

Minutes of the Audit and Standards Committee Meeting held on 26 June 2017

Present: Martyn Tittley (Chairman)

Mike Davies
Michael Greatorex
David Brookes
Graham Burnett
Colin Greatorex
Syed Hussain

Ian Lawson
Carolyn Trowbridge (Vice-
Chairman)
Ross Ward
Bernard Williams
Victoria Wilson
Jill Hood

Also in attendance: Clark (Ernst & Young, External Auditors) and Surridge (Ernst & Young, External Auditors)

Apologies: Derek Davis, OBE

PART ONE

65. Declarations of Interest

Councillor C Greatorex declared an interest as a member of the Staffordshire County Council Pension Scheme.

66. Minutes of the Meeting held on 13 March 2017

RESOLVED That the minutes of the Audit and Standards Committee held on 13 March 2017 be approved as an accurate record and signed by the Chairman.

67. SAP Replacement

Geoff Fletcher, Programme Manager, delivered a presentation on the SAP Replacement. The current SAP system had been implemented in 2003 and the shape and size of the council had changed significantly since. Cabinet approved (in December 2015) the procurement of new systems to manage the council's transactional HR, payroll and finances on the basis that it will meet the council's future needs whilst making significant savings. Following procurement and a period of due diligence, contracts for the new systems were signed in the summer of 2016 and project teams were preparing detailed transition plans. Launch dates for the new systems were likely to be in late summer 2017.

The council's back office had reduced significantly to align with the commissioning model. Furthermore, through academisation, the council was losing a significant income stream that contributed to the running of the old system potentially leading to significant stranded costs. The new system responds to these changes and represents efficiencies.

The Programme Manager explained the background to, the governance and risk management associated with the new system and how elements of change would be managed.

A member asked how security would be protected given the level of cyber-attacks. There were a number of internationally recognised standards all of which had been applied during the process. A member asked whether other local authorities were undertaking similar systems. The new system represented a recognised best practice set of systems and procedures. Members asked about any cost savings benefit to District and Borough Councils through shared back office. The Chief Accountant explained that there were economies of scale, but it depended how far each authority had applied efficiency savings to date as to how much additional could be generated.

RESOLVED That the presentation be noted.

68. Procurement Regulations

Paul Timmins, Senior Category Manager, Commercial Team, introduced Revised Procurement Regulations. The Procurement Regulations were last considered in 2011 and there were a range of circumstances which had resulted in a timely review; the enactment of the Public Contracts Regulations 2015 and the continued focus on securing best value / value for money, to enable the council to offer more cost-effective services to the public. There was an obligation to spend public money transparently, fairly and efficiently and the revised regulations offered an enhanced level of robustness.

The Senior Category Manager explained that the changes to the Regulations which set the level at which a full public tender was required, had been reduced from £100,000 to £25,000 contract value. This was facilitated by the universal use of electronic tendering systems for public tenders. This value had been selected based on national guidance and a review of other similar authorities.

The level at which officers should consult a procurement advisor remained at £100,000 but a sourcing strategy was required for all spend over £25,000. There was also a requirement to ensure that all contracts above £25,000 were formally recorded on a corporate contracts register. The Commercial Team would have oversight of this register.

A member asked whether the new Regulations would prove an administrative burden on businesses and whether there had been any quantitative analysis of the likely increase in the volume of work. 'Exemption reporting' would enable procurements to be facilitated more swiftly. The threshold of £25,000 was felt to be manageable from a commercial point of view. If it was found that it did not work, then the threshold would be reviewed.

The Chief Accountant said that there was a greater emphasis on getting buying decisions right and having advanced notice of when procurement decisions need to be made.

A Member accepted that transparency and economies of scale were important but he hoped that a flexible and common sense approach would continue to be applied.

RESOLVED That (a) the County Council be recommended to approve the revised Procurement Regulations for inclusion within the Constitution

(b) the Director of Finance and Resources and the Director of Strategy, Governance and Change be authorised to make any minor changes to the wording of both documents prior to submission to the County Council to ensure they can carry the Plan English Crystal Mark, and

(c) a system organogram of the process be provided for the Audit and Standards Committee

69. External Audit Progress Report 2016-17

Mr Steve Clark, Ernst and Young LLP, updated the committee on their audit progress since the presentation of the Audit Plan in March 2017. They set out the results and conclusions on the significant areas of audit in advance of the audit of the financial statement.

The Value for Money work was well progressed but further work was required on the Better Care Fund (BCF) and integration with the wider health economy. Arrangements had been made to liaise with appropriate staff to establish the current position with the BCF. The results and findings of the VfM and the overall audit conclusion would be presented to the Audit and Standards Committee in September 2017.

A member asked about the new valuations on business rates and what was the timetable for member involvement. The Chief Accountant confirmed that the scheme was being drawn up and consultation would take place in September 2017.

Members acknowledged that issues in the Health economy were a nationwide problem and understood that the role of the Audit and Standards Committee was to assure itself that correct and effective systems and procedures were in place whilst the Healthy Staffordshire Select Committee focussed on performance.

The External Auditors had provided a local government audit committee briefing paper on relevant issues of interest.

RESOLVED That (a) the External Audit Progress Report 2016-17 be noted and

(b) the Audit and Standards Committee be informed of the developments regarding revaluation of business rates.

70. Internal Audit

Internal Audit Outturn Report 2016-17

The Chief Auditor presented the Internal Audit Outturn Report which included the annual internal audit opinion for 2016-17. Internal audit offered an independent, objective assurance and consulting activity designed to add value and improve the organisations operations.

Internal Audit were required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Audit opinions were awarded for individual systems and compliance audits within one of the following categories – substantial, adequate or limited assurance.

