

Minutes of the Audit and Standards Committee Meeting held on 13 June 2018

Present: Martyn Tittley (Chairman)

Attendance

Derek Davis, OBE	Jeremy Oates
Mike Davies	Carolyn Trowbridge (Vice-Chairman)
David Brookes	Bernard Williams
Colin Greatorex	Victoria Wilson
Syed Hussain	Jill Hood
Ian Lawson	Paul Northcott

Also in attendance:

Apologies: Michael Greatorex and Ross Ward

PART ONE

- 1. Apologies**
- 2. Declarations of Interest**

There were no declarations of interest.

3. Minutes of the Meeting held on 12 March 2018

RESOLVED – That the minutes of the meeting held on 12 March 2018 be confirmed and signed by the Chairman.

4. Internal Audit Outturn Report 2017-18

The interim Chief Internal Auditor outlined the work undertaken by Internal Audit in respect of the 2017/18 Annual Plan. The report contained the annual audit opinion for 2017/18. As part of internal audit's professional standards (UK Public Sector Internal Audit Standards) (PSIAS) the Internal Audit team are responsible for delivering the annual audit opinion and to report to those charged with governance in time to support the Annual Governance Statement. The standard sets out that the Annual Report must contain the overall audit opinion, a summary of the work that supports the opinion and a statement on conformance with PSIAS and the Local Government Application Note, highlighting areas of non-conformance.

The underlying principles to the 2017/18 Plan were outlined in the Audit Plan paper presented to and approved by Members of the Audit and Standards Committee on 26 June 2017. During the year the Plan does remain flexible, with some items being added to the Plan and other items being deferred. Internal Audit has its own performance

standard, that they must deliver 90 per cent of the audit work in the Plan. This target has been exceeded.

The role of management and internal audit in respect of the Plan was described. Audit opinions were awarded for individual systems and compliance within one of the following three categories:

- Substantial assurance
- Adequate assurance
- Limited assurance

Substantial and adequate assurance opinions are positive opinions. Limited assurance is a negative opinion. During the year the Committee had received a number of limited assurance reports.

In terms of how the Internal Audit team form their judgement of the overall audit opinion, work is categorised into six areas and these categories were described in paragraph 7 of the report. The interim Chief Internal Auditor went on to describe each of the 2017/18 Audit Plan Outcomes for each category of work.

In terms of the High Risk Auditable Areas work had been dominated during 2017/18 by the implementation of two new IT systems. In December 2015 a decision was taken to purchase Integra as the Finance Solution for both schools and the County Council via Entrust – known as My Finance. In June 2016 the decision was taken to purchase iTrent as the HR Solution for the County Council via a framework agreement set up by Worcestershire County Council. This system is known as MyHR. Both projects were successfully launched. My HR went live on 1 September 2017, followed by My Finance on 6 November 2017. The implementation of these two key fundamental IT systems was represented by two significantly large projects spanning most of 2017/18 known as the SAP replacement programme. Internal Audit categorised this as “high risk” and dedicated a number of days’ project support work to give ongoing and timely assurance to senior management over the new control environment. At the conclusion of the project a number of internal audit reports were produced giving a number of different opinions, detailed on a table on page 11 of the report. The high level issues arising from the reviews were detailed on pages 12-13 of the report. The response of senior management to the recommendations has been very positive with a number of the recommendations having implementation dates by September 2018.

Pages 12 and 13 of the pack detailed Areas for Improvement.

In the second table on page 13, five high level recommendations were set out in relation to the adequate assurance opinions.

On page 14, the table summarises the work undertaken in respect of the main financial systems and the audit opinions from 2014/15-2017/18 showing the direction of travel of those assurance opinions.

The table detailed two exceptions, Sales to Cash where limited assurance has been awarded (limited assurance was awarded in 2016/17) and for the main accounting

system – Bank Reconciliations and this has been given adequate assurance. The last time this was reviewed in 2015/16 the audit opinion given was “substantial “.

On page 15, the first table sets out those Areas for Improvement for the Sales to Cash systems review.

In respect of the adequate assurance opinions, these were awarded in respect of Procure to Pay and the Main Accounting System – Bank Reconciliations, although two high level recommendations had been made within these reviews relating to vendor amendments and the matching process of the bank statements to the cash book.

