

## **Audit and Standards Committee**

Tuesday 11 July 2023

**10:00**

White Room, County Buildings, Stafford

The meeting will be webcast live and archived for 12 months. It can be viewed at the following link: <https://staffordshire.public-i.tv/core/portal/home>

John Tradewell  
Deputy Chief Executive and Director for Corporate Services  
3 July 2023

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### **Agenda**

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the Meeting held on 25 April 2023** (Pages 1 - 4)
4. **To note the appointment by Full Council of the following members to serve as a Standards Panel for 2023/24**  
  
P Haden, G Hutton, C Trowbridge, B Williams and M Worthington.
5. **Update regarding the situation within the External Audit Provision** (Pages 5 - 8)
6. **External Audit - Financial Years 2020/21 and 2021/22**  
  
Verbal Update from Ernst Young (External Auditors)
7. **Code of Conduct for Members - Annual Report on the Management of Complaints: June 2022- June 2023** (Pages 9 - 14)

8. **Proposed Changes to the Scheme of Delegation for Officers re Actions under Wildlife and Countryside Act 1981** (Pages 15 - 22)
9. **Internal Audit Outturn Report 2022/23** (Pages 23 - 48)
10. **Review of the Effectiveness of the Audit and Standards Committee - Results of the Member Workshop** (Verbal Report)
11. **Code of Corporate Governance - 2023 Update Report** (Pages 49 - 80)
12. **FRC Annual Report on the Quality of External Audit** (Pages 81 - 130)
13. **Forward Plan for the Audit and Standards Committee 2023/24** (Pages 131 - 142)
14. **Exclusion of the Public**

The Chairman to move:-

"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 paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated below".

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**PART TWO**  
**(reports in this section are exempt)**

15. **Exempt Minutes of the Meeting held on 25 April 2023 (exemption paragraph 3)** (Pages 143 - 146)
16. **Appendix 2 - Counter Fraud Outturn Report 2022/23 (exemption paragraph 3 and 7)** (Pages 147 - 176)

<b>Membership</b>	
Carolyn Trowbridge (Vice-Chair)	Janice Silvester-Hall
Ross Ward	Mike Worthington (Chair)
Bernard Williams	Arshad Afsar
Philippa Haden	Keith Flunder
Phil Hewitt	Richard Cox
Graham Hutton	Derrick Huckfield
Bernard Peters	Stephen Sweeney
James Salisbury	

## **Notes for Members of the Press and Public**

### **Filming of Meetings**

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### **Recording by Press and Public**

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.



**Minutes of the Audit and Standards Committee Meeting held on 25 April 2023**

Present: Mike Worthington (Chair)

**Attendance**

Carolyn Trowbridge (Vice-Chair)	Graham Hutton
Bernard Williams	Bernard Peters
Ann Edgeller	Janice Silvester-Hall
Philippa Haden	Richard Cox
Phil Hewitt	

**Also in attendance:** Lisa Andrews, Debbie Harris and Ian Parry (Cabinet Member for Finance and Resources) and Sarah Getley (Assistant Director for People)

For item No. 64 – Futhi Mhlongo (Ernst Young, External Auditors)

For item No. 66 - Tracy Thorley (Assistant Director for Corporate Operations) and Natalie Morrissey (Information Governance Manager)

For item No. 71 – David Walters (Head of Asset and Network Management) and Scott Denny (Highway Data Manager)

For item No. 71 & 72 James Bailey (Assistant Director, Highways and the Built County)

For Item Nos 73 & 74 – Dr Halit Hulusi (Head of SEND)

**Apologies:** Arshad Afsar and Keith Flunder

**PART ONE**

**60. Declarations of Interest**

There were no declarations of interest on this occasion.

**61. Minutes of the Meeting held on 21 March 2023**

**Resolved** – That the minutes of the meeting held on 21 March 2023 be confirmed as a correct record and signed by the Chairman.

**62. Establishment of Panel to Appoint Independent Remuneration Panel Members**

**Resolved** – That the Chairman, Vice-Chairman, Mr R Cox, Mrs A Edgeller and Mr P Hewitt be appointed to serve as a Panel to appoint members to the 2 vacancies on the Independent Remuneration Panel.

The Chairman agreed to the following item on Settlement Agreements being considered early on the agenda:

### **Exclusion of the Public**

**Resolved** – That the public be excluded from the meeting for the following item of business which involves the likely disclosure of exempt information as defined in the paragraph of Part 1 of Schedule 12A(as amended) of the Local Government Act 1972 as indicated:

### **63. Settlement Agreements - Progress Report on Implementation of Internal Audit Recommendations (exemption paragraph 3)**

See Exempt Minutes.

The public were readmitted to the meeting.

### **64. External Audits 2020/21 and 2021/22 - Verbal Update ( Ernst Young - External Auditors)**

On behalf of Ernst Young (external auditors) Futhi Mhlongo submitted an update on their audit of the 2020/21 and 2021/22 accounts.

For 2020/21 she reported that Ernst Young would be contacting the Council with queries on the Infrastructure data provided. In addition further information on the IAS19 pension disclosures may be required. Ernst Young intended to report further on the 2020/21 audit to the July Meeting of this Committee.

For the 2021/22 audit, the work is underway and is well progressed, there are some outstanding areas, notably infrastructure and the impact of the triennial valuation of the Pension Fund on the County Council accounts for 2021/22. This is not isolated to the County Council, it is widespread across many other local authorities.

Members voiced their concern at the continued delay in finalising the 2020/21 audit exercise.

**Resolved** – That the update be noted.

### **65. Annual Report of the work of the Audit and Standards Committee 2022/23**

Members considered the draft report on the Committee's work during 2022/23 which particularly referred to their role in overseeing the Council's governance arrangements through consideration of the specific documents

such as the Annual Governance Statement and overseeing the Annual Audit Plan and considering reports stemming from that Plan.

Comment was made on the importance of members having the skills and knowledge to be effective. Members were reminded of the proposed workshop to be held on 23 May 2023 to carry out the self assessment exercise recommended by CIPFA.

**Resolved** – that the report be approved for submission to Full Council.

## **66. Annual Report on Information Governance 2022/23**

The Director of Corporate Services submitted the Annual Report on 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.

As cyber security risks continued to be a high priority the Cyber Champions Programme which focussed on embedding cyber security into the Council's culture, was being reinstated following a pause by its co-ordinators (Staffordshire Police) due to resourcing difficulties. Other measures being introduced to improve security included the use of the SIEM system to analyse and respond to on line security threats.

Referring to the Information Governance function, the Director reported on the increase in request from the public for information. He commented on the themes of the requests and on their increasing complexity. Members called for the publication of the cost of responding to Freedom of Information and similar requests. Summarising work on data management within the Council the Director explained that colleagues were encouraged to report 'near misses' in order to help identify specific training needs or problems with processes.

**Resolved** – That the Annual Report on Information Governance be noted.

## **67. Proposed Internal Audit Strategy & Plan 2023/24**

The Director of Finance and Section 151 Officer gave a presentation on the proposed Internal Audit Strategy and Plan for 2023/24, commenting on the statutory requirement on the Council to have an effective audit function.

The Plan focussed on the Councils key priorities and top rated risk areas, setting out a programme of audits and counter fraud activities including proactive and reactive work over the year whilst maintaining flexibility and resources to respond to issues that may arise throughout the year.

Reference was made to the close working required with other service areas, for example the Information Technology and Information Governance Teams when auditing cyber security related issues.

Details were given of the resourcing and cost of the Audit Plan with the intention to recruit further in house staff in addition to utilising external contractors from external frameworks available to the service.

**Resolved** – That the Internal Audit Strategy and Plan 2023/24 be approved.

**68. Forward Plan for the Audit and Standards Committee 2023/24**

**Resolved** – That the Forward Plan 2023/24, as updated to reflect decisions made at the last Committee meeting, be noted.

**69. 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 paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated.

The Committee proceeded to consider the following items:

**70. Exempt Minutes of the Meeting held on 21 March 2023 (exemption paragraph 3)**

**71. Infrastructure+ Asset Management - Progress Report on Implementation of Internal audit Recommendations (exemption paragraph 3)**

**72. Highways Transformation Programme - Position Statement (exemption paragraph 3)**

**73. SEND Strategy Implementation (Substantial Assurance)(exemption paragraph 3)**

**74. SEND Personal Budgets Invoices (exemption paragraphs 3 and 7)**

**Chairman**



## **Audit and Standards Committee – Tuesday 11 July 2023**

### **Update regarding the situation with external audit provision**

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

I recommend that:

- a. Members note the attached letter from the external auditors

#### **Local Member Interest:**

N/A

#### **Report of the Director of Finance**

### **Report**

#### **Background**

1. Members are aware of the delays currently being experienced nationally in local government with the external audit of accounts. These relate partially to the issue around accounting for infrastructure assets and the County Council has complied with the guidance on this issue, with information submitted to EY in March 2023.
2. The statutory deadline for publication of the draft Statement of Accounts for 2022/23 was 31<sup>st</sup> May 2023 and the County Council achieved this, including the Pension Fund accounts.
3. The Pension Fund is not affected by the issue around accounting for infrastructure and its accounts for the years 2020/21 and 2021/22 have been audited. The audit of the 2022/23 accounts is underway currently.
4. The letter attached at Appendix 1 was sent on 23<sup>rd</sup> May 2023 to all Section 151 Officers of authorities who are clients of Ernst & Young.
5. The letter provides an update on EY's expected timescales for concluding any open audits relating to prior years and for starting the audit of the 2022/23 Statement of Accounts.

6. The key paragraphs are:

'For open 2019/20, 2020/21 and 2021/22 audits our aspiration is to: sign the earlier audit and substantially progress the subsequent audit by the end of December 2023; with a small number being conducted in the early part of 2024. We are currently working through our phasing of these audits and will be able to share the proposed timing of your audits in due course.

Therefore, we will not be commencing 2022/23 financial year audits prior to this, although where capacity allows, we will evaluate the best way to utilise this within our portfolio based on a number of factors, including size and risk. We are reviewing our plans to work through this segment of work, so we can give you a better indication of the timing of your 2022/23 audit later in the year.'

7. Members are asked to note the timescales involved and to reflect on these in light of the verbal update on progress, later on this agenda.

### **Equalities Implications**

None

### **Legal Implications**

None

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

As set out above

### **Risk Implications**

As set out above

### **Climate Change Implications**

None

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

Appendix 1 – Letter sent by Ernst & Young LLP

### **Contact Details**

**Assistant Director:** Rachel Spain, Chief Accountant

**Report Author:** Rachel Spain  
**Job Title:** Chief Accountant

**Telephone No.:** 01785 854455

**E-Mail Address:** [Rachel.spain@staffordshire.gov.uk](mailto:Rachel.spain@staffordshire.gov.uk)

23 May 2023

Your ref: Section 151 Officer

Dear Section 151 Officer colleagues

## Local Audit market update

### National delivery of Local Audit

We are delighted to have been successful in our bid to the PSAA to remain a supplier of local public audit, during which we sought to demonstrate our track record and continued commitment to providing high quality audit in this sector. We share PSAA and other stakeholders' views that the audit market provides high quality assurance and remains sustainable into, and beyond, the period of this next contract.

The national picture of delivery for local audit continues to remain challenging, with the number of audits in progress across the sector remaining high. The issues identified in the 2020 independent review by Sir Tony Redmond (Redmond Review) on financial reporting and external audit continues to impact on the timelines to deliver a quality audit to audited bodies. Those factors impacting the audit profession are not operating in isolation and delivery of external audit is also being impacted by several other key factors within individual Authorities.

We also acknowledge DLUHC's letter to Authorities sent on 14 March 2023. We are pleased to see that this requests collaborative working to resolve any historical open audits, including shorter term requests to provide Authorities, specifically Audit Committees, with a position statement, to accompany those being provided separately by management. Your key audit partner will be liaising with you directly about the timeline for your open audits and subsequent reporting to your Audit Committee.