A high level summary of the work undertaken by the section was detailed in the report. For those areas awarded "limited assurance", action plans had been or were in the process of being agreed with the relevant Director / Head of Service.

During 2016-17, the Committee had continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports. Internal Audit would continue to track and report on the implementation of High Level Recommendations, including those contained within reports awarded "Adequate Assurance".

Areas where assurance could not be provided together with areas of improvement and high level recommendations were detailed in the report.

The report included a summary of work undertaken in relation to fraud and corruption and the outcome of special investigations. Overall, there were indications that there had been some minor lapses in applications of controls, increasing the risk of potential fraud. Reports had been issued and to ensure that the control weaknesses have been addressed and recurrence prevented.

The methodology used as the basis to form the assessment of the overall internal audit internal control environment had previously been endorsed by the Committee and was detailed in the report.

Overall, an "adequate assurance" had been given on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, i.e. the control environment in 2016-17. A number of audit reviews during 2016-17 had identified high level issues, which have resulted in the system being awarded a limited assurance opinion. The key actions identified must be implemented as agreed and progress monitored to strengthen the control environment. This would be a key focus of the 2017-18 Internal Audit Plan.

Internal Audit Charter 2017-18

The Committee considered a report of the Director of Finance and Resources on the Internal Audit Charter for 2017-18.

The Public Sector Internal Audit Standards and the Local Government Application Note Standard 1000 required that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Audit Charter. The Internal Audit Charter set out:-

- Internal Audit's position within the organisation
- Its reporting lines
- Access to personnel, information and records
- The scope of Internal Audit's activities
- What the term Board means (i.e. the Audit and Standards Committee)

The report highlighted the small number of revisions which had been made to the Charter since the original was approved by the Audit and Standards Committee in 2014.

Proposed Internal Audit Strategy and Plan 2017-18

Members considered a report of the Director of Finance and Resources, supported by slides, on the proposed Internal Audit Strategy and Plan 2017-18.

The Audit Plan had been prepared in line with the Audit Strategy detailed in the report. As part of the agreement process for this year's plan, detailed discussions had been held with Strategic Leadership team Members and Commissioners to ensure the Internal Audit work proposed addressed the significant risks facing the County Council and assisted in the achievement of the main priority outcomes. This would allow greater certainty regarding delivery of these audits within 2017-18.

In line with the Audit Strategy, the Audit Plan identified the following top risk audits/reviews:

- Staffordshire & Stoke on Trent Partnership – Contract Management
- Brokerage Services
- SAP Replacement Programme – suite of reviews
- Care Director Upgrade
- Core Payroll & Schools Payrolls – retained Client and Control Function
- Liberata Payroll System
- Capital Receipting Transformation
- Cyber Security – Incident Preparedness & Response Effectiveness
- Strategic Property Asset Management and Governance
- Corporate Scheme of Delegations
- Service & Commercial Contract Management Arrangements
- Procurement – Commercial Services

A level of contingency time, lower than in previous years, had been included. The Audit Plan needed to be continuously reviewed and to remain sufficiently flexible to respond to changing levels of risk. Any major revisions would be brought to the attention of the Audit and Standards Committee.

Members discussed the need for flexibility to allow time to address unplanned matters and charging out for external services. The Chief Auditor acknowledged that the considerable time spent in defining the audit plan at the start of the year enabled the programme to have some certainty. A member asked about the Audit Teams resilience and whether additional skilled staff could be brought in if demand required it.

RESOLVED – That:

- (a) the Internal Audit Outturn report containing the annual audit opinion for 2016-17 be received and noted;
- (b) the Internal Audit Strategy and Plan for 2017-18 be approved and charges to external organisations for audit work undertaken be reviewed and
- (c) the Internal Audit Charter for 2017-18, incorporating revisions, be approved

71. Code of Corporate Governance - 2017/18

A detailed review of the Code of Corporate Governance (and Single Sheet Local Framework) had been undertaken by the Council's Corporate Governance Group following the publication of the 2016 Delivering good corporate governance in Local Government framework. The 2016 framework builds significantly on the previous version and had been expanded to include greater emphasis on partnerships, outcomes, interventions and transparency agendas.

RESOLVED: That the new Code of Corporate Governance and resultant action plan produced in line with the CIPFA SOLACE framework 'Delivering Good Governance in Local Government' published in April 2016, be approved.

72. Forward Plan 2017-18

RESOLVED: That the Forward Plan for 2017-18 be approved

73. Exclusion of the Public

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

74. Exempt minutes of the Audit and Standards Committee meeting held on the 13 March 2017

RESOLVED: That the exempt minutes of the Audit and Standards Committee held on 13 March 2017 be recorded as an accurate record and signed by the Chairman.

75. Internal Audit Reports - Limited Assurance Review

Exemption paragraph 3

Members received a report summarising the results of two Internal Audit reviews of the systems, controls and risks relating to the administration and control of the processes in place for dealing with those aspects deemed to have limited assurance. Two Limited Assurance reviews related to Accounts Receivable and Client Contributions Property Cases.

Members discussed the detail of the reviews and were assured that in each case satisfactory progress was being made to rigorously address the areas of risk identified by Internal Audit.

76. Accounts Receivable - Final Audit Report

77. Client Contributions Property Cases Follow Up - Final Audit Report

78. Internal Audit Outturn Report 2016/17 Appendix 2

The appendix to item 7 was considered and noted.

Chairman

Documents referred to in these minutes as Schedules are not appended, but will be attached to the signed copy of the Minutes of the meeting. Copies, or specific information contained in them, may be available on request.