In regard to Other Systems Audit Reviews, these are reported by exception i.e. only those with limited assurance and/or those with a high level recommendation. In the year, there have been five limited assurance reports. There is one other system audit review where a limited assurance opinion has been awarded. However, this review is at draft report stage. This will be presented at a later meeting of the Committee. The Fairer Charging and Welfare Benefits area was reported at the March meeting.

Page 16 of the report sets out those high level areas of improvement found in the limited assurance reviews. With the exception of the Fairer Charging and Welfare Benefits review reported to the March meeting, the other systems limited assurance reviews will be discussed later in the agenda.

Within the category of Other Systems there have also been adequate assurance reports containing high level recommendations in regard to seven systems areas. These are detailed in the table on page 17 of the report.

A table of Compliance Reviews, also listed on page 17 of the report, was summarised. Comfort Funds and Educational Endowment Funds were listed and these are the audit of the accounts in respect of these areas. In all cases substantial assurance has been given to these pieces of work.

In regard to Financial Management in Maintained Schools, in 2017/18, as a result of the school payroll changes, a number of themed audit reviews of payroll services were undertaken by Internal Audit to provide assurance on the internal control environment operating in schools for payroll. There were two limited assurances given during the year, one relating to a high school and one relating to a primary school. Details were given on pages 18 and 19 of the report.

In respect of Special Investigations/Fraud and Corruption Work, a summary of all of the work undertaken during the year was given on pages 20 and 21 of the report and would be reported in more detail later in the agenda. Overall, there are only minor lapses in the application of control which leads to the increase risk of fraud.

The table on page 20 gives details of the financial loss from special investigations and the National Fraud Initiative (NFI) work that has recently been concluded. The financial value of the loss totals £105,232. In terms of the categorisation of loss, NFI losses are categorised as error and the £11,238 is categorised as fraud loss. Given the size of the organisation this is not considered material. In relation to the referrals to Internal Audit during the year, these have increased by 38 per cent. This has been partly due to

increased and improved methods of reporting by the internet and the e-form. There has been an increase in losses during the year and this has been due, in part, to the NFI work that has been undertaken. This has been successful in identifying losses. In terms of how Internal Audit work out the Special Investigations categorisation, this is worked out by assessing the value of the fraud losses and also any lapses in control. The overall score being awarded for this category is 90 per cent.

In summary there is a formal methodology for awarding the overall annual audit assessment, which was endorsed by the Committee in 2012. This methodology was used for 2017/18. For each category of audit work, an assessment is made against a benchmark of achieving a score of at least 90 per cent of the total number of audits performed being awarded an opinion of “adequate or above”. A simple pass/fail assessment is used to differentiate the overall opinion between “substantial, adequate and limited.” Depending on the number of categories given “pass” or “fail” this will give an overall assurance opinion i.e. if 6 out of 6 categories are given a “pass” this leads to a substantial assurance opinion being given; if 4 or 5 out of 6 categories are given a “pass” mark this leads to an adequate assurance opinion and if 3 or below out of the 6 categories are given a “pass”, this leads to a limited assurance opinion.

Overall, the audit assessment and scoring is in accordance with the methodology. One area has been given a ‘fail’ relating to the key risk areas, and this is because of the three limited assurance opinions given during the year. All other opinions have been given a 90 per cent or above pass rate. The chart at the bottom of page 22 sets out the audit opinions and compares these over the last five years.

The interim Chief Internal Auditor confirmed that based on the above assessment, an “adequate assurance” opinion has been given on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework for 2017/18. The year has been dominated by the replacement of SAP and the implementation of My HR and My Finance. Both the systems security aspects of these systems have been awarded limited assurance, whilst there are manual controls in place which are satisfactory, the automated control environment for both IT systems will be improved significantly when these high priority recommendations are implemented thereby ensuring the IT systems are used to their optimum levels. It was also noted that there were a number of areas for improvement in regard to the changing payroll control environment for the Council’s core payroll. The main financial systems element of the assessment has also achieved the benchmark, however the direction of travel for a few aspects has not been maintained and in particular, the level of outstanding debt continues to grow, exceeding the Council’s internal target and further improvements are required in the debt recovery process.