### Transition between the existing and new PSAA contract

The delivery of the existing PSAA contract audits, as well as planning for the transition to the new contract from 2023/24 is a key priority for us.

If your audit is being transitioned to another firm, transition timing will be impacted by delayed audits, so communication will be key. We will set out a timeline, and agree this with you and the incoming auditor, to ensure all parties can plan their involvement efficiently to avoid duplication of effort. This will include agreeing an exit plan with you to ensure delivery to agreed deadlines, and proactively establishing key meetings required with the incoming auditor to ensure that they have access to the information they need as part of the transition.

Where we remain your auditor, we will continue to liaise with you and set out timelines for the delivery of ongoing and future audits, as well as establishing some key principles on our expectations of you, both in preparing for, and engaging during the audit.

### Expected delivery timelines

Our aim is to provide you with a clear and transparent view of the current situation and work with you to complete both the existing programme of open audits and those we are yet to commence.

As part of our continued resource management and planning for the transition between the PSAA contracts we are estimating that our expected delivery of audits under the existing contract (i.e. those relating to 2022/23 and earlier years) will extend through 2024. There are a number of factors that will continue to impact this estimated timeline. We wanted to reassure you that we are continuing to invest significantly in additional headcount in addressing capacity pressures in a sustainable way, noting that increasing audit capacity is only one of the sector-wide improvement actions referred to in the Redmond

Review. Therefore, we will continue to revisit our plans on a regular basis and communicate any changes with you.

At a local team level, the phasing of the current programme of work is being impacted by the number of historic audits that remain in progress. In addition, all audited bodies geographically located across South Yorkshire, the Midlands and Northwest are to be transitioned to other firms creating a high level of demand and pressure within the team. We are keen to deliver and facilitate effective transition arrangements in the most equitable and efficient way.

For open 2019/20, 2020/21 and 2021/22 audits our aspiration is to: sign the earlier audit and substantially progress the subsequent audit by the end of December 2023; with a small number being conducted in the early part of 2024. We are currently working through our phasing of these audits and will be able to share the proposed timing of your audits in due course.

Therefore, we will not be commencing 2022/23 financial year audits prior to this, although where capacity allows, we will evaluate the best way to utilise this within our portfolio based on a number of factors, including size and risk. We are reviewing our plans to work through this segment of work, so we can give you a better indication of the timing of your 2022/23 audit later in the year.

### **Other services**

We are cognisant of the considerable amount of change and challenges in both the local audit market but also in the provision of Housing Benefit certification work and other assurance statements. We want to ensure we have the capacity to deliver existing commitments and provide the following updates:

#### *Housing benefits*

We are reviewing our approach to Housing Benefit work from 2023/24 and note that currently:

- In light of the recent PSAA audit procurement and the resulting changes in appointed auditor, where EY will no longer be your external auditor from 2023/24, we will no longer be able to be your reporting accountant for Housing Benefit.
- For those of you where EY continues to be your appointed auditor in 2023/24, we are not yet in a position to be able to confirm whether we can be your reporting accountant, but we will update you through your normal contacts in due course.

#### *Teacher's Pension and CFB06*

Having assessed the small number of assurance services we provide in these areas, as well as evaluating the pressures on audit delivery outlined above, we have made the decision that we will not be able to commit to delivering these services in future years. Our decision is based on our continued commitment to providing high quality audits in this extremely important sector and supporting the local audit market in addressing the matters set out in this letter. For any returns where the work has commenced, we will complete the existing assurance statement over the returns.

Thank you for your understanding. We are happy to discuss the issues with you on an engagement level with the relevant Audit Partner, or indeed our Sector Lead, Janet Dawson.

Yours sincerely

for and on behalf of Ernst & Young LLP



Hayley Clark – Partner



Hassan Rohimun - Partner

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

**Audit and Standards Committee – Tuesday 11 July 2023**

**Code of Conduct for Members  
Report on the Management of Complaints (June 2022-June 2023)**

**Recommendations**

I recommend that:

- a. The Committee note the information contained in this report; and
- b. Make any recommendations that they think fit to assist in respect of the management of Member complaints.

**Report of the Monitoring Officer**

**Complaints Management and Number of Cases June 2022 – June 2023**

1. I am reporting on the number and management of complaints against elected members for the June 2022-June 2023 period.
2. The County Council has its own Code of Conduct for members prepared in accordance with the requirements of the Localism Act 2011. The Council's Code was revised and a new code adopted in 2021 in line with the Local Government Association's Model Code of Conduct for Members which was called for by the Committee on Standards in Public Life (CSPL).
3. Overall, members adopt high standards of conduct all of the time. However, there are occasions when members of the public are unhappy about the way an individual member of the County Council has behaved. The Localism Act 2011 requires local authorities to have arrangements in place to deal with complaints about the conduct of members. Those arrangements include the requirement for me to seek the views of an 'Independent Person' prior to reaching any decision on a complaint.
4. The Authority enjoys the support of four Independent Persons (IPs) - Mr Tom Roach, Mrs Christina Robotham, Mr Eddie Barnett and Mrs Sue Charles. These IPs have wide ranging backgrounds and are therefore able to provide the required alternative perspective on complaints.
5. A formal complaint by a member of the public can be submitted to me either on-line or in writing. I assess the allegation and consult one of the Independent Persons on whether the allegation, if proved, involves a breach of the Code. If this is the case a further assessment is made on

whether the issue can be dealt with by me under delegated authority, or, in serious cases, by a Panel of members.

**Complaints considered by the Monitoring Officer**

6. These are complaints for which the Monitoring Officer, in consultation with the Independent Person, feels that appropriate remedy would be:
- a. a formal apology by the member concerned to the complainant, or
  - b. training, or
  - c. both an apology and training

**Complaints considered by a Panel of the Audit and Standards Committee**

7. Where, in consultation with the Independent Person, I think that it is not appropriate for me to deal with the complaint or that more serious sanctions might be appropriate, the complaint will be referred to a Panel of five members taken from the full membership of this Committee. The sanctions available are wider including recommendations that the member be removed from a particular committee or outside body and the issuing of an appropriate press release.

**Issues dealt with during June 2022 – June 2023**

8. Details of the number and outcome of complaints received are given in the Table below:

<b>Period</b>	<b>No. of complaints</b>	<b>No. of members</b>	<b>Outcome</b>
June 2022 – Dec 2022	6	6	All concluded -No breaches of the Code
January 2023- June 2023	9	8	5 cases concluded– No breaches of the Code 1 case not entered into process as complainant was not directly affected by the alleged actions of the member concerned. 1 case – closed due to change in circumstances 1 case -under consideration.

			1 case awaiting processing
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More details on the complaints and agreed actions are shown at Appendix 1 to this report.

9. Whilst there is no underlying theme to the nature of the complaints it is worth me highlighting that a number relate to comments made by members either in meetings or publicly, for example to the Press. The Code of Conduct calls on members to exercise Respect towards others. When I'm considering complaints about comments made by members I am keen to maintain the distinction between exercising Respect and the importance of being able to express views and opinions freely. It is important for members to maintain awareness that public interpretation of comments made can vary widely.

### **Legal Implications**

10. The County Council is required to have a formal complaints procedure for the handling of complaints about elected members.

### **Risk Implications**

11. Compliance with the requirement to have a Code of Conduct for members and a local process to deal with alleged breaches of that Code arrangements addresses the risk of challenge to the governance arrangements of the Council.

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

Appendix 1 - Complaints against Elected Members – June 2022 –June 2023

### **Contact Details**

**Report Author:** Julie Plant  
**Job Title:** Governance and Support Manager  
**Telephone No.:** 01785 276135  
**E-Mail Address:** [julie.plant@staffordshire.gov.uk](mailto:julie.plant@staffordshire.gov.uk)





## Appendix 1 Complaints against Elected Members June 2022- June 2023

Ref	Complaint details	Decision/Action
21/6	Publication of intention to accommodate asylum seekers in local hotel in breach of their confidentiality/Racism	No breach of Code. Member requested to consider unintended consequences of actions
21/7	Alleged failure to reply to complaints re Highways	No breach of Code. Member replied to complainant.
21/8	Comments re Users of Food Banks and coping with Fuel crisis	No breach of Code. Member acknowledged complainant had differing interpretation of comments
21/9	Comments in meeting about the users of specific services	No breach of Code. Comments deemed to be based on personal experience
22/10-11	Comments in meetings about the users of specific services	No breach of Code. Comments deemed to be based on personal experience
23/1	Alleged failure to represent interests of Constituents	No breach of Code. Member demonstrated work for community.
23/2	Alleged interference in District Council decisions/officer actions and behaviour towards DC officers	No breach of Code. No evidence of actions alleged and no complaints received from persons directly affected
23/3	Alleged unprofessional out of office message. Poor performance in role	No breach of Code. Generic out of office message in use. 'Performance' not within realms of Code of conduct.
23/4	Allegedly disrespectful to local Parish Council	Complaint closed following change in circumstances
23/5	Alleged breach of Purdah and Election Law	No breach of Code. Purdah not applicable to members as individuals(Election law not within SCC purview)
23/6	Alleged failure to respond to local council member	Not actioned – complainant not directly affected.
23/7	Alleged verbal Aggression and Inappropriate Behaviour towards complainant	No breach of Code.- Member's language was not considered inappropriate or threatening.
23/8	Alleged verbal Aggression and Negative Behaviour towards complainant	Awaiting discussion with IP
23/9	Alleged failure to act on report of alleged wrongful advice given by officers	No yet entered into process



## **Audit and Standards Committee - Tuesday 11 July 2023**

### **Updates to the Scheme of Delegation in relation to Staffordshire County Council's responsibilities under Section 53 of the Wildlife and Countryside Act 1981**

#### **Recommendation**

I recommend that the Committee:

- a. Support the proposed changes to the Scheme of Delegation in relation to the Council's responsibilities under s53 of the Wildlife and Countryside Act 1981 as set out in paragraphs 4-9 of this report; and recommend to full Council that the Constitution and Scheme of Delegation be updated accordingly.

#### **Local Member Interest:**

N/A

### **Report of the Deputy Chief Executive and Director for Corporate Services**

#### **Report**

##### **Background**

1. Staffordshire County Council, as surveying authority, has responsibility for maintaining the Definitive Map and Statement of Public Rights of Way as laid out in section 53 of the Wildlife and Countryside Act 1981. Carrying out the duties of the Council in respect of s53 falls within the Terms of Reference of the Countryside and Rights of Way Panel.
2. The Countryside and Rights of Way Panel has to consider Definitive Map Modification Order (DMMO) applications submitted under s53 for modifications to the Definitive Map, which can be the addition, modification or deletion of a right of way. On receipt of an application the council has to investigate all evidence, including documentary and user evidence as soon as practically possible, determine if an Order should be made, carry out public consultation and, if necessary, submit the application to the Secretary of State which may lead to a Public Inquiry. If a DMMO application is not determined within 12 months of receipt the applicant can appeal to the Secretary of State against this non-determination which can result in a direction to the council to determine the application within a fixed timescale.

3. Each application involves an extremely labour intensive, lengthy period of researching, collating and examining evidence. The Council has committed considerable resources to address the backlog of DMMO applications. At the time of writing there is a backlog of 290 applications requiring determination. That number includes 67 which the Secretary of State has determined should be dealt with within 6 -12 months and a further 3 direction applications pending with the Secretary of State. I should highlight that research has shown that Staffordshire is in a similar position to many authorities in respect of the backlog although it has been directed by the Secretary of State in considerably more cases than any of the authorities surveyed. The reasons for this difference are unclear.

