

<b>Local Members Interest</b>
N/A

## **Audit and Standards Committee - Tuesday 05 July 2022**

### **Annual Report of the Audit & Standards Committee 2021/22**

#### **Recommendation(s)**

I recommend that:

- a. Members consider and comment on the contents of the annual report for 2021/22 before forwarding onto Full Council with a recommendation to consider and approve this report.

#### **Report of the Director for Corporate Services**

### **Report**

#### **Background**

1. A key part of the Audit & Standards Committee's role is to report to Full Council on the Committee's findings, conclusions, and recommendations; on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements. In addition, the Audit & Standards Committee should report to Council where they have added value, improved, or promoted the control environment and performance in relation to its Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions. This report is produced annually to fulfil the above requirement.
2. Governance in and of the public sector remains high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. The Code of Corporate Governance is reviewed annually in line with the best practice issued by CIPFA and SOLACE; together with an Annual Governance Statement, again produced in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failure to achieve the Council's strategic objectives and providing good service to Staffordshire residents.

3. Staffordshire County Council has an Audit & Standards Committee, originally established in 2005, with the key objectives to maintain and improve governance procedures. The Committee is a key component of the Council's corporate governance framework and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on both internal and external audit functions and financial and non-financial performance.
4. The benefits to the Council of operating an effective Audit & Standards Committee are:
  - a. Maintaining public confidence in the objectivity and fairness of financial and other reporting.
  - b. Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing and approving the Annual Statement of Accounts and the Annual Governance Statement.
  - c. Providing a sharp focus on the results of the work of the internal audit service where limited assurance reports are issued and control weakness have been identified through special investigations and potential fraud instances.
  - d. Assisting the co-ordination of sources of assurance across the control framework i.e., information governance and health & safety management.
  - e. Raising awareness within the Council of the need for governance, internal control, and the implementation of audit recommendations.
  - f. Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
5. The Committee continues to have a professional and arm's length relationship with EY, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed.
6. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Director for Corporate Services and the County Treasurer (s151 Officer) in achieving the Council's aims and objectives. A detailed annual forward plan is produced and reported to each meeting of the Committee to ensure that key tasks are considered and completed to meet required timescales.
7. Local authorities were permitted to hold virtual meetings from 4 April 2020 to 6th May 2021 when the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police

and Crime Panel Meetings) (England and Wales) Regulations 2020 made under section 78 of the Coronavirus Act 2020 came into force. During 2021/22, the Audit & Standards Committee met seven times and in line with these regulatory requirements, the Committee held one planned meeting virtually on 12<sup>th</sup> April 2021. Between July 2021 and December 2021, the Committee held a further four planned meetings which were categorised as 'hybrid' meetings, with members attending in person whilst officers attended virtually via TEAMS. For the final two Committee meetings of the year held in February 2022 and March 2022 respectively, these meetings were attended in person by both Members and Officers. Several changes were made to the governance arrangements supporting the decision-making process during 2021/22 as per the following legislation:

- a. The Accounts and Audit (Amendment) Regulations 2021 – which extended the dates for certain public and local bodies to publish, and make available for inspection, their annual accounts and supporting documents. These regulations apply only in relation to the annual accounts relating to the 2020/21 and 2021/22 financial years.
- b. Additional guidance provided on running Council meetings produced by Lawyers in Local Government & Association of Democratic Services Officers.

## **Internal Audit**

8. The Audit & Standards Committee approved the Internal Audit Plan and Strategy at the July 2021 planned Committee meeting and a progress update report against the Internal Audit Plan was also presented to the Committee in December 2021. Scrutiny of the proposed plan provides Members with the opportunity to challenge and influence the areas scheduled for review by Internal Audit to ensure audit resources are deployed to the areas of greatest risk. The top risk areas for 2021/22 were identified as:
  - a. Digital Strategy and transformation – Digital First including Care Director Software Upgrade & Microsoft 365.
  - b. COVID 19 Response & Recovery including Contact Tracing, Adult Social Care (ASC) Rapid Testing Funding (Lateral Flow) & Back to Business – the Additional Restriction Grant programme.
  - c. Quality Audits – Assessments.
  - d. SEND Transformation – Governance and High Needs Block.
  - e. Remote Working – Cyber Security.
  - f. Brokerage.
  - g. Entrust Contract Arrangements.
  - h. Delivering Good Governance - Culture, Values & behaviours & Corporate Decision-Making Arrangements.

