement/contract management issues – 5 bodies.

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

### 7. Consultation on 2019/20 scale of fees for opted-in bodies, Public Sector Audit Appointments Ltd

Public Sector Audit Appointments (PSAA) has published its consultation on the 2019/20 scale of fees for principal local government bodies that have opted into the appointing person arrangements.

The consultation proposes that scale audit fees for 2019/20, the second year of the five-year appointing period, should remain the same as the fees applicable for 2018/19. PSAA will review and update its assumptions and estimates each year, and consult on scale fees for the following year.

<https://www.psaa.co.uk/audit-fees/2019-2020scaleoffees/>

### 8. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

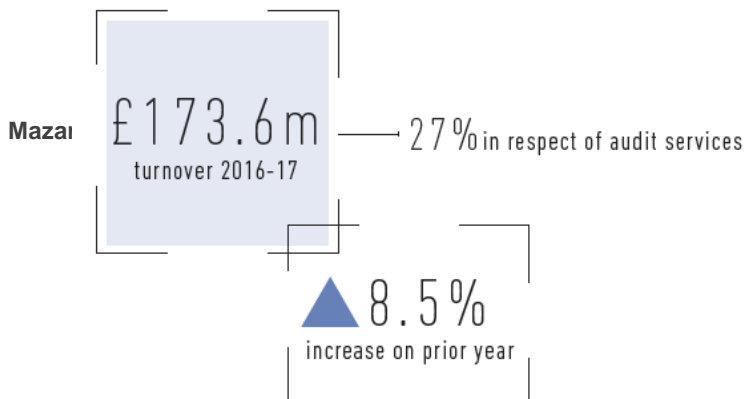
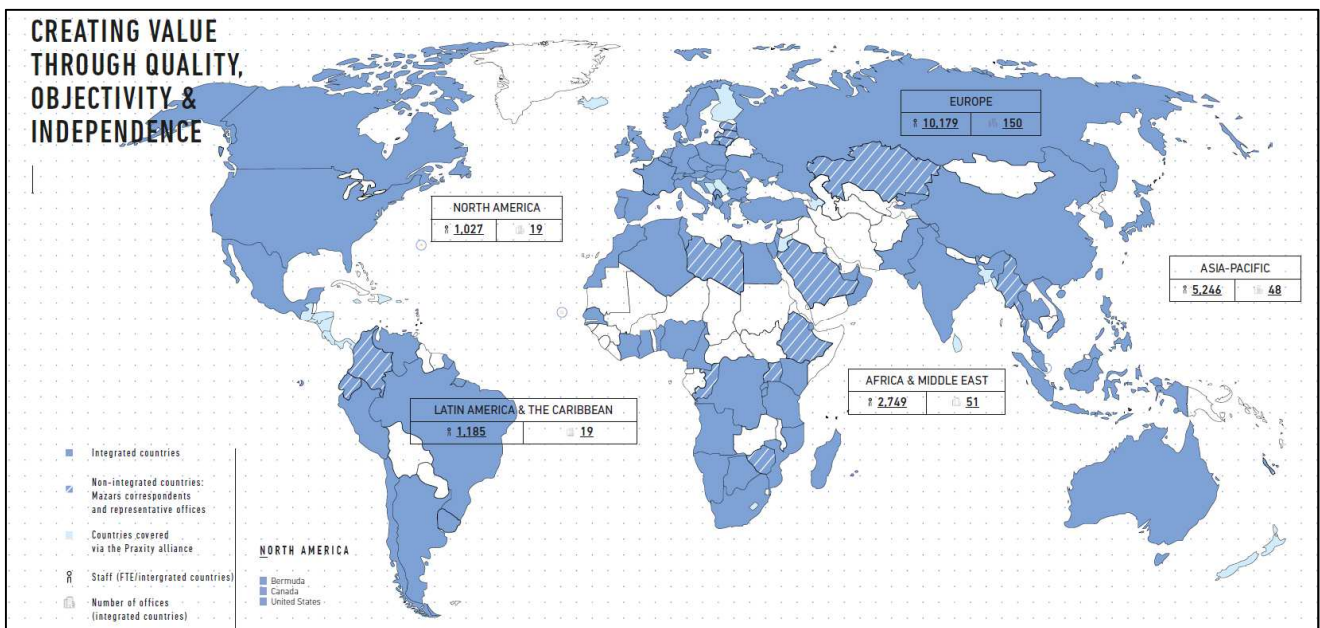
<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality>