### **Proposed Changes to Scheme of Delegation**

4. To address the backlog of applications I am constantly reviewing the processes for handling DMMO applications and at its meeting on 16 June 2023 the Countryside and Rights of Way Panel supported my proposals relating to:

#### **(a) Revision of the existing Priority Scheme**

5. The existing and proposed Priority Schemes are attached to this report as Appendix A and Appendix B respectively. One of the aims of the revised criteria is to enable prioritisation of those applications which would be considered to have a benefit to the public, such as those which meet certain council objectives (e.g. in relation to improving connectivity) and those which would be lost as a consequence of development.
6. Implementation of the criteria requires me to have delegated powers '*to exercise the County Council's discretion' as set out in section 3 of the proposed Priority Scheme detailed at Appendix B'.*

#### **(b) Delegation of Staffordshire County Council's surveying authority powers in respect of any cross-boundary application to the appropriate neighbouring authority.**

7. Occasionally, a DMMO application involves an alleged right of way that crosses the county border. In many cases it is beneficial for the whole of the application to be dealt with by one authority. Currently the Countryside and Rights of Way Panel has to approve the delegation of our surveying authority powers to the neighbouring authority. To help speed up processes I am requesting '*authority to delegate the County Council's surveying authority powers in respect of any cross-boundary application to the appropriate neighbouring authority as and when such*

*action would prove beneficial both in terms of the effective use of resources and processing of the s53 application’.*

### **(c) Update to existing delegation**

8. As part of my review of the processes I have taken the opportunity to review my existing delegated power in respect of s53 applications.

I am currently authorised to:

*‘determine applications for Modification Orders under the Wildlife and Countryside Act 1981 unless, after consultation with the local County Councillor(s) for the area concerned and the Director for Economy, Infrastructure and Skills, they decide that the matter in question ought **properly** to be determined by the Countryside and Rights of Way Panel’.*

9. Members are asked to *approve the deletion of the word ‘properly’* as I am concerned that it implies that there are some criteria that inform the decision as to which matters should or should not “properly” be determined by the Panel. In reality the decision is based on the important consideration of whether the relevant local member(s) wishes the matter to be determined by the Panel.

### **Resource and Financial Implications**

10. The proposals, particularly in relation to the delegation of powers to neighbouring authorities aim to make best use of the councils’ resources.

### **Risk and Legal Implications**

11. The delegation of decision-making powers need to be properly justified and authorised to avoid challenge to any proposed action on a DMMO application.

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

Appendix A – Existing Priority Criteria (s53 DMMO applications)  
Appendix B – Proposed Priority Scheme (s53 DMMO applications)

### **Contact Details**

**Report Author:** Julie Plant  
**Job Title:** Governance and Support Manager  
**Telephone No.:** 01785 276135  
**E-Mail Address:** [julie.plant@staffordshire.gov.uk](mailto:julie.plant@staffordshire.gov.uk)



## APPENDIX A

### Existing Priority Criteria

The Countryside and Rights of Way Panel have resolved that applications for Modification Orders should be investigated and determined in the order in which they are received, except where there are exceptional circumstances, which would warrant a claim receiving priority consideration.

For an application to be given priority status the person requesting such would need to provide evidence that it falls within one or more of the criteria set out below. If the material provided is not sufficient to support the claim Officers have the power to reject the request. The decision on a request supported by relevant evidence is reserved to the Countryside and Rights of Way Panel.

Further, applicants or owner/occupiers should be aware applications will only be afforded priority in rare and exceptional circumstances.

Additionally, that where the Council has been directed to determine applications by a set date by the Secretary of State an application afforded priority status will be dealt with after such directions have been satisfied unless the Countryside and Rights of Way Panel decides otherwise.

These exceptional circumstances are as follows: -

1. Where the land over which the route runs has received permission for development and
  - (a) the implementation of such would mean the claimed way would be lost as a consequence of being built over, and
  - (b) all attempts to divert or otherwise cater for the route within the development have been exhausted.
2. Where there is evidence of severe financial hardship caused by the existence of an application for an addition of a route to the owner/occupier of the land

## APPENDIX B

### Proposed Priority Scheme

The Countryside and Rights of Way Panel have resolved that applications for Definitive Map Modification Orders should be investigated and determined in the order in which they are received, except where there are circumstances which would warrant priority consideration. All undetermined Definitive Map Modification Order applications will be prioritised using a scoring matrix based on the following circumstances.

#### 1. Directions by the Secretary of State

- A. Where the County Council has been directed by the Secretary of State to determine an application within a specific timescale.

#### 2. On application to the County Council

An owner or occupier of land which is affected by a modification order application may make a request to the County Council for priority consideration based on one or more of the following four circumstances (B-E). The owner or occupier would need to provide evidence to support their request. If the material provided is not considered to be sufficient to support the priority request, officers have the power to reject the request. The decision on a priority request which is supported by relevant evidence is reserved to the Countryside and Rights of Way Panel.

- B. Where the land over which the route runs has received permission for development and
  - a. the implementation of such would mean the claimed way would be lost as a consequence of the development AND
  - b. all attempts to divert or otherwise cater for the route within the development have been exhausted.

- C. Where there is evidence of
  - a. detrimental financial implications, and/or
  - b. detriment to the health

of the owner or occupier of any land affected by a modification order application, AND that either C(i) or C(ii) above has been caused by the existence of a modification order application for an addition of a route over their land.

- D. Where there is evidence that the sale of land is being prevented by a modification order application for an addition of a route over that land.
- E. Where the applicant has identified that there is more than one application which are in close proximity to each other and/or are supported by the same documentary



evidence and it would make more efficient use of resources to investigate those applications together.

### 3. County Council Discretion

Where in the sole opinion of the Director for Corporate Services, any of the following criteria (F-I) are satisfied, the Director for Corporate Services shall have the discretion to prioritise those modification order applications without the need for a decision from the Countryside and Rights of Way Panel.

- F. Where, unless already accounted for by the application, the land over which the route runs has received permission for development and the implementation of such would mean the claimed way would be lost as a consequence of the development
- G. Where, unless already accounted for by the application, there is more than one application which are in very close proximity to each other and/or are supported by the same documentary evidence and it would make more efficient use of resources to investigate those applications together.
- H. Where the subject of the application would assist in meeting one or more corporate objectives and is considered to offer a significant benefit to users of the Rights of Way network by enabling or improving:
  - 1) Connectivity of the overall highway network
  - 2) Access to services
  - 3) Physical and mental health and wellbeing
- I. Where an existing path is subject to enforcement but the status or alignment of a route which is currently on the Definitive Map is in dispute and a resolution would enable the County to deal with enforcement with more certainty.



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

## **Audit and Standards Committee - Tuesday 11 July 2023**

### **Internal Audit Outturn Report 2022/23**

#### **Recommendation**

I recommend that:

- a. Members receive the outturn report containing the annual internal audit opinion for 2022/23.

#### **Report of the Director of Finance**

### **Report**

#### **Background**

1. This report outlines the work undertaken by Internal Audit in respect of the 2022/23 annual plan.
2. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes<sup>1</sup>.
3. Internal Audit is required by professional standards, i.e. UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
  - a. The opinion;
  - b. A summary of the work that supports the opinion; and

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<sup>1</sup> Public Sector Internal Audit Standards definition of Internal Auditing.

- c. A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
4. The underlying principles to the 2022/23 plan were outlined in the Internal Audit Strategy and Plan approved by Members of the Audit & Standards Committee on 26th April 2022. Since the original plan was approved, a number of additional audits have been required, to provide assurances over areas such as procurement activities undertaken during the COVID 19 pandemic (which will go on to support and inform the national COVID Inquiry work to take place during 2023/24), additional grant expenditure received in-year, the Council's Local Authority Trading Company (LATCO), NEXXUS following the publication of government guidance as well as new IT systems procured and other digital developments, whilst some planned reviews were no longer needed and several deferred due to operational requirements including external inspections as well as the availability to undertake audits in some service areas due to service pressures. However, the net effect is that the key performance target has been achieved.
5. It should be noted that work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. In respect of this point, as services get back to "business as usual" following COVID 19, there has been a delay in commencing some audits until the end of the financial year, which meant there were a greater number of reports still at draft report stage at the end of March/April 2023. However, the Internal Audit Team continue to proactively seek management responses to all outstanding draft reports.
6. Each control tested as part of an individual audit is evaluated for its adequacy. The table below demonstrates the number of controls that have been evaluated as part of the 2022/23 Internal Audit Plan for systems audits and the comparison figures for the previous two years:

	2020/21	2021/22	2022/23
<b>Controls Evaluated</b>	<b>1,034</b>	<b>1,206</b>	<b>949</b>
<b>Adequate Controls</b>	<b>570 (55%)</b>	<b>773 (64%)</b>	<b>573 (60%)</b>
<b>Partial Controls</b>	<b>313 (30%)</b>	<b>302 (25%)</b>	<b>303 (32%)</b>
<b>Weak Controls</b>	<b>151 (15%)</b>	<b>131 (11%)</b>	<b>73 (8%)</b>

Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in **Appendix 1**:

- a. Substantial Assurance
  - b. Adequate Assurance
  - c. Limited Assurance
7. Paragraphs 9 to 32 provides a high-level summary of the work undertaken by the Section analysed by the following categories:
- a. High Risk Auditable Areas;
  - b. Main Financial Systems;
  - c. Other Systems Audits (reported by exception, i.e only those with "Limited Assurance" and/or those with a High-Level Recommendation);
  - d. Compliance Reviews (including financial management in maintained Schools, comfort funds, complex needs units and District Offices reviews);
  - e. Special Investigations/Fraud & Corruption Related Work.
8. For those areas awarded 'Limited Assurance,' action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2022/23, Members of the Audit & Standards Committee have continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e greater than £10,000 financial loss/Significant Corruption issues) once finalised. Also, relevant managers have attended the Committee in-year to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track the implementation of all audit recommendations and report on the implementation of all High-Level recommendations, including those contained within reports awarded "Adequate Assurance" as part of our on-line recommendation tracking portal and reporting protocols to this Committee.

## 2022/23 Audit Plan Outcomes

### High Risk Auditable Areas

9. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2022/23. These reviews acknowledged the key risk areas and financial pressures within the Council with its continued work on the Council's digital strategy and transformation projects including the Corporate File Plan project and other IT systems including the Council's new recruitment applicant tracking system, as well as a continued look at our cyber security arrangements with specific focus on major incident and threat and vulnerability management in-year. Internal Audit continued to support the Council's response and recovery work relating to the COVID pandemic including a review of the contain outbreak management fund. Other priority areas were also kept under review in-year including the Council's on-going arrangements relating to climate change and Special Educational Needs and Disabilities (SEND). On-going assurance was also requested in relation to the large-scale Highways Transformation Programme and revised processes operating within Childrens Services and the Council's S117 provisions for aftercare services in relation to mental health.
10. The audit opinions for all the high-risk reviews are summarised in the table below:

<b>System Area</b>	<b>2022/23 Opinion</b>	<b>2022/23 Consultancy</b>
Social Care Reforms – including Build back Better Project and Adult Social Care Pathway – Strength Based Care	Cancelled - Adult Social Care Reforms were paused by Central Government in-year. Strength Based Care Pathway deferred to 2023/24	
*Climate Change Action Plan – Project & Programme Management	Substantial Assurance	
Community Climate Action Fund	Adequate Assurance	
Digital Strategy & Transformation – Corporate File Plan/Customer Journey Project, Digital Leadership Group		✓ Project advisory work
Children's & Families Transformation – Panel & Decision-Making Arrangement	Draft Report with Management (Substantial Assurance)	
Children's & Families Transformation – New District Model	Cancelled – due to Internal review and further revisions to their operating model	

System Area	2022/23 Opinion	2022/23 Consultancy
	- Deferred to 2023/24	
* Cyber Assurance – Cyber Security Strategy	Adequate Assurance	
*Cyber Assurance – Threat & Vulnerability Management	Substantial Assurance	
*Cyber Assurance – Major Incident Management	Substantial Assurance	
**Cyber Assurance – Software as a Service (SaaS) Procurement & Monitoring	Draft Report currently being produced – opinion awaited	
Culture, Values & Behaviours	Work On-Going	
Entrust Contract Management Arrangements	-	✓ Project advisory work
*Contain Outbreak Management Fund - Grant Verification	Substantial Assurance	
*Recruitment Applicant Tracking System (We Recruit)	Substantial Assurance	
SEND Strategy Implementation Plan	Substantial Assurance	
*SEND High Needs Block	Adequate Assurance	
Highways Transformation Programme	Position Statement	
*Mental Health Act – Section 117	Substantial Assurance	

\*To be distributed to Audit & Standards Committee members outside of this meeting.