- i. Equality, Diversity & Inclusion.
  - j. Community Renewal Fund.
  - k. Initiative-taking Counter Fraud: Bus Operators and Taxi Contractors (schools transport and other).
  - l. Business Continuity Management - Organisational Resilience (Supply Chain).
9. In 2021/22, Internal Audit has continued to support the Council's response and recovery work relating to the COVID pandemic including a review of the contact tracing system and the Additional Restrictions Grant (ARG) programme. Despite this additional call on Internal Audit's resources, the Team has maintained its work on key corporate transformation projects by continuing to provide a project assurance role in a number of areas including Council's new applicant tracking system, the new occupational health system, the implementation of SharePoint and EDRMS and Microsoft 365 as well project support for the Highways transformation programme, Household Waste recycling centres and the Residential Care - Net to Gross Project within the Adults and Children's Financial Services.
10. The Internal Audit Charter is reviewed and approved annually by the Committee, with it last approved at the April 2021 meeting. Included within the document are the reporting guidelines which determine those audit reports that are considered in full, by the Committee. Given that on average approximately 100 + reviews are performed annually, those reports that contain a limited assurance opinion, classed as a top high-risk review or the result of a special investigation are reported in full. Operational Management attended to provide details of how the agreed recommendations contained in the reports had been implemented since finalisation. During 2021/22 the Committee considered the following final audit reports:
- a. Strategic Property Asset Management & Governance Follow-Up review.
  - b. Governance & Culture of Cyber Security.
  - c. Sales to Cash (including Debt Recovery Function & Debt Management).
  - d. Infection Control Grant (Tranche One).
  - e. SEND Transformation – Governance and Decision-Making Processes.
  - f. Infrastructure + - Contract Quality Systems.
  - g. Climate Change.
  - h. Digital Programme – Value.
  - i. Adult Social Care Pathway.
  - j. Partnerships – Governance & Management Arrangements.
  - k. Foster Care Special Guardianship Payments.
  - l. Equality, Diversity & Inclusion; and
  - m. Climate Change Action Fund.

11. A number of risk areas were identified, and Members requested further progress updates to the Committee in year to ensure that the actions identified had been fully implemented as agreed. These progress updates are also supplemented with the periodic reporting on the implementation of past audit recommendations, the last update given to Members of the Committee in December 2021.

### **Counter Fraud Work**

12. The Audit & Standards Committee has received during the year various reports and updates in relation to the Council's local response to fraud. The Counter Fraud Plan was approved annually by the Committee in July 2021 which formally sets out the Council's counter fraud activities to be conducted in-year. Progress against this plan was also provided to the Committee at its December 2021 meeting.
13. In-year, the Audit & Standards Committee received three Investigation Reports (including lessons learnt from past fraud cases) and five proactive fraud exercises relating to Purchase card cash withdrawals, school transport taxi operators and the use of climate change action funding. Furthermore, an update on the latest National Fraud Initiative 2020 data-matching exercise was also given to Members of the Committee in October 2021.
14. A full and comprehensive report on all the Council's counter fraud activities for the year is included in the Internal Audit Outturn Report which is presented at the July meeting each year.

### **Governance and Risk Management**

15. The annual review of the Code of Corporate Governance was undertaken in July 2021. This is a key document in the governance framework and depicts how the Council operates and manages its governance processes. The basis of this document is the CIPFA/Solace document 'Delivering Good Governance in Local Government Framework 2016'.
16. The Annual Governance Statement (AGS) for 2020/21 was approved by the Committee at the December 2021 meeting. This extended timescale was in accordance with the governance changes arising from COVID 19 outlined in paragraph 7. The main governance issues raised in the AGS related to the changes being made to the SEND service as well as the Children's operating system, the constant presence of cyber security risks and the need to monitor the on-going effect of the COVID 19 crisis on the Council's MTFS and its ability to deliver services. Also, other key actions taken forward into

2021/22 included the need to deliver on the climate change strategic development framework; the importance of remaining vigilant over supply chain failure for key services; as well as the need to ensure that audit recommendations are actioned to improve the Council's control environment.

17. The Council's Statement of Accounts (SoA) for 2020/21 was also reported to the Committee at its December 2021 meeting following a comprehensive presentation and training session provided by the Corporate Finance Manager prior to the SoA being approved.
18. The Annual Code of Conduct for Members report on the Management of Complaints was presented to the 13 July 2021 meeting. The report referred to sixteen complaints/alleged breaches of the Code of Conduct for Members during the period October 2020 and May 2021. It was confirmed that all complaints received had been concluded.
19. In-year, Members of the Audit & Standards Committee considered and agreed amendments to the following key governance documents and recommended Full Council to formally approve them for inclusion in the Constitution:
  - a. Council's Procurement Regulations; and
  - b. Council's Financial Regulations.