There has been a higher than normal level of limited assurance opinions. Clearly the high risk involved in replacing the SAP systems was one reason for this. This may be due to the implementation of two key IT systems and associated changes to processes. Another reason may be due to issues of capacity within the Council to undertake key activities. It is important that the key actions identified in these audits are addressed and implemented as agreed and progress monitored to ensure the necessary steps are taken to strengthen the control environment. This will be a key focus for the Internal Audit Plan in 2018/19.

A table at the bottom of page 23 of the report detailed the Key Performance Measures for the Internal Audit Service. The Service sets itself a target of 90 per cent of reports being issued to draft report stage for both systems and compliance audits. The Service has achieved this target for both systems audits and compliance audits and the Service has achieved 90 per cent or above for Quality Questionnaires issued to clients for systems audits and compliance audits.

In regard to Performance against the UK Public Sector Internal Audit Standards (PSIAS), at the last Committee it was reported that CIPFA had undertaken an assessment and the Service was awarded the highest standard, with one recommendation and three suggestions for improvement. It was confirmed that the work undertaken by the service in 2017/18 has been performed in accordance with PSIAS and there had been no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2017/18.

RESOLVED: That the report be received

5. Exclusion of the Public

RESOLVED – That the public be excluded from the meeting for following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated below:

- Exempt minutes of meeting held on 12 March 2018
- SAP Replacement Programme – Top Ten Risk Review and Limited Assurance Review
- Liberata Payroll System Review - Top Ten Risk Review and Limited Assurance Review
- Sales to Cash System Review - Limited Assurance Review
- Purchase Cards System Review - Limited Assurance Review
- Special Educational Needs Disability (SEND) Action Plan - Limited Assurance Review
- Mental Health – Recuperation of Health Contributions – Limited Assurance
- Deputyships - Limited Assurance Review
- Internal Audit Outturn Report 2017/18 – Appendix 2

PART ONE

(Reports in the section are open to the public)

15. Appointment of Independent Remuneration Panel Members 2018-19

The Chairman introduced this report. Members were asked to appoint five Members to sit on the Special Panel of the Audit and Standards Committee.

Members did question whether there was a need to appoint Members to the Panel to consider remuneration on an **annual** basis. The benefits were seen as continuity and reassurance to the public of an independent overview of Members' allowances.

The Chairman proposed that Councillor Trowbridge, Brookes, Oates, Wilson and Davis be appointed to sit on the Panel.

RESOLVED: That Councillor Trowbridge, Brookes, Oates, Wilson and Davis be appointed to sit on the Panel.

16. Audit Charter 2018

The interim Chief Internal Auditor presented the Audit Charter for 2018. The Charter had been presented to the Committee for approval. There were two minor changes in the Charter. The first change was in regard to fraud and corruption related work highlighted on pages 390/391 of the report and the Role of Senior Leadership Members highlighted on page 396 of the report.

RESOLVED: That the Audit Charter be accepted.

17. Internal Audit Strategy and Plan 2018 - 19

The interim Chief Internal Auditor gave a presentation on the proposed Internal Audit Strategy and Plan 2018/19 asking Members to note the balance between planned audit work in key risk areas, and any emerging items that may arise during the coming year. The Audit Team has sufficient resources to deliver the Audit Plan.

The Internal Audit Strategy is a key governance document. It is produced annually and is brought to the Committee for approval each year.

The Strategy sets out the risk assessment process that the Council has adopted to produce their Internal Audit Plan. There are number of key principles that the Team adopt when producing the Plan. The Plan also explains the Audit Team resources.

The methodology used to produce the Internal Audit Plan was reviewed as part of the External Quality Assessment and was positively reported upon by the external assessor.

There are a number of audit areas identified and as part of producing the Plan, the Plan is discussed with key stakeholders including the Senior Leadership Team and members of the Wider Leadership Team and Operational Management Team. The fraud risk assessment is updated taking into account relevant documents. Key partnerships are also considered. Previous audit work is also considered and past audit opinions. In terms of the detailed risk assessment this is set out in the report and the planned risk assessment methodology is detailed in Appendix A to the report. Alternative sources of assurances are also considered e.g. the work of external audit and other inspection teams such as health and safety and the Peer Review due in September. Susceptibility to fraud is also considered as well as the stability of the system.

