

## **Audit and Standards Committee - Tuesday 25 April 2023**

### **Annual Report of the Audit & Standards Committee 2022/23**

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

I recommend that:

- a. Members consider and comment on the contents of the annual report for 2022/23 before forwarding onto Full Council with a recommendation to consider and approve this report.

#### **Local Member Interest**

N/A

### **Joint Report of the Director for Corporate Services and Director of Finance**

#### **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 Director of Finance (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. During 2022/23 the Audit & Standards Committee met six times and in line regulatory requirements and best practice outline within the CIPFA publication – Audit Committees: practical guidance for local authorities and police. Agendas have been set to ensure that the areas outlined in

the Committees terms of reference are covered, together with any additional items requested by Members. The Accounts and Audit (Amendment) Regulations 2022 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.

8. At the 21 March 2023 meeting Members received a presentation on new CIPFA guidance for the assessment of the effectiveness and influence of Audit Committees. In addition to setting out the core functions, key features and expected role of an Audit Committee, updates in the Guidance included calls for greater focus on the ethical framework, recognition of the wide range of partnerships and collaborations entered into by Councils and the appointment of Independent Members on Audit Committees. Specific information was provided on the self-assessment of good practice and the evaluation of the impact and effectiveness of the Committee. It was agreed that the key actions for 2022/23 were:
  - a. a self-assessment exercise using the CIPFA guidance be conducted at a members' Workshop on 23 May 2023
  - b. the Committee reviews its Terms of Reference,
  - c. considers the recruitment of Independent Members,
  - d. clarifies its role in the governance arrangements of partnerships.

## **Internal Audit**

9. The Audit & Standards Committee approved the Internal Audit Plan and Strategy at its 5 July 2022 meeting and a progress update report against the approved Internal Audit Plan was also presented to the Committee in December 2022. 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 2022/23 were identified as:
  - a. Social Care Reform – including the Build Back Better Project and Adult Social Care Pathway - Strength Based Care.
  - b. Childrens' and Families Transformation including the new District Model and Panel & Decision-Making Arrangements.
  - c. Climate Change – Project & Programme Management & the Climate Change Action Fund.
  - d. Cyber Assurance – including Cyber Security Strategy; Major Incident Management; SaaS Procurement and Monitoring; and Threat & Vulnerability Management.
  - e. Delivering Good Governance: Culture, Values & Behaviours Governance Review.
  - f. Entrust Future Contract Arrangements.

- g. Digital Strategy & Transformation – including the Customer Journey Project & the EDRMS SharePoint Project.
  - h. Contain Outbreak Management Fund - Grant Verification.
  - i. Recruitment Applicant Tracking System.
  - j. SEND Strategy Implementation Plan.
  - k. Highways Transformation programme – including project support & Asset Management & Inspection Services.
  - l. Mental Health Act - Section 117
10. As part of the Internal Audit Outturn Report for 2021/22, presented to the Committee in July 2022 an “Adequate Assurance” opinion was given on the overall adequacy and effectiveness of the organisation’s governance, risk, and control framework, i.e., the control environment. Furthermore, during 2021/22 Internal Audit 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 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.
11. The Internal Audit Charter is reviewed and approved annually by the Committee, with it last approved at the March 2023 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 2022/23 the Committee considered the following final audit reports:
- a. Joint Funding and Billing CCG’s Continuing Healthcare – progress on the implementation of recommendations.
  - b. Infrastructure + Asset Data Management
  - c. Agency Staffing Contracts Review – progress of the implementation of recommendations
  - d. SEND Accelerated Progress Plan
  - e. Internal Audit Review – Nexxus

- f. Company Governance
  - g. Cyber Security Strategy
  - h. Community Climate Action Fund
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12. 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. The scheduling of these were incorporated into the Forward Plan. 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 2022.
  13. Members received the results of the Internal Audit five yearly External Quality Assessment to evaluate compliance of the service with the Public Sector Internal Audit Standards (PSIAS) on 21 March 2023 meeting. CIPFA had been commissioned to carry out the assessment and had done so via a combination of actions including reviewing documentation and a sample of completed audits, surveys and interviews with key stakeholders (including South Staffordshire Council as an external customer' of the service) and reviewing the annual self-assessments carried out by the service, also following the PSIAS.
  14. The assessment had found that the Internal Audit Service 'Generally Conforms' (highest rating available) to the standards with no recommendations for improvement and only one advisory action for management. This was the highest rating available under the process.