# MAZARS AT A GLANCE

## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



## CONTACT

Partner: Mark Kirkham

Phone: 0113 387 8850

Mobile: 07747 764529

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

Senior Manager: Gareth Roberts

Phone: 0191 383 6323

Mobile: 07815 879557

Email: [gareth.roberts@mazars.co.uk](mailto:gareth.roberts@mazars.co.uk)

**AGENDA ITEM 9**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY AUDIT AND GOVERNANCE COMMITTEE**

**29 NOVEMBER 2018**

**REPORT OF HEAD OF FINANCE AND RESOURCES**

**TREASURY MANAGEMENT STRATEGY MID TERM REVIEW 2018/19**

**SUMMARY**

This report informs Members of the mid-year performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Authority in March 2018.

**RECOMMENDATION**

Members note the content of the report.

**Introduction**

The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2018/19 was approved at a meeting on 28<sup>th</sup> March 2018. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England the Ministry for Housing Communities and Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy for 2019/20, which is to be a summary document approved by Cabinet covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018-19 for approval by Cabinet.

## External Context

**Economic background:** Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29<sup>th</sup> March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

## Local Context

On 31<sup>st</sup> March 2018, the Authority had net investments of £91.0m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.18</b> <b>Actual</b> <b>£m</b>
General Fund CFR	0
Less: Other debt liabilities	0
<b>Borrowing CFR</b>	<b>0</b>

Less: Usable reserves	-94.93
Less: Working capital	3.93
<b>Net investments</b>	<b>-91.00</b>

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30<sup>th</sup> September 2018 and the change during the period is show in Table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.18 Balance £m</b>	<b>Movement £m</b>	<b>30.9.18 Balance £m</b>
Long-term borrowing	0.0	0.0	0.0
Short-term borrowing	0.0	0.0	0.0
<b>Total borrowing</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Long-term investments	0.0	0.0	0.0
Short-term investments	-65.0	-10.0	-75.0
Cash and cash equivalents	-26.0	-2.0	-28.0
<b>Total investments</b>	<b>-91.0</b>	<b>-12.0</b>	<b>-103.0</b>
<b>Net investments</b>	<b>-91.0</b>	<b>-12.0</b>	<b>-103.0</b>

The increase in total investments in table 2 represents funding received in advance of expenditure.

### **Borrowing Strategy during the period**

The Authority at the 30<sup>th</sup> September 2018 had received the relevant powers required to borrow but did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

### **Treasury Investment Activity**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Authority's average monthly investment balance ranged between £124m and £102m due to timing differences between income and expenditure. The investment position at the 30<sup>th</sup> September is shown in table 3 below.

Table 3: Treasury Investment Position

	<b>31.3.18 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.18 Balance £m</b>
Banks & building societies (unsecured)	-33.0	-7.0	-40.0
Government (incl. local authorities)	-35.0	0.0	-35.0
Money Market Funds	-23.0	-5.0	-28.0

<b>Total investments</b>	<b>-91.0</b>	<b>-12.0</b>	<b>-103.0</b>
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Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and due to the high level of investments we have continued diversification so that limits with counterparties set within the treasury management strategy were not breached. Funds were diversified between Money Market Funds, Banks and Local Authorities. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during the first part of 2018/19. The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>WAM* (days)</b>	<b>Rate of Return %</b>
31.03.2018	4.35	AA-	62%	35	0.48%
30.06.2018	4.53	A+	70%	66	0.62%
30.09.2018	4.17	AA-	66%	82	0.69%
<b>Similar LAs</b>	4.23	AA-	58%	60	1.21%
<b>All LAs</b>	4.1	AA-	60%	37	1.25%

\*Weighted average maturity

Due to the interest rate rise the Authority has been able to secure higher rates as the year progressed and initial investments matured. The intention during the remainder of 2018/19 is to invest funds over longer periods as opportunities arise which hopefully will mean the authority should achieve higher rates of return.

### **Non-Treasury Investments**

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Authority does not hold any such investments.