\*\* Currently at draft report stage, therefore any high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

11. It is pleasing to note that there have been no Limited Assurance reports issued for the top risk reviews conducted in 2022/23.
12. In addition, for those final reports relating to high-risk auditable areas, with an opinion of at least "Adequate," one high level recommendation has been made as follows:

System Area	Areas for Improvement
Recruitment Applicant Tracking System (we Recruit)	<ul style="list-style-type: none"> <li>• <b>Candidate Portal</b> – New Starter forms, containing sensitive information including special category data stored on shared filling is accessible to the 'Human Resources - Change' active directory group which has a number of members which did not have a business need to have access to this data.</li> </ul>

13. The top risk audit reviews awarded an adequate/substantial assurance opinion, and which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee outside of this meeting for further consideration.

## Main Financial Systems

14. Audit coverage of the key financial systems in 2022/23 was in line with the audit strategy:

Main Financial System	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	2022/23 Opinion	Direction of Travel
Liberata Payroll System	Adequate Assurance	Adequate Assurance	Adequate Assurance	Adequate Assurance	→
Pension Fund - Pensions Payroll	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pensions IT System (ALTAIR)	Not Covered in 2019/20	Not Covered in 2020/21	Advisory	Adequate Assurance	→
Pensions Fund – Asset Pooling – Governance & Financial Reporting Arrangements	Adequate Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Custodian, Investment Managers and Pensions Property	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	Not covered in 2022/23	→
Pension Fund - Investments (SCC local arrangements)	Substantial Assurance	Substantial Assurance	Not covered in 2021/22	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Substantial Assurance	Not Covered in 2020/21	Substantial Assurance	Not covered in 2022/23	→
Sales to Cash including Debt Recovery Function & Debt Management	Adequate Assurance	General Debts - Limited Assurance	Adequate Assurance	**Draft Report with Management (Limited Assurance)	↓
		CCG/Other Health Body Debts- Adequate Assurance			



Main Financial System	2019/20 Opinion	2020/21 Opinion	2021/22 Opinion	2022/23 Opinion	Direction of Travel
E- Payments	Not Covered in 2019/20	Substantial Assurance	Substantial Assurance	Not covered in 2022/23	→
Cheque Control	Not Covered in 2019/20	Not Covered in 2020/21	Not Covered in 2021/22	Not covered in 2022/23	→
Main Accounting Including Bank	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	Substantial Assurance	→
Treasury Management & Lloyds Link	Not Covered in 2019/20	Substantial Assurance	Not Covered in 2021/22	Substantial Assurance	→
Value Added Tax (VAT)	Not Covered in 2019/20	Not Covered in 2020/21	Substantial Assurance	Not covered in 2022/23	→

\*\* Currently at draft report stage, therefore any high-level recommendations have not been included in this section of the Outturn report.

15. There has been one Limited Assurance report issued for the main financial systems areas in 2022/23 relating to sales to cash (including debt recovery). Our work in 2022/23 provided limited assurance over the Council's debt recovery arrangements in place to deal with both general debts and health & care client debts. As the audit review is at draft report stage, any high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee. In addition, for those main financial system reports with an opinion of at least "Adequate", one high-level recommendation has been made:

System Area	Areas for Improvement
Pension Fund – Pensions IT System (ALTAIR)	<ul style="list-style-type: none"> <li>• <b>Segregation of Duties</b> - There was a segregation of duties conflict within the system that allowed one user to create a new pension member and run the payroll. This was resolved following the audit review.</li> </ul> <p>In addition, there was a few roles that had permission conflicts (these roles had been assigned and restricted to system administrators).</p>

### Other Systems Audits

16. The following system reviews delivered as part of the 2022/23 Internal Audit Plan are reported by exception i.e only those with Limited Assurance and/or those with a high-level recommendation. It is pleasing to note that there have been no Limited Assurance reports issued for the other systems audit reviews conducted in 2022/23.

17. However, there are several final reports relating to other system audits, with an opinion of at least "Adequate," where high level recommendations have been made.
18. The following table lists those other systems audits where high-level recommendations have been made to address control weaknesses within Adequate Assurance/Position Statement reports:

System Area	Areas for Improvement
My HR System Security	<ul style="list-style-type: none"> <li>• <b>User Records</b> - Data inconsistencies were identified in relation to user lists held by the Council and the contractor which questions the data integrity within the system.</li> </ul>
Members Allowances & Expenses	<ul style="list-style-type: none"> <li>• <b>Supporting Documentation</b> - Expenditure and fuel receipts were not being submitted with the claims and validated before the claims were authorised which is contrary to the Members Allowances Scheme.</li> </ul>
Information Asset Register (IAR)	<ul style="list-style-type: none"> <li>• <b>Completion of the IAR</b> - a significant number of register entries were not complete, or elements of the information recorded against an asset were inconsistent within the entry. Also, the legal basis for information sharing was not fully recorded in the information asset register and there was no detail of Information sharing agreements shown in the register.</li> </ul>
Disabled Facilities Grant - Expenditure & Outcomes	<ul style="list-style-type: none"> <li>• <b>Expenditure Monitoring</b> - Comparison of funding allocations, expenditure recorded by the external delivery partner and balances declared by the six District/Borough Councils in the Support for Independent Living in Staffordshire contract on their Annual Certificates as at 31 March 2022 identified a potential significant discrepancy which required investigation.</li> </ul>
Building Resilient Families & Communities (BRFC)	<ul style="list-style-type: none"> <li>• <b>BRFC Compliance Checks</b> - Testing identified families which should not be claimed as successful outcomes and gaps and anomalies within the information being recorded in Capita One and the supporting documentation were noted.</li> </ul>
Disability Access Funding (DAF)	<ul style="list-style-type: none"> <li>• <b>Appropriate Use of DAF Allocations</b> - Monitoring arrangements were not in place to ensure that providers were spending their DAF allocations as per the DfE's criteria.</li> </ul>
Nexus Care (LATCO) Financial Assurance Review	<ul style="list-style-type: none"> <li>• <b>Company Board Membership</b> - Membership of the Company's board needed to be reviewed to ensure that it was fit for purpose.</li> </ul>
COVID 19 Procurement Activities	<ul style="list-style-type: none"> <li>• <b>Exceptions to Procurement Regulations</b> - Audit testing found that exceptions have not been sought where contracts have been directly awarded to suppliers.</li> </ul>

19. Complying with the Data Protection Act 2018 which incorporates the General Data Protection Regulation 2018 (GDPR), is an ongoing responsibility. However, it is important that Internal Audit provides ongoing assurance to management in this area as part of its planned systems audit work across the Council. In 2022/23, for all applicable audits i.e where the auditable area being reviewed processes personal data, a GDPR checklist was completed to identify GDPR compliance issues that may be required to be reported.
20. In 2022/23, a GDPR checklist was completed for 16 system audit reviews. Of these, compliance issues were noted in 4 reviews resulting in three medium and one low level recommendation being made. Arrangements for ensuring accuracy of data along with data security and data retention periods were common themes arising from these reviews. The recommendations made will continue to be monitored until implemented along with all the other agreed recommendations made as part of the individual audit reviews.

Compliance Reviews Including Financial Management in Maintained Schools

21. Our compliance programme as detailed below is in line with the audit strategy:

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
<b>Compliance: Schools</b>				
High Schools	0	0	1	1
All other schools	0	3	12	15
<b>Compliance: Other</b>				
Comforts Funds*	10	0	0	10
Educational Endowment Funds*	3	0	0	3
Area District Offices	5	0	0	5
Residential Homes - LD	1	0	0	1
Residential Homes - Other	0	0	2	2
Complex needs Units	0	3	0	3
<b>Compliance Reviews</b>	<b>19 (48%)</b>	<b>6 (15%)</b>	<b>15 (37%)</b>	<b>40</b>

\*These reviews related to the audit of accounts and no issues were identified.

## Compliance Reviews: Financial Management in Maintained Schools

22. Schools Payroll – For the year 2022/23, payroll services to schools continue to be provided by several providers. As a result, Internal Audit has continued to undertake a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for this area. To ensure efficiency of operation, the payroll themed review is undertaken while the compliance review is completed at the school, hence only one opinion has been given covering all systems at the school. The detail from the themed audit reviews on payroll is provided at paragraph 25 below.

### Schools Compliance

23. Our Schools' Compliance Programme for the year ahead is based upon a formal risk assessment methodology which considers; the time since last audit, the previous audit opinion, delegated budget value, whether there is a licenced deficit in place, if the school has community facilities, the last Ofsted rating and submission of the Schools Financial Value Standard (SFVS) return. In addition, and like last year, for the 2022/23 schools' audit compliance programme, a Schools' Fraud Risk Assessment was produced which fed into the risk assessment methodology. This meant that several schools that had not been audited for several years along with some smaller schools were selected for review during 2022/23.
24. From the table above, a large number of schools were awarded a limited assurance opinion during 2022/23 (13 schools) which although a similar number to last year, 2021/22 (14 schools) represents a sustained significant increase based on previous years (three limited assurance opinions were awarded in both 2020/21 and in 2019/20). For those schools being awarded a limited assurance opinion, issues were found relating to number of financial administrative areas including school governance; independent oversight of the school fund account; the proper accounting and banking of income; compliance with Schools' Procurement Regulations; purchase card use; lettings governance and administration processes; the proper maintenance of records relating to payroll transactions including authorisations for appointments, terminations ,variations and additional hours; the proper authorisation of the payroll; and the appropriateness of payroll validation checks undertaken.

25. Generally, the compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

### Schools – General Compliance

#### Governance

- Scheme of Delegation requires amendment/approval. *(14 schools)*
- Lack of clear committee minutes taken; Committee Terms of References; inappropriate committee membership and/or infrequent committee meetings held. *(5 schools)*
- Budgets have not been set, approved, or reviewed in accordance with the Scheme of Delegation and Financial Regulations including budget deficit strategies. *(5 schools)*
- Budgets are not supported by documentation including a costed ICT plan /capital programme. *(3 schools)*
- Key Policies not approved in accordance with the Scheme of Delegation; policies which lacked detail and/or lack of annual review. *(11 schools)*
- Lack of Governor challenge to budget monitoring reports. *(1 school)*
- Financial reports are not submitted to the Committee responsible for Governance of School Finances or reports are inadequate. *(4 schools)*
- The School Fund is not audited and approved in accordance with requirements of Financial Regulations. *(11 schools)*
- Pecuniary interest register is not up to date/published in accordance with guidance. *(11 schools)*
- Income and expenditure of extended School Provisions (Below the line accounts) are not coded to the correct cost centres. *(2 schools)*
- The financial performance of extended school provisions are not being separately reported to the Full Governing Body. *(4 Schools)*

#### Income

- Income is not banked promptly and/or intact. *(3 schools)*
- Income is not recorded or receipted in accordance with Financial Regulations. *(8 schools)*
- Transfer of income between officers is not evidenced. *(1 school)*
- Banking records are poor and/or not well maintained. *(1 school)*
- There is a lack of separation of duties or independent check in the income and banking process. *(10 schools)*
- Lettings are not administered appropriately, including VAT and evidence of public liability insurance. *(6 schools)*
- The school does not have a lettings policy, lettings policy is out

- of date or lettings charges are not detailed in the Charging and Remissions Policy. *(2 schools)*
- Lettings charges are not made in accordance with policy or reviewed and approved annually. *(1 school)*
- Invoices have not been raised in the finance system or unofficial invoices have been raised. *(2 schools)*
- No independent spot check of income received/banked is conducted. *(6 schools)*
- No independent reconciliation or review of Parent Pay postings to MyFinance. *(3 schools)*
- The school does not promptly pursue outstanding debts. *(6 schools)*
- The school is using an unofficial online payments system which has not been notified to the S.151 Officer. *(3 schools)*
- Debtor invoices are not raised promptly. *(4 schools)*
- Lack of reconciliations between charges from school meals providers and school meals provided. *(1 school)*.
- Lack of an appropriate segregation of duties within the on-line payment system allowing charges to be raised and payments monitored by the same person. *(7 schools)*