### **Counter Fraud Work**

15. 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 at the 5 July 2022 meeting, 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 2022 meeting.
16. During 2022/23 the Audit & Standards Committee has received the investigation report relating to the pre-paid card false transactions review. In addition, an update on the latest National Fraud Initiative 2022 data-matching exercise was also given to Members of the Committee on 1st November 2022.
17. 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**

18. The annual review of the Code of Corporate Governance was undertaken in July 2022. 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'.
19. The Annual Governance Statement (AGS) for 2021/22 was approved by the Committee at the 13 December 2022 meeting. The Accounts and Audit (Amendment) Regulations 2022 were published in June 2022 and extended the reporting deadline for the 2021/22 accounts to 30<sup>th</sup> November 2022. 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 prepare for the potential request for decision making documentation to be submitted to the UK Covid-19 Inquiry. Also, other key actions taken forward into 2022/23 included 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.
20. The Council's Draft Statement of Accounts (SoA) for 2021/22 were also reported to the Committee at its December 2022 meeting following a comprehensive presentation and training session provided by the Corporate Finance Manager prior to the SoA being approved.
21. 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 eleven complaints/alleged breaches of the Code of Conduct for Members during the period June 2021 and June 2022. It was confirmed that eight complaints received had been concluded with no breaches of the code of conduct. The remaining three were awaiting a decision, which will be reported as part of the 2022/23 report.
22. At the 5 July 22 meeting the Committee approved the appointment of five members to the Standards Panel namely Cllrs P Haden, G Hutton, C Trowbridge, B Williams, and M Worthington.
23. Also, the Annual Report on Information Governance was presented at the 26 April 2022 Committee meeting. The report considered the County Council's compliance with legislation on Information Governance, particularly in relation to access to data and information, and the use of investigatory powers. Compliance was monitored by a range of national bodies. Specific reference was made to cyber security risks and the

increased focus on training for officers and members given the current international circumstances. In addition, user authentication requirements were being strengthened. It was reported that homeworking by County Council staff had initially increased the need for attention to security issues, but this had since levelled out with an audit of cyber security giving assurance that appropriate measures were in place.

24. Members also received the Health, Safety and Wellbeing Performance 2021/22 Annual Report at the 1 November 2022 Committee meeting. The key conclusions noted were:
- a. The report provided an indication that health and safety performance was maintained and continued to be managed whilst also responding to the risks and challenges that the ongoing Covid-19 pandemic presented. Good progress was made in development and projects whilst resources for activities such as audits remained impacted.
  - b. The work completed during 2022/23 will continue to focus on post Covid-19 recovery, and colleague wellbeing.
  - c. Learning from the serious incident at the Isabel Trail has been taken forward into Highway maintenance planning and practice. A wider council Tree Strategy is being developed.

### **External Audit**

25. The External Auditor, Ernst Young presented their "Report to those Charged with Governance ISA 260 – Audit Results 2020/21" reports for both the Council and the Pension Fund, at the 14 December 2021 meeting. These reports contained the draft opinions for both the Financial Statements and the Value for Money requirement. At the 5 July 2022 meeting the Director of Finance reported his concerns at delays in the external auditors' completion of the Councils accounts for 2020/2021 and the submission of an External Audit Plan for 2021/22. Resourcing issues amongst the audit sector nationally were acknowledged, however, the Committee remained concerned at the effect of delays on the efficiency of the County Council. The Committee received an update from the External Auditor at the 20 September 2022 meeting regarding the elements of work outstanding and impact of the issue surrounding Local Authority accounting practices for Highways Infrastructure Assets which were being reviewed nationally with final guidance being prepared by CIPFA. It was unclear at that point when the clarification would be provided and the effect on individual audits was unknown.

26. Confirmation was provided by the External Auditor at the 13 December 2022 meeting that following the release of the CIPFA Guidance on accounting practices for Infrastructure Assets, the accounts would need to be updated. A further update on this matter was provided to the 21 March 2023 meeting where the External Auditor confirmed that the Council's updated information on Infrastructure Assets accounting had been received and once reviewed by his Team, the Audit would be completed. This situation will continue to be closely monitored by the Audit and Standards Committee.
27. At the 21 March 2023, the External Auditor submitted the proposed External Audit Plan for 2021/22, for approval. Reporting on the strategy for the Audit, each of the risks and areas of focus for the 2021/22 audit was detailed, explaining the reasoning behind the selection of each. The approach to be adopted in reviewing how the council used its resources to achieve Value for Money, the Materiality to be applied during the audit (i.e., the monetary level over which misstatements would be deemed to influence economic decisions) was outlined. Together with the scope and timescale for the audit, the staff involved and fees to be charged. The proposed plan was subsequently approved.
28. A report was submitted to the 21 March 2023 meeting which outlined that as previously authorised by the Committee on 14 December 2021, the Council had opted into the sector led procurement process, administered by the Public Sector Audit Appointments Ltd (PSAA) for the selection of an external auditor of the 5-year period commencing April 2023. The procurement process had resulted in KPMG being appointed for the County Council. It is anticipated that there would be a significant increase in the audit scale fee set against the background of the national difficulties outlined within various sector reports including the Redmond Review.

### **Equalities Implications**

29. There are no direct implications arising from this report.

### **Legal Implications**

30. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (Amendment) Regulations 2022 require specifically that a relevant body must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

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



31. The net budget of the Internal Audit Section in 2022/23 was £1,027,510.

### **Risk Implications**

32. 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**

33. There are no direct implications arising from this report.

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

a. 2022/23 Audit & Standards Committee Agenda Papers and Minutes.

### **Contact Details**

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