A score is given for all the areas identified in the risk assessment to give an overall percentage score. Scores over 60 percent are considered high risk. Scores between 59

per cent and 40 per cent, medium risk and scores below 39 per cent, low risk. On occasions audits are performed on low risk areas. The percentage score acts as guide. Within the audit strategy, key principles are set out which are used to formulate the audit plan and applied. The service is mindful of when alternative sources of assurance can be given. 'Top Ten Risk' Reviews are identified and key financial systems are conducted. A schools' audit programme is developed based upon a formal risk assessment. An initial allocation of 200 days of audit time is given in the counter fraud Plan to conduct Special Investigations. An initial contingency allocation is also made. This is variable year on year and is included in the Internal Audit Plan. Time is included to undertake proactive counter fraud work. Compliance reviews are also included in the Internal Audit Plan.

The Resource requirement indicates that the County Council has allocated 2,065.5 days for audit work during the year. In addition 354.5 days has been allocated for external clients. The total resource requirement for the coming year is 2,420 days and this shows a reduction of 200 days which largely relates to the Police contract that ceased at the end of 2017/18. There has been a loss of one vacant post to take account of this. The resource requirement is met by the in-house team and from the Internal Audit framework agreement that was agreed last year. This gives flexibility to the Team in terms of buying in additional expertise when required.

The top ten risks for the year were described. These included the Medium Term Financial Strategy; the Digital Development Programme; Strategic Property Asset Management and Governance; Liberata payroll system; CareDirector (adults and children's modules); Adult and Children Financial Services Review Programme; Home and Community Care Contract; Cyber Assurance – Data Breach Incidents and Response Plans/Patch Management (as referred to in a recent NHS attack); General Data Protection Regulations (GDPR) and Children and Families System Transformation: Family Support Contracts.

In terms of key financial audits for 2018/19 these include Liberata – Payroll System; Budgetary Control; Nominal Main Ledger System including bank reconciliations; Cheque Control; Treasury Management; Sales to Cash – Debt Recovery Function and E-Payments.

One of the challenges that had been set by the Chair was that when the Audit Plan was set that consideration be given to commercialisation. The interim Chief Internal Auditor described how she had addressed this question by considering four key aspects. These were Making Money and Value for Money; Behaving in a More Business Like Way; a Commissioning Council and Being Business Friendly - creating the right conditions for businesses to prosper in Staffordshire.

Commercialisation includes pricing, better contract management and investments. In terms of how the Internal Audit Team will audit commercialisation during 2018/19, work was ongoing regarding the governance arrangements in regard to NEXXUS, County Fleet Care and the Claims Management Regulation Unit. In terms of behaving in a more business like way, the Team would be looking at the Infrastructure+ contract reviewing their quality and management assurance systems, service delivery processes, financial compliance arrangements (costings and income collection) and risk and viability (highways insurance claims).

The service delivery arrangements with Entrust will also be reviewed, specifically facilities management and the careers, advice and guidance service. In regard to Liberata, the payroll system and retain client and control function these will be reviewed. A review of the Penda Property Partnership governance arrangements and framework for decision making will also be undertaken. The governance arrangements have changed in respect of property decisions.

Examples of other contracts were also described that reflected large contracts that the Council had.

In terms of being business friendly, the Team would also provide project support for the Council's digital work. Assurance reviews will be undertaken in respect of the Growing Places Fund; the Keele Science Park; European Funding – European Structural and Investment Fund and the Local Enterprise Partnership.

In terms of the Counter Fraud Plan, the contents were included in the report. A total of 455 days had been assigned to counter fraud work including 200 days for reactive investigation work. The work is split across strategic development; creating an anti-fraud culture; deterrence; prevention; detection and investigations. Within the prevention and deterrence area, the Team will be introducing the continuous control monitoring exercises in 2018-19 to give further assurance over fraud risk areas. Some of the initial areas that will be reviewed will be purchase cards.

The Plan is delivered by the in-house team and from procuring from the Council internal audit framework agreement and this includes four external firms. The Team also uses the NHS framework agreement (this includes PwC and KPMG). This gives access to specialist resources and gives the Team flexibility to buy in services when required.