#### Procurement

- No financial limits set for declared pecuniary interest in companies. *(2 schools)*
- Value for money procedures such as quotations/tenders not complied with in accordance with Scheme of Delegation or Procurement Regulations. *(12 schools)*
- Purchase card is not held/ used in accordance with the Purchase Card Manual/ Financial Regulations. *(7 schools)*
- Purchase card transactions are not reviewed/approved. *(5 schools)*
- Lack of supporting documentation held to support purchase card transactions. *(6 schools)*
- Incorrect accounting for VAT. *(11 schools)*
- Purchase orders are not raised to support procurements in accordance with Financial Regulations. *(10 schools)*
- Contracts are not in place for regular services where they would be expected. *(1 school)*
- No evidence that contractors' insurance cover arrangements are checked prior to their engagement. *(6 schools)*

#### Expenditure

- Expenditure incurred without adequate approval in accordance with the Scheme of Delegation. *(2 schools)*
- Lease agreements are not reviewed annually. *(5 school)*
- Leases are not signed in accordance with Scheme of Delegation



/or copies not held by the school. (3 schools)

#### Schools – Payroll Themed Audit

- Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. (10 schools)
- Claim forms not signed by the employee and/or not authorised in accordance with the Scheme of Delegation. (11 schools)
- Validation checks and agreement/authorisation of the payroll is not evidenced. (10 schools)
- Service level agreement for payroll services not provided during the audit. (2 schools)
- Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. (3 schools)
- Lack of appointment documentation retained. (1 school)
- Pre-recruitment checks could not be verified. (2 schools)
- Staff vacancies had not been advertised. (1 school)
- Lack of documentation to support revisions/decisions to Headteachers' pay i.e., performance review/approval of pay award. (4 schools)

#### Compliance Reviews: Other

26. It is pleasing to note that our compliance reviews of our Residential Homes (Learning Disabilities) and Complex Needs Units did not highlight any serious key control failings. However, lower-level recommendations were made relating to:

- Lack of separation of duties in respect of the operation of the imprest account and the absence of a regular reconciliation of the account. (Medium level recommendation)
- Budgets were not always being monitored. (Medium level recommendation)
- Inventory assets written off were not always being authorised. (Medium level recommendation)
- One item (low-cost item) on the asset register at one establishment could not be located at the time of the audit review. (Low level recommendation)

Also, it is pleasing to note that our testing of the financial administrative arrangements for purchase card cash withdrawals at five area district offices did not highlight any serious key control failings. However, lower-level recommendations were made relating to a) the need to ensure that the purchase card cash withdrawal transaction is approved on a timely basis on the on-line purchase card system; b) the need to ensure that reconciliations of the

cashbook to the physical cash-in hand are carried out; and c) the need to ensure that cash withdrawal forms are completed.

However, a review of two residential care homes (operated by Nexxus Care) has highlighted several improvements to the financial administrative arrangements in place at both establishments and as a result, a limited assurance opinion has been awarded. Currently, this review is at draft report stage, and therefore the high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee

### Special Investigations/Fraud & Corruption Related Work

27. A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2022/23 indicated that there have been some lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved “confirmed” financial losses. Reports have been issued/will be issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Commentary
<b>Internal Special Investigations of Fraud/Error – To be Recovered/In Recovery</b>	£140,451	See Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (section 5) for further details of the special investigation relating to an individual in receipt of a SEND Personal Budget.
<b>National Fraud Initiative (NFI) 2022* (All losses will be subject to final validation &amp; recovery action)</b>	WIP	Potential data matches are currently being investigated and will be reported to a future meeting of the Audit & Standards Committee.  <u>2,017 matches closed: Outcomes:</u> 4 Blue Badges Cancelled 1,938 Travel Cards Cancelled
<b>Other Proactive Fraud Exercises including CCM – Fraud &amp; Error</b>	£25,802	£14,300 relates to a proactive data matching exercise between deceased data against care service provisions held in the Council’s Care Director System.  £11,502 relates to our CCM programme (duplicate creditor payments/purchase card v invoice payments and a minor duplicate mileage claim)  See Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (sections 2 & 3) for further details
<b>Total financial losses-fraud/error (to be recovered)</b>	<b>£166,253</b>	



*\*NFI = National Fraud Initiative. This is a national exercise undertaken biennially which is administered by the Cabinet Office. Data submitted by the Council is cross checked against other public sector organisations' data highlighting potential areas of fraud/error. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.*

28. The quantity of concerns referred to Internal Audit is comparable with the previous years at 35 (increase of seven from the previous year), of which 16 related to areas of Council Activity. The volume of referrals not related to Council activity is accepted as a side effect of offering simple, anonymous reporting mechanisms and these are redirected to appropriate bodies. The actual value of referrals is slightly lower than the previous year but is still significantly high due to one high value fraud detected during 2022/23. Steps are taken to identify control weaknesses and root causes of all allegations where there is evidence of fraud or error, to help minimise future risk. The actual financial losses related to our counter fraud work has decreased slightly from £191,748 in 2021/22 to £166,253 in 2022/23. Whilst this value is not seen to be material for 2022/23, the financial loss suffered by the Council still remains high (generally) when compared to previous fraud losses over the last decade.
29. In 2022/23, and connected to the Council's local fraud response, the Internal Audit Service has continued to undertake various grant verification exercise to confirm compliance with grant conditions and post assurance probity checks have been undertaken on some of the Council's community funding streams including the Community Climate Change Action Fund, and the Community Fund – Members Programme. Also, Internal Audit resources have been used in-year to provide assurance over the fraud controls proposed for the Council's new recruitment applicant tracking system which went live during 2022/23.
30. To evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded, it is considered to have a material effect on the control environment. This year's level of actual financial loss is considered significant but not material.
31. The table below shows the trend of actual financial loss due to fraud and error over the past decade:

Year	Financial Value	Direction of Travel
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓
2019/20	£145,848	↑
2020/21	£184,841	↑
2021/22	£191,748	↑
2022/23	£166,253	↓

32. The special investigations category consists of two elements: firstly, the financial loss incurred, and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements/Expenditure	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payment Mechanisms	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is **70%** (i.e., 30% for the special investigations elements as the actual financial loss incurred is between £150,000 to £200,000. 40% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

### Overall Opinion on the Control Environment

33. The following methodology outlined below, has been used as the basis to form the annual assessment of the overall internal control environment for 2022/23.

### Current Methodology

34. Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of "Adequate or above" within each category. For a reason of simplicity, each category attracts equal weighting, and a simple pass / fail assessment is used to differentiate the overall opinion between "Substantial, Adequate and Limited" as illustrated below:

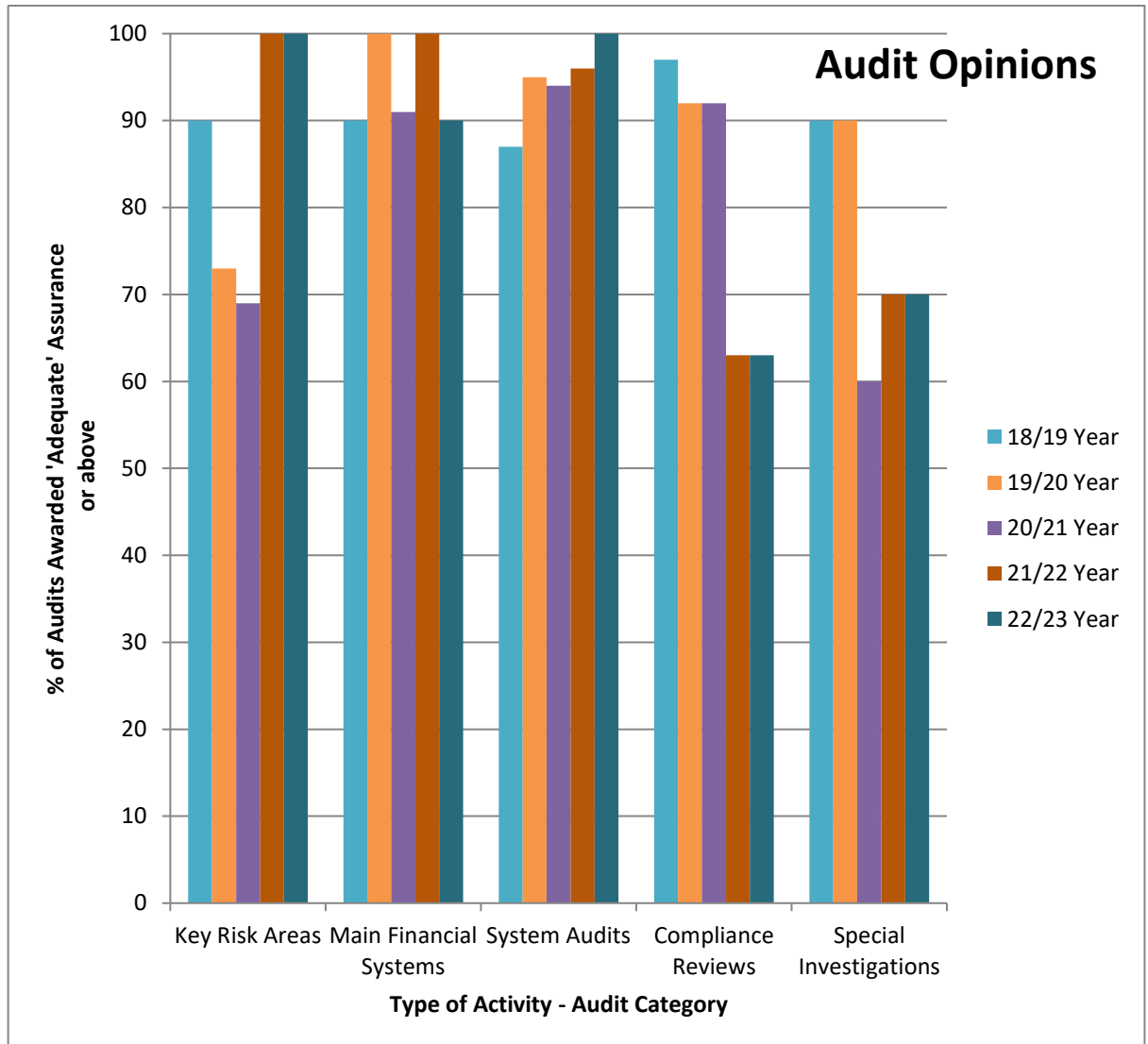
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

### Implications

35. The following table details the calculation of the 2022/23 overall assessment:

Audit Category	% awarded an opinion of at least "adequate"	Pass/Fail
Key Risk Areas ( <i>paragraphs 9 to 13</i> )	100%	Pass
Main Financial Systems ( <i>paragraphs 14 &amp; 15</i> )	90%	Pass
System Audits ( <i>paragraphs 16 to 20</i> )	100%	Pass
Compliance Reviews ( <i>paragraphs 21 to 26</i> )	63%	Fail
Special Investigations/Fraud & Corruption Related Work ( <i>Paragraphs 27 to 32</i> )	70%	Fail
<b>Overall Total</b>		<b>3 out of 5 categories passed</b>

36. The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2018/19 to 2022/23:



37. Based on the above, an **"Adequate Assurance"** opinion has been given on the overall adequacy and effectiveness of the organisation's governance, risk, and control framework, i.e., the control environment in 2022/23.
  