### **Compliance**

The Head of Finance and Resources reports that all treasury management activities undertaken during the first part of the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	Maximum in Year	30.9.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied? Yes/No
Borrowing	£0	£0	£75m	£100m	Yes
PFI and Finance Leases	£0	£0	£0	£0	Yes
<b>Total debt</b>	<b>£0</b>	<b>£0</b>	<b>£75m</b>	<b>£100m</b>	

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt never exceeded the operational boundary during the six-month period. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	Maximum in Year	30.9.18 Actual	2018/19 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£27.5m	£27.5m	£15m per organisation	Yes
UK Government / LA's	£55m	£35m	Unlimited	Yes
Any group of organisations under the same ownership	£0m	£0m	£15m per organisation	Yes
Any group of pooled funds under the same management	£0m	£0m	£37.5m	Yes
Negotiable instruments held in a broker's nominee account	£0m	£0m	£37.5m	Yes
Limit per non-UK country	£0m	£0m	£15m	Yes
Registered providers	£0m	£0m	£37.5m	Yes
Unsecured investments with building societies	£12.5m	£12.5m	£15m	Yes
Loans to unrated corporates	£0m	£0m	£15m	Yes
Money Market Funds	£66m	£28m	£75m	Yes

### Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed / interest payable was:

	30.9.18 Actual	2018/19 Limit	Complied?
Upper limit on fixed interest rate exposure	-£0.226m	£20m	Yes
Upper limit on variable interest rate exposure	-£0.116m	£20m	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	<b>30.9.18 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied?</b>
Under 12 months	0%	25%	0%	Yes
12 months and within 24 months	0%	40%	0%	Yes
24 months and within 5 years	0%	60%	0%	Yes
5 years and within 10 years	0%	80%	0%	Yes
10 years and above	0%	100%	0%	Yes

**Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	<b>2018/19</b>	<b>2019/20</b>	<b>2019/21</b>
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£60m	£40m	£20m
Complied?	Yes	Yes	Yes

### **Outlook for the remainder of 2018/19**

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2%



remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca:	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

## FINANCIAL IMPLICATIONS

1. Treasury Management Investment activity during the 6 months to 30<sup>th</sup> September 2018 generated income of £341.5k.

## RECOMMENDATIONS

2. Members note the content of the report.

## LEGAL IMPLICATIONS

3. None.

## RISK ASSESSMENT

4. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## CONSULTATION

5. Not applicable.

**Name of Contact Officer: Andy Bryson**

**Post Title: Finance Manager (Stockton Borough Council)**

**Telephone Number: 01642 528850**

**Email Address: [andy.bryson@stockton.gov.uk](mailto:andy.bryson@stockton.gov.uk)**

**Members' Interests** (the text below is fixed and should not be altered by the author).

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or

- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

### **Disclosable Pecuniary Interests**

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 20** of the code.

Members are required to comply with any procedural rule adopted by the TVCA which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 21** of the code)

**Teess Valley Combined Authority Audit & Governance Committee**

**Forward Plan 2018/19**

**Standing Items**

Minutes from the Previous Meeting  
Forward Plan  
Date and Venue of the Next Meeting

<b>Date</b>	<b>Venue</b>	<b>Item / Responsible Officer</b>
Thursday 28 <sup>th</sup> February 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Review of Committee Assurance Arrangements (Report from Head of Finance and Resources)  External Audit Progress Report  External Audit Strategy Memorandum (Audit Plan)  Corporate Risk Register  Treasury Management Strategy 2019/20 (including new requirement for Capital Strategy)  Internal Audit Report  Internal Audit Charter & Audit Plan  Anti-Fraud & Corruption Agreement  Adult Education Budget Update & Risk Register  Work Programme 2019/20
Thursday 30 <sup>th</sup> May 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	To be agreed at February meeting.
Thursday July 25 <sup>th</sup> 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	
Thursday September 27 <sup>th</sup> 2019	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	

To be arranged	Cyber-security report
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**Contacts:**

John Hart – Governance and Scrutiny Officer Tel – 01642 524 580

Email – [john.hart@teesvalley-ca.gov.uk](mailto:john.hart@teesvalley-ca.gov.uk)