In addition, a member led working group from the Committee was convened to review and make recommendations to Full Council, on the main body of the County Council's Constitution to better reflect current needs and practices. The results of this working group were resulted back to the Committee at the February 2022 meeting where changes to the Constitution were recommended to Full Council for approval.

20. Also, the Annual Report on Information Governance was presented at the 13 July 2021 Committee meeting. Key themes covered related to the work of the section in dealing with Subject Access Requests, Freedom of Information Requests, and Security Incidents. The report provided assurance to Members of the Committee on the systems in place to address the risk of Cyber-attack, the continued update and review of the Cyber Security Incident Plan, the recruitment of a Cyber Security Manager earlier in the year and the Council's continued investment in appropriate software and hardware to combat security threats.



21. Members also received the Health, Safety and Wellbeing Performance 2020/21 Annual Report at the 14 December 2021 Committee meeting. The key actions noted were:
- a. The Health, Safety and Wellbeing Service continued to take a lead role during Covid Response supporting core council services and commissioned services to continue to deliver for the residents of Staffordshire including:
    - i. Provision of Covid IMT support.
    - ii. The set -up of the Council's emergency PPE provision and arranged and managed the logistics and effective provision of over six million items being distributed by end March 2021.
    - iii. The management of the Local Resilience Forum PPE stock and management of all Central government PPE deliveries including distribution across multiagency partnerships.
    - iv. The continued development and maintenance of the Council and school's health and safety management arrangements.
    - v. The design of Covid Secure Workplaces, working with Premises Managers to develop a network of 152 Premises with Covid Secure Risk Assessments and Certification.
  - b. Improvements to the existing wellbeing offer to colleagues including the development of webinars on wellbeing and launched new products to support new ways of working during Covid.
  - c. Creation of a digital delivery for all the Council's mental health one day and half day courses to allow effective access to mental health training to continue.
  - d. Delivered Menopause Awareness webinars for managers and colleagues to improve awareness and build knowledge.
  - e. The Health, Safety and Wellbeing Service maintained its diverse training programme to meet the organisation's statutory training needs and converted training material into on-line training.
  - f. Implemented additional regular meetings with Trade Unions to ensure effective communication and consultation throughout impact of Covid-19 was maintained.
  - g. Key Health and Safety audits were conducted at various Council sites.
  - h. The Health, Safety and Wellbeing Service continued to respond to and manage several emergency situations and serious incidents during 2020/21.
22. Several risk-related reports were presented and considered by the Audit & Standards Committee covering the following key risk areas:
- a. Purchase Card Cash Withdrawals – Control Failings and 'Lessons Learnt.

- b. Taxi Contractors Counter Fraud Review – outcomes and risks identified; and
- c. Update on Outstanding Actions of the SEND Transformation Governance review and the outcome of the Re-Inspection Visit from Ofsted.

### **External Audit**

- 23. The External Auditor, Ernst Young presented their “Report to those Charged with Governance ISA 260 2020/21” Reports for both the Council and the Pension Fund, at the 14 December 2021 meeting. The Value for Money opinion identified no exceptions for 2020/21 and an unqualified opinion on both the Council’s and the Pension Fund Accounts were noted.
- 24. At the 14 December 2021 Committee meeting, members also considered a report by the County Treasurer on the need to instigate a procurement exercise for the provision of external audit services to the Council with effect from 31 March 2023, when the current contract with Ernst Young expired. Three options were discussed where it was subsequently recommended to Full Council to ‘opt-in’ to the Local Government Association Sector Led Body approach via Public Sector Audit Appointments Ltd (PSAA) for the procurement of the five-year External Audit contract for the financial year commencing April 2023.

### **Equalities Implications**

- 25. There are no direct implications arising from this report.

### **Legal Implications**

- 26. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (England) Regulations 2015 require specifically that a relevant body must ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering public sector internal auditing standards or guidance’.

### **Resource and Value for Money Implications**

- 27. The net budget of the Internal Audit Section in 2021/22 was £979,020 of which £199,620 related to payments to external providers.

### **Risk Implications**



28. Internal Audit examines objectively, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient, and effective use of resources.

### **Climate Change Implications**

29. There are no direct implications arising from this report

### **List of Background Documents/Appendices**

1. 2021/22 Audit & Standards Committee Agenda Papers and Minutes.

### **Contact Details**

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