38. This year's audit plan has been dominated firstly by our planned audit activities supporting the Council's digital transformation programme and specifically the high-profile Corporate File Plan Project and new IT systems including the new "we recruit" applicant tracking system and the new Altair Pensions System. Internal Audit has also been involved in other transformational work including the on-going highways transformation programme and our work to provide assurance over new service delivery models such as the household waste recycling centres. Our work in these areas focussed on ensuring that sufficient controls including fraud controls are considered and built into new and revised business processes at the right time to support a robust control environment. In 2023/24,

we will turn our attention to the new arrangements operating within Children's services following their transformation programme and also the revised processes operating within SEND services as well as providing on-going support to those services which have transferred back in house including the Household Waste Recycling Service, Early Years Service and Careers and Participation Service. Secondly, during 2022/23, the Internal Audit Service has continued to support the Council in undertaking the various required grant verification sign-off exercises along with post assurance checks to provide assurance that funding is accurately accounted for and has been used appropriately. No significant concerns were noted. Further grant verification work is required in 2023/24 although the number of audits in this area have reduced as the Council returns to 'business as usual' following the COVID 19 pandemic.

39. Emphasis on strong financial management remained in 2022/23 with a full audit programme of main financial systems conducted. The Council's debt recovery arrangements have again emerged as an area of concern. Although general debt and other debt categories were at or below target at year-end, Health and Care Client Debt (over 6 months old) significantly exceeds the financial target for 2022/23. Subsequently, several recommendations have been made in our latest internal audit review to improve the Council's invoicing, income collection and debt recovery arrangements in place. In respect of debt targets, it should be noted that from quarter one of 2023/24 onwards, the debt key performance indicator (KPI) has been amended from £14.7m to £21.5m. These amendments have been made to reflect the fact that a) the previous target had not been revised since 2019/20 and b) the Covid 19 pandemic, the cost-of-living crisis and the decision of the Social Care Ombudsman regarding residential care billing have changed the income raising and collection environment. Internal Audit will provide further assurance over this area in 2023/24. In relation to the payroll control environment for the Council's core payroll, this area has again been awarded an adequate assurance opinion with no high-level issues raised, which is pleasing to note. At the time of writing, audit work relating to the Pension Fund – Pension Pool investment arrangements which was being carried out by one of the Partner Fund authorities was still in progress and the opinion is currently awaited. This will be reported to this committee, as appropriate once finalised.
40. The 2022/23 Schools' compliance programme has again identified areas of non-compliance and lapses in internal controls with limited assurance audit opinions being awarded for thirteen school establishments, which although similar in number to last year

continues to represent a sustained increase when looking back over recent years. Also, control weaknesses relating to payroll processes operating at schools have continued to be identified during 2022/23. As a result of these audit outcomes, in-year we have undertaken continuous controls monitoring (CCM) specific to schools to give greater assurance over financial transactions. It is our intention to continue to raise awareness of best practice and counter fraud measures with more regular communications to schools throughout 2023/24. Our school visits will also continue to be supplemented by a programme of CCM that will provide assurance over a greater volume of financial transactions across all Staffordshire Schools in 2023/24, the findings of which will feature in our communications with schools to reinforce lessons learnt throughout the year.

41. Finally, despite the significant value of financial losses (fraud/error) identified in 2022/23, the number of limited assurance opinions awarded across the planned system reviews have continued to reduce from four in 2021/22 to one in 2022/23 with no limited assurance opinions being awarded in either the top risk or the other systems audit categories of work. Notably, the largest financial loss reported in this year's annual outturn report relates to one serious fraud (misuse of SEND personal budgets) which has been fully investigated and reported to the Police (investigation currently on going). Internal Audit will continue to support the service area in 2023/24 to provide assurance over revised processes to be put in place. Other smaller financial losses related to our own initiated proactive exercises using Council data effectively to detect anomalies for further investigation (anomalies in 2022/23 were considered error rather than fraud). We will continue to use data analytical tools to enhance the assurance and insights provided to senior management across all business operations during 2023/24.

### **Performance Measures**

42. Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2022/23. The Service continues to meet the KPI targets for the quality questionnaire feedback.



Description	Target %	2019/20 %	2020/21 %	2021/22 %	2022/23 %
Reports issued to draft report stage:					
o Systems Audits	<b>90</b>	92	97	93	96
o Compliance Audits	<b>90</b>	90	93	100	90
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:					
o System & Compliance Audits	<b>90</b>	100	100	100	100

### **Performance against the UK Public Sector Internal Audit Standards (PSIAS)**

43. The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
44. All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments (n.b the Internal Audit Service undertakes its own self-assessment annually the result of which are reported to this Committee), external quality assessments (EQA) or a combination of both methods. However, the standards state (standard 1312) that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The service's last EQA was undertaken in January 2018 and therefore a further external assessment was scheduled for January 2023 and was subsequently procured from CIPFA following a quotation process.
45. The EQA comprised a combination of a review of documentation provided by Internal Audit; a review of a sample of completed audits, a survey completed by a range of stakeholders as well as interviews with key stakeholders. This work took place week commencing 16<sup>th</sup> January 2023. The full assessment results were reported to the Audit & Standards Committee at its meeting held on 21 March 2023 which outlined the overall conclusion and opinion of the assessor.

46. For ease of reference, the key highlights from the External Quality Assessor's report published in February 2023 were that 'the review established that there were no areas of non-compliance or partial compliance with the standards identified'. Based on the assessor's work undertaken, the overall conclusion was – 'It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'. This is the highest category level that can be awarded via the CIPFA assessment process.
47. Whilst no recommendations were made, there was one advisory action for management to consider which related to keeping a watching brief on the developments to the standards which are due to be consulted on and revised during 2023/24.
48. With the above in mind, the work undertaken by the Internal Audit Service during 2022/23 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are 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 2022/23.

### **Equalities Implications**

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

### **Legal Implications**

50. 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, taking into account public sector internal auditing standards (PSIAS) or guidance'. This report supports compliance with both the Regulations and the PSIAS.

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

51. The net budget of the Internal Audit Section in 2022/23 was £1,027,510 of which £223,150 relates to payments to external providers.



## **Risk Implications**

52. Internal Audit objectively examines, evaluates, and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient, and effective use of resources. Internal Audit will continue to align its work with the latest Corporate Strategic Risk Register.

## **Climate Change Implications**

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

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

- Audit Management System/Pentana Audit Management
- Annual Audit Plan & Strategy 2022/23
- 2022/23 Audit Charter
- Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
- Local Government Application Note – with effect from 1st March 2019
- Accounts and Audit (England) Regulations 2015.
- CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition).
- 2022/23 Progress Reports to Audit & Standards Committee & various Internal Audit Reports
- CIPFA External Quality Assessment of Conformance to the Public Sector Internal Audit Standards (dated 24th February 2023)

Appendix 1 – Recommendation Risk Ratings & Internal Audit Assurance Ratings.

Appendix 2 – Appendix 2 – Fraud & Corruption Outturn Report 2022/23 (Confidential agenda item).

## **Contact Details**

**Assistant Director:** Lisa Andrews, Assistant Director - Internal Audit & Financial Services  
**Report Author:** Deborah Harris  
**Job Title:** Chief Internal Auditor  
**Telephone No.:** 01785 276406  
**E-Mail Address:** [deborah.harris@staffordshire.gov.uk](mailto:deborah.harris@staffordshire.gov.uk)



## Appendix 1

### Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may be adjusted subsequently; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

### Impact Ratings

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal/Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal/Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse affect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

### Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

## Priority Ratings Matrix

Catastrophic	I m p a c t	4	4	8	12	16	20
Fundamental		3	3	6	9	12	15
Significant		2	2	4	6	8	10
Marginal		1	1	2	3	4	5
			1	2	3	4	5
			<b>Likelihood</b>				
			Remote	Unlikely	Possible	Likely	Very Likely

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

## Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
<b>Limited</b>	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
<b>Adequate</b>	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
<b>Substantial</b>	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations

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

## **Audit and Standards Committee - Tuesday 11 July 2023**

### **Code of Corporate Governance 2023**

#### **Recommendation**

I recommend that:

- a. Members approve the updated 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.

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

### **Report**

#### **Background**

1. A detailed review of the Code of Corporate Governance (and Single Sheet Local Framework) has been undertaken by the Council's Corporate Governance Group following the publication of the 2016 Delivering Good Corporate Governance in Local Government Framework. There are seven core principles which are listed below:
  - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
  - Ensuring openness and comprehensive stakeholder engagement.
  - Defining Outcomes in terms of sustainable economic, social and environmental benefits.
  - Determining the interventions necessary to optimise the achievement of the intended outcomes.
  - Developing the entity's capacity, including the capacity of its leadership and the individuals within it.
  - Managing risks and performance through robust internal control and strong public financial management.
  - Implementing good practices in transparency, reporting and audit to deliver effective accountability.
2. The 2016 framework builds significantly on the previous version and has been expanded to include greater emphasis on partnerships, outcomes, interventions and transparency agendas.

3. The Council's over-arching Code of Corporate Governance continues to be refreshed to ensure the accuracy of the details contained regarding the arrangements in place to demonstrate adherence to the core principles and sub principles contained in the framework and is attached at **Appendix 1**. Changes to the code have been made highlighted in yellow for ease of reference.
4. Contained within the document is the Corporate Governance Action Plan for 2023. Progress regarding implementation of the action plan will be monitored throughout the year and reported on as part of the review of the effectiveness of the governance framework which feeds into the Annual Governance Statement. The action plan relating to the 2022 code has been discussed and reviewed by the Corporate Governance Working Group throughout the year. **Appendix 2** refers to the single sheet framework which represents the governance structure in place within the Council. Changes specific to the 2023 refresh are highlighted in yellow for ease of reference.

### **Equalities Implications**

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

### **Legal Implications**

6. Any new (significant) costs arising from Action Plans that cannot be contained within existing budgets will need to be considered within the Medium Term Financial Strategy (MTFS).

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

7. The net budget of the Internal Audit Section in 2023/24 is £1,082,580

### **Risk Implications**

8. Good corporate governance is essential to efficient and effective service delivery and will assist the Council in promoting its image with key stakeholders.

### **Climate Change Implications**

9. There are no direct implications arising from this report

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

- CIPFA / SOLACE Publication: Delivering Good Governance in Local Government: Framework – April 2016 Edition

- CIPFA / SOLACE Publication: Delivering Good Governance in Local Government: Guidance Note for English Authorities – 2016 Edition
- Code of Corporate Governance 2022

Appendix 1 – Local Code of Corporate Governance & Action Plan 2022/23

Appendix 2 – Single Sheet Framework – Governance Structure

## Contact Details

**Assistant Director:** Lisa Andrews, Assistant Director for Audit & Financial Services

**Report Author:** Lisa Andrews  
**Job Title:** Assistant Director for Audit & Financial Services  
**Telephone No.:** 01785 276402  
**E-Mail Address:** [Lisa.Andrews@staffordshire.gov.uk](mailto:Lisa.Andrews@staffordshire.gov.uk)





## **LOCAL CODE OF CORPORATE GOVERNANCE 2023**

### **Introduction**

The International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014) defines governance as follows:

*'Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.'*

The International Framework also states that:

*'To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.'* Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

### **Good Corporate Governance**

Staffordshire County Council is committed to achieving good corporate governance and this Local Code describes how the council intends to achieve this in an open and transparent way. The Local Code is based upon the CIPFA SOLACE framework 'Delivering Good Governance in Local Government (April 2016) which replaced the document published in 2007 and amended in 2012.

*As laid out in the guidance it 'is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.'*

The Local Code is based on the following 7 principles, the first 2 of which underpin the remaining 5 with the overall aim of achieving the intended outcomes whilst always acting in the public interest.

- A – Behaving with Integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
- B – Ensuring openness and comprehensive stakeholder engagement.
- C – Defining outcomes in terms of sustainable economic, social and environmental benefits.

- D – Determining the interventions necessary to optimize the achievement of the intended outcomes.
- E – Developing the entity’s capacity including the capability of its leadership and the individuals within it.
- F – Managing risks and performance through robust internal control and strong public financial management.
- G – Implementing good practices in transparency, reporting and audit to deliver effective accountability.



## MONITORING AND REVIEW

The Code of Corporate Governance is reviewed on an annual basis to ensure that it is kept up to date. Where the review identifies that changes are required to the code, the revised Code will be submitted to the Audit & Standards Committee for comments and amendments before including on the Council’s intranet.