The split of work across the area was illustrated. Finally, the key areas of work for 2018/19 was summarised and the allocation of resources by client, including external clients. In terms of responding to emerging risk, discussions will take place with the Wider Leadership Team regarding audits carried out and audits coming up. There will also be more regular discussion with SLT regarding the Plan to identify any emerging risks. The external framework agreement can be used to give flexibility.

RESOLVED: That the report be received.

18. Interim update report 2017-18

The External Auditor gave an update on their engagement with the audit cycle. He outlined some of the work that had been done in regard to the risks identified in the Plan reported to the Committee in March 2018.

In November 2017, Ernst & Young began their early engagement in regard to audit of the change of the financial system from SAP to Integra, seeking assurance regarding the date when SAP would be switched off and what the implications would be for accessing the data held in SAP.

The External Auditors tested a number of transactions that were on the system for periods 1-6. These were designed to test the potential significant risks around management override, fraud, revenue and expenditure recognition, valuation of land and buildings and the new general ledger system (value for money).

The Plan outlined a number of procedures to get assurance in regard to management override and fraud in revenue and expenditure recognition. The Plan outlined a number of procedures that Ernst and Young would require to get assurance, some aligned to year end procedures, but some could take place earlier. Ernst and Young were pleased to report that they had completed a 'walk through' of 13 out of 15 systems. The two outstanding procedures being in regard to property, plant and equipment (fixed assets) and year end accruals. These would be completed next week.

Journal entries that have been recorded in the ledger have been tested in regard to periods 1-6 and there are no issues. Period 7 to year end will now be completed.

In terms of sampling a number of revenue and expenditure transactions starting with period 1-6 in November and period 7 to year end in February, to date there are no issues to report arising from this work. There are four areas where work is outstanding, and the Finance Team have agreed to provide information on these matters next week.

In terms of the Integra system, Ernst and Young identified this as a risk, and commissioned their own risk assessment team to complete an independent review of the data migration from the old to the new system. The work has been substantially completed.

In regard to land and buildings, the Council had responded to a number of issues that Ernst and Young had identified in regard to the valuation of land and buildings by appointing external valuers. Ernst and Young have appointed an in house team to review the work of the external valuers. No issues have been identified to date or alerted to the Audit Team. This will be reviewed again next week.

In terms of value for money, Ernst and Young identified three risks: the financial resilience of the Council in regard to the plans to address future financial challenges; arrangements in respect of the delivering the Better Care Fund and securing finances, and finally in regard to Entrust and the material reduction in the Council's stake in Entrust and whether the Council had sufficient arrangements to monitor the contract. Work is well advanced with only one piece of information awaited in regard to the Better Care Fund. This matter is in hand.

Lastly, the audit of the draft accounts will begin shortly. Draft accounts have been produced by the Council's Finance Team and Ernst and Young paid tribute to the Finance Team for producing these by 31 May. Ernst and Young will be producing an opinion by 30 July 2018.

RESOLVED: That the report be received.

19. Correspondence received from Ernst & Young re Annual Audit Fees 2018-19

The interim Head of Audit and Financial Services stated that on an annual basis the Committee are informed of the annual audit fee by the auditors.

The planned fee for 2017/18 is £109,755. This includes an element for the Pension Fund, and is £84,511 for 2018/19. The Council had opted into the national scheme managed by the Public Sector Audit Appointments Limited for the appointment of their external auditors with effect from 1 April 2018/2019 financial year.

The external auditors stated that they had a responsibility to advise the Council of its audit fees annually.

The Director of Finance and Resources drew Members' attention to a gradual reduction in the fees, and to the potential compromise in audit quality. Members asked if there was any way in which further efficiencies could be achieved. The Director of Finance and Resources stated that there may be opportunities for further automation of systems. Ernst & Young stated that they were also relying on data analytics that enabled them to use data in a more efficient way.

RESOLVED: That the report be received.

20. Forward Plan 2018 - 2019

The interim Head of Audit and Financial Services stated that two additional meetings had been added to the Forward Plan on 30 October and 29 January 2019 in an effort to smooth out the volume of papers being presented to the Committee.

RESOLVED: That the report be received.

Chairman