It is the philosophy of the County Council that responsibility for ensuring good corporate governance is embedded within the organisation, lies with all employees and they take the appropriate steps to ensure their behaviour always reflects these values.

The Audit & Standards Committee has responsibility for monitoring and reviewing the Corporate Governance arrangements. The Committee is responsible for approving the Council’s annual accounts and responding to

the External Auditor's Annual Audit Letter. It also oversees the effectiveness of the Council's governance and risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements. The standards element of its remit covers the responsibility for promoting and maintaining high standards of conduct amongst Members. The detailed terms of reference are included in the Constitution.

<http://moderngov.staffordshire.gov.uk/ieListDocuments.aspx?CIId=624&MId=8894&Ver=4&Info=1>

In addition, the wider Committee arrangements support how the Council uses its resources effectively and efficiently to deliver services for Staffordshire residents.

The Council ensures that corporate governance arrangements are kept under continual review by updating, as appropriate, these Committees on:

- The work of Internal and External Audit
- The opinion of other review agencies and inspectorates
- Opinions from the Council's Statutory Officers
- General matters relating to the implementation of the Code
- The production of the Annual Governance Statement and actions planned to address rising governance issues.

## **The Annual Governance Statement**

Each year the Council will publish an Annual Governance Statement to accompany the Annual Accounts. The Statement provides an overall assessment of the Council's corporate governance arrangements and how it adheres to the governance standards set out in this Code. Evidence relating to the principles of this Code is reviewed and analysed to assess the robustness of the Council's governance arrangements. This includes assessments such as:

- Review of the Constitution
- Annual Statement – Member Standards
- Regular Scrutiny Reports to Council
- Head of Internal Audit Annual Report and overall opinion
- External Audit Annual ISA 260 Report
- Other Inspectorate Reports
- Statutory Complaints & Corporate Complaints (including Ombudsman's Reports) Annual Report
- Information Governance Annual Report
- **Annual Civil Contingencies Report**
- Health and Safety Annual Report
- Annual Pay Policy Statement

- Statements from the Monitoring Officer and Section 151 Officer regarding the use of their statutory powers

The Statement includes an appraisal of the key controls in place to manage the Council's principal governance risks and the effectiveness of systems and processes governing decision making and financial control. The Statement also provides details of where improvements need to be made. Actions to address significant governance issues are identified and recorded in an action plan. The Annual Governance Statement is audited by the Council's External Auditors as part of the audit of the annual accounts.

The following tables detail how the Council meets the core principles and the systems, policies and procedures it has in place to support this.

**Core Principle A: *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.***

Sub Principle	Current Arrangements	Action Plan 2023
<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved.</p> <p>In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<p><b>Behaving with integrity</b></p> <ul style="list-style-type: none"> <li>• Codes of conduct for Members &amp; Officers developed and included in key governance document [the Constitution] to ensure that high standards of conduct are understood/maintained.</li> <li>• Accompanying guidance notes are incorporated into Section 3 - at Appendix 2 of the Constitution for clarity.</li> <li>• A programme of training and awareness raising sessions for the Code of Conduct is underway for Members.</li> <li>• An Officer Code of Conduct is included within the iLearn corporate training system and behaviours are reinforced through the We talk performance Conversation process.</li> <li>• Induction process for all new Members includes information on the standard of behaviour expected including the role of Standards Committee.</li> <li>• Member Code of Conduct – updated March 2021</li> <li>• Procedure in place for reporting and administrating complaints against Members including breaches of the Member Code of Conduct.</li> <li>• Standard compliant forms and standard flow chart for the Member complaint process.</li> <li>• Whistleblowing arrangements for Officers are in place together with Grievance procedures.</li> <li>• Member Allowances are determined and approved by the Independent Remuneration Panel</li> <li>• The Audit and Standards Committee is responsible for overseeing the conduct of members and identifying any</li> </ul>	<p>Ongoing training and awareness raising of code of conduct for longer standing members.</p> <p><b>Responsible Officer:</b> John Tradewell, Director for Corporate Services</p> <p><b>Implementation Date:</b> On going.</p>

	<p>training needs of members in relation to the Code of Conduct. The Committee receives a report as appropriate regarding the progress of complaints'/investigations. An Annual Report of Member Conduct is produced and reported to the Audit &amp; Standards Committee.</p> <ul style="list-style-type: none"> <li>• Decision making practices include standard formats for executive officer/portfolio holder/Cabinet decisions to assist in ensuring that decisions are taken only when necessary information has been made available including community impact assessments for key decisions.</li> <li>• Constitution includes an employee and Member policy for the acceptance of gifts and hospitality. A register is maintained and published on the County Council website. <b>An online declaration form is now available.</b></li> <li>• All Members declare their interests, and these are published on the County Council website which is refreshed annually.</li> <li>• Members' declarations of interests are a standing item on all agendas. Minutes show declarations of interest were sought, and appropriate declarations made.</li> <li>• Whistleblowing and Integrity policies are in place. Policies available to members of the public, employees, partners, and contractors via the internet and in appropriate contract documentation.</li> <li>• Statutory and corporate complaints procedures and electronic reporting forms are available on the County Council's website. Annual reports are produced and are published on the County Council website.</li> <li>• <b>For any employee seeking a second employment they must apply to their respective Director for approval. The process to be followed is now online and dependent on salary level/nature of SCC Post held.</b></li> </ul>	
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	<p><b>Demonstrating strong commitment to ethical values</b></p> <ul style="list-style-type: none"> <li>• The Constitution sets out: <ul style="list-style-type: none"> <li>○ the need to act within the law.</li> <li>○ delegations of the executive, committees and senior officers, and the decision-making process to be applied which are regularly reviewed.</li> <li>○ Terms of Reference for committees.</li> <li>○ Scrutiny &amp; Overview function to support ethical decision making.</li> </ul> </li> <li>• Commissioners of services have a role in developing specifications and contracts and through contract management and management of other arrangements.</li> <li>• Implementation of the People Strategy approved by Cabinet in March 2019.</li> </ul>	
	<p><b>Respecting the rule of law</b></p> <ul style="list-style-type: none"> <li>• The Constitution identifies the Statutory Officers of the County Council namely the Head of Paid Service, Monitoring Officer, Chief Financial Officer (Section 151 Officer), Director of Adult Social Care, Director of Children’s Services, Scrutiny Officer, and the Director of Public Health and sets out the respective roles.</li> <li>• A Fraud, Bribery and Corruption Policy is published on the web site together with the Anti-Money Laundering Policy. There is a whistleblowing hotline together with a concern reporting form which is forwarded on to Internal Audit for review. There is also an email address to report suspected irregularities on-line.</li> <li>• Legislation requires local authorities to appoint certain officers with statutory and proper officer responsibilities. Statutory officers of the County Council have been identified. The roles and responsibilities of the various legislative Proper Officers are included in the Scheme of Delegation. A central list of “Proper Officers” has been produced.</li> </ul>	

**Core Principle B: - Ensuring openness and comprehensive stakeholder engagement**

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders

**Openness**

- Strategic and Delivery Plans describe direction including Vision, Values and Council priorities.
- Adoption of a Freedom of Information Act publication scheme
- Online council tax information
- Authority Transparency pages available on website including the annual transparency report.
- Agendas, reports, and minutes are published on the council's website. Meetings are open to the public unless in the case of exempt items.
- The Community Impact Assessment toolkit is used for all key decisions and helps ensure that the decisions taken consider a range of potential impacts/risk. Where appropriate, background papers are cited in the standard report format.
- Dates for submitting, publishing, and distributing timely reports are set and adhered to
- Record of decision making and supporting materials published on the County Council website.
- The Strategic Plan together with the annual Corporate Delivery Plan sets out the priorities and strategic direction for the Council and is reviewed annually.
- Quarterly Integrated Performance Reporting covering MTFS, Strategic Plan and Delivery Plan monitoring delivery of key priorities.

**Engaging comprehensively with institutional stakeholders**

- All the Council's priority outcomes are contained within the Strategic Plan which is published and communicated to all relevant stakeholders.



	<ul style="list-style-type: none"> <li>• The County Council regularly consults with a wide range of stakeholders depending on the topic and relevant audience. Key stakeholders include our local MPs, elected members, district leaders and chief executives, other public sector organisations and our voluntary and community sector bodies.</li> <li>• The relationship with the other 9 local councils is overseen by the bi- monthly meeting of the 10 Chief Executive’s and bi-monthly meetings of the Leaders. This has now been supplemented with establishment of a joint committee called Staffordshire Leaders Board made up of the 9 LA leaders in county of Staffordshire. Detailed terms of reference have been established for the Board together with 6 priorities for enhanced two-tier working have been developed and will be agreed at the meeting in June 2023.</li> <li>• The strategic engagement with the NHS is overseen through Staffordshire and Stoke-on-Trent Integrated Care Board, which is responsible for developing the overall health and care strategy for the whole of Staffordshire and Stoke-on-Trent.</li> <li>• The partnership arrangements in place for Children’s Services particularly the Health and Well Being Board and the Safeguarding Board.</li> <li>• Staffordshire’s place brand, “WE Are” Staffordshire launched in 2020, and has continued to grow from strength to strength, raising positive awareness of and instilling pride in Staffordshire. The success of the programme was illustrated by ‘We Are Staffordshire’ being shortlisted for two City Nation Place Awards in 2022, including international place brand of the year.</li> <li>• 5G roll out –Staffordshire and Stoke-on-Trent 5G Connected Region Growth Deal Proposal was signed off by SSLEP Board and submitted to central government in February 2020, to increase 5G coverage across the region.</li> </ul>	<p>Following the recent local elections, the board is refreshing its terms of reference to take account of new political leaders.</p> <p><b>Responsible Officer:</b> Lynsey Bissell, Assistant Director for Strategy and Transformation</p> <p><b>Implementation Date:</b> December 2023</p>
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	<ul style="list-style-type: none"> <li>• Staffordshire Centre for Data Analytics–Focused on better intelligence and insight to tackle citizens needs earlier, prevent or reduce demand, improve decision making and improve outcomes for people in Staffordshire. The Executive Board partners have agreed to provide funding to continue to pilot the model.</li> <li>• SCC reinforce a clear set of principles with all key partnership leads (including across Health and Wellbeing, Children and Families, Safety and Economy) to ensure that all formal partnerships continue to provide a robust framework for identifying and delivering higher level outcomes for Staffordshire.</li> <li>• All consultations are conducted in line with the best practice guidance set out by the Cabinet Office in 2016 (<a href="https://www.gov.uk/government/publications/consultation-principles-guidance">https://www.gov.uk/government/publications/consultation-principles-guidance</a>). High priority consultations identified through the business planning process are supported by the Policy and Insight Team, with appropriate support from other support services. In order to ensure consistency and transparency all consultations are hosted on the County Council webpage.</li> <li>• A communications strategy which sets out how the Council will inform and engage with employees, partners, residents and other stakeholders is in place, agreed annually by the senior leadership team and members of cabinet. Annual review and sign off of Communication Plan by SLT Lead</li> </ul>	<ul style="list-style-type: none"> <li>• Development of a medium-term business case for the Centre for Data Analytics. It is envisaged the business case for a potential full operating model will be delivered on or before September 2024.</li> </ul> <p><b>Responsible Officer:</b> Lynsey Bissell, Assistant Director for Strategy and Transformation</p> <p><b>Implementation Date:</b> September 2024</p>
	<p><b>Engaging stakeholders effectively, including individual citizens and service users</b></p> <ul style="list-style-type: none"> <li>• A Record of public consultations undertaken is published on the Website.</li> <li>• All consultations are delivered using best practice guidelines from the Cabinet Office</li> </ul>	

	<p>(<a href="https://www.gov.uk/government/publications/consultation-principles-guidance">https://www.gov.uk/government/publications/consultation-principles-guidance</a>)</p> <ul style="list-style-type: none"> <li>• The council seeks the views from individuals, organisations and businesses as part of shaping and commissioning decisions.</li> <li>• All council surveys are delivered online using the corporate approved software called Citizen Space.</li> <li>• Consultation activities are scheduled in line with the Delivery Plan priorities and MTFS commitments.</li> <li>• The council has arrangements to engage with all sections of the community including hard to reach groups.</li> <li>• Tackling inequality within our communities and workforce has always been a key priority and we are committed to strengthening our approach diversity and inclusion (D&amp;I) even further.</li> <li>• Community Impact Assessments continue to capture the impact of decisions on our protected groups, with evidence of how services have involved these vulnerable and hard to reach groups.</li> <li>• The annual MTFS CIA process established in 2018/19, continues to provide a strategic impact assessment of the MTFS each year, considering the cumulative impacts of key MTFS savings proposals and what they may mean for Staffordshire's communities and places. The existing CIA tools and <b>guidance have been</b> reviewed and updated in line with the 2022-26 Strategic Plan development. The work of the Digital project seeks to take account of the citizen's needs.</li> <li>• <b>A set of nine 'volunteering principles' have been created in consultation with the Volunteering Task &amp; Finish Group, Communities Leadership Group, VCSE Partners and current volunteers to reflect a better offer to our volunteers and what they should expect from Staffordshire County Council.</b></li> </ul>	
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	<p>Along with the principles, a suite of guidance documents has been created and approved by Scrutiny and Cabinet, to support managers (or those supporting volunteers) across the organisation with practical elements such as recruitment, training and insurance, induction and supervision, as well as guidance on how to end placements.</p>	
<p><b>Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits</b></p>		
<p>The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p><b>Defining outcomes</b></p> <ul style="list-style-type: none"> <li>• The Strategic Plan sets out the council's vision and priorities, it is refreshed annually, and is published on the website.</li> <li>• Three priority outcomes have been defined –             <ol style="list-style-type: none"> <li>1. Have access to more good jobs and share the benefits of economic growth.</li> <li>2. Be healthier and more independent for longer.</li> <li>3. Live in thriving and sustainable communities.</li> </ol> </li> <li>• The annual Corporate Delivery Plan and associated Directorate/Team Plans and 'We Talk' support the delivery of the priorities outlined in the Strategic Plan. The following approval process is used – Corporate Delivery Plan approved by SLT, led by the Assistant Director for Strategy and Team Plans are approved by relevant member of SLT.</li> <li>• The Senior Leadership Team and Cabinet receive a Quarterly Integrated Performance Report, monitoring progress against the Strategic Plan and Corporate Delivery Plan.</li> </ul>	
	<p><b>Sustainable economic, social and environmental benefits</b></p> <ul style="list-style-type: none"> <li>• Capital investment is structured to achieve appropriate life spans and adaptability for future use or those resources (e.g., land) are spent on optimising social, economic, and environmental wellbeing. This is outlined</li> </ul>	

	<p>in the Medium-Term Financial Strategy and detailed in the capital programme.</p> <ul style="list-style-type: none"> <li>• Development of the Communities and Digital principles to help address rising levels of demand for Council services.</li> <li>• The Stoke-on-Trent and Staffordshire Local Enterprise Partnership (SSLEP) brings businesses and local authorities together to drive economic growth and create jobs. The County Council hosts the accountable financial officer for the SSLEP.</li> <li>• The SSLEP works alongside the Council and with other key stakeholders and organisations to represent the interests of businesses, improve access to finance and help to secure funding. The SSLEP has a Skills Advisory Panel which works with education providers and businesses to address identified skills gaps. A countywide partnership 'Destination Staffordshire' brings together private and public sector businesses with an interest in tourism and the visitor economy to promote Staffordshire as a place to visit and the Staffordshire Investment Service provides Inward Investment support.</li> <li>• The Council has in place a refreshed Modern Slavery and Human Trafficking Statement which is kept up to date in accordance with Section 54 of the Modern Slavery Act 2015. The Statement sets out the steps taken by Staffordshire County Council to prevent modern slavery or human trafficking in its operations and supply chains.</li> <li>• Sustainable Procurement incorporates the achievement of environmental, economic, and social outcomes throughout procurement processes. The evaluation of Social and Environmental Value is considered as part of the evaluation criteria in relevant procurements and is designed to assist commissioners and procurers to maximise opportunities to improve the social, economic</li> </ul>	<p>To monitor the feedback from the use</p>
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	<p>and environment condition of our local area through effective commissioning and procurement.</p> <ul style="list-style-type: none"> <li>• Procurement has commenced using the TOMs (Themes, Outcomes and Measures) framework on selected procurements.</li> </ul>	<p>of the TOMs framework on a sample of relevant procurements from September 2022.</p> <p><b>Responsible Officer:</b> Ian Turner, Assistant Director - Commercial Services and Assets</p> <p><b>Implementation Date:</b> 30 September 2024.</p>
<p><b><i>Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes</i></b></p>		
<p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined</p>	<p><b>Determining interventions</b></p> <ul style="list-style-type: none"> <li>• The principles of commissioning are applied to ensure clear alignment to need and improving outcomes.</li> <li>• Options are clearly defined and analysed to ensure decisions support community and digital solutions.</li> <li>• The system for decision making ensures all relevant information is considered such as analysis of options, resource implications, and outcomes.</li> </ul>	
	<p><b>Planning interventions</b></p> <ul style="list-style-type: none"> <li>• The Delivery Plan and associated Directorate and Team Plans and WeTalk conversations is the means by which the Council’s strategic priority outcomes are translated into action and delivered.</li> <li>• The Council is committed to involving local people in its most important decisions through community engagement.</li> </ul>	

<p>outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.</p>	<ul style="list-style-type: none"> <li>• It seeks opportunities to get local people involved in the running of services and assets through relevant consultation and our communities principle.</li> <li>• The MTFS is linked to our Corporate Delivery Plan to ensure resources are available to deliver priority outcomes. Member Led challenge sessions are held to scrutinise the robustness of the financial proposals.</li> <li>• Strategic Risks associated with partnership and joint working arrangements are identified and recorded in the strategic risk register.</li> <li>• Contract management arrangements are in place to manage delivery of service requirements.</li> <li>• Change control mechanisms are in place to ensure that Contracts/Partnership arrangements continue to deliver the Council's priority outcomes.</li> <li>• KPIs have been established and approved for each priority area, included in the Corporate Delivery Plan and reported upon regularly to SLT and Cabinet.</li> <li>• The Quarterly Integrated Performance Report provides SLT and Cabinet with detailed performance information and highlight areas where corrective action is necessary.</li> </ul>	<p>To ensure ongoing greater visibility and ownership of the Corporate Risk Register, together with regular monitoring and updating of individual risk areas.</p> <p><b>Responsible Officer:</b> Lisa Andrews, Assistant Director - Audit &amp; Financial Services</p> <p><b>Implementation Date:</b> Ongoing</p>
	<p><b>Optimising achievement of intended outcomes</b></p> <ul style="list-style-type: none"> <li>• The annual budget is prepared in line with agreed priorities and the MTFS which is approved by Cabinet and Full Council. The council publishes its Financial Strategy annually to set an indicative five year rolling financial plan to fit the longer-term strategic vision as well as a detailed one-year budget. This process is supported via all members of the wider leadership team, including the use of annual accountability letters.</li> </ul>	



	<ul style="list-style-type: none"> <li>All Managers are supported in the delivery of their financial objectives via their Finance Business Partner.</li> </ul>	
<p><b>Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it</b></p>		
<p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there</p>	<p><b>Developing the entity's capacity</b></p> <ul style="list-style-type: none"> <li>Regular reviews of activities, outputs and planned outcomes including acting upon the outcome and recommendations contained within Inspectorate Reports.</li> <li>Development of demand management through digital first, supportive communities and commercialisation work streams.</li> <li>The Council has a Learning &amp; Development strategy including the use of a digital learning management system. The Learning Hub is available to the whole workforce covering, statutory and mandatory training, health and safety, ICT, Change Management and key knowledge and soft skills.</li> <li>Utilisation of research and CIPFA benchmarking exercises where appropriate.</li> <li>Effective operation of partnerships which deliver agreed outcomes.</li> <li>Talent management arrangements</li> <li>Utilising the Apprenticeship Levy to develop and enhance the Leadership and Management capacity within the Council.</li> </ul> <p><b>Developing the capability of the entity's leadership and other individuals</b></p> <ul style="list-style-type: none"> <li>Job descriptions are in place for Officers which have been correctly evaluated using the agreed Job Evaluation criteria and processes.</li> <li>Role descriptors for Member roles.</li> <li>Induction arrangements for Officers/Members</li> <li>A Protocol on Member/Officer Relations to achieve good working relationships in the conduct of council business</li> </ul>	<p>The ongoing review of all current HR policies in operation to ensure that they reflect the needs of the business will continue. A further number of policies</p>



<p>will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<ul style="list-style-type: none"> <li>• Schemes of delegation reviewed regularly in the light of legal and organisational changes.</li> <li>• Sub Schemes of delegation which are reviewed by Directorates on a regular basis.</li> <li>• Procurement and financial regulations, which are reviewed on a regular basis, are in place.</li> <li>• Officers/Members are updated on legal and policy changes as required.</li> <li>• Development and training plans for employees is identified through the regular WeTalk performance management process.</li> <li>• Access to update courses/ information briefings on new legislation.</li> <li>• Efficient systems and technology used for effective support.</li> <li>• Implementing appropriate human resource policies (including Thinkwell) and ensuring that they are working effectively.</li> <li>• HR policies and procedures developed incorporating relevant guidance on equalities and diversity requirements, safer recruitment, pre-employment checks.</li> <li>• Updated HR procedures covering -Anti-Harassment and Bullying, Capability, Disciplinary, Grievance, Sickness Absence.</li> <li>• Development of an Apprenticeship Programme offering training, skills and experience in Local Government.</li> <li>• Health and Safety policies designed to protect and enhance the welfare of staff are actively promoted and monitored.</li> <li>• Improving Workforce Wellbeing programme being rolled out across the Council.</li> </ul>	<p>have been identified for refresh in 2023.</p> <p><b>Responsible Officer:</b> Sarah Getley, Assistant Director – People</p> <p><b>Implementation Date</b> Next tranche to be implemented in June 2024</p>
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**Core Principle F: Managing risks and performance through robust internal controls and strong public financial management**

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision-making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce

**Managing risk**

- Risk management strategy/ policy formally approved and adopted by the Audit & Standards Committee. These documents are reviewed and updated on a regular basis by the Corporate Governance Working Group chaired by the Deputy Chief Executive and Director of Corporate Services.
- The strategic risk register is periodically updated, reviewed by the Corporate Governance Working Group prior to being scrutinised by the Audit & Standards Committee.
- The County Council has entered into a partnership arrangement with Staffordshire Civil Contingencies Services Unit (CCU) who provide a comprehensive civil contingencies service including regular updates, briefings and training exercises with Key Partners.
- A detailed governance structure map has been produced for the Council's Civil Contingencies arrangements. This sets out the accountabilities and information flow arrangements.
- Business Continuity Plans have been prepared.
- A Civil Contingency project is being undertaken whose aim is to critically assess the emergency planning system in SCC, to identify and address gaps in policy and procedures through a gap analysis being carried out by CCU. This will then allow the Council to focus to improve completion and delivery of statutory responsibilities under the Civil Contingencies Act 2004 and work towards ensuring best practice around the organisation.

To finalise the approval of the refreshed risk management policy and strategy via SLT/Informal cabinet/Audit & Standards Committee.

To update and roll out the implementation of the Risk Management Module as part of the Audit Risk Management Software.

**Responsible Officer:**  
Lisa Andrews, Assistant Director - Audit & Financial Services

**Implementation Date:**  
31<sup>st</sup> March 2024.

To complete the Civil Contingency project gap analysis and to

<p>financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>		<p>undertake any resulting improvement actions and share best practice throughout the Council.</p> <p><b>Responsible Officer:</b> Tracy Thorley, Assistant Director for Corporate Operations, Stafford (Corporate)</p> <p><b>Implementation Date:</b> 31<sup>st</sup> March 2024.</p>
	<p><b>Managing performance</b></p> <ul style="list-style-type: none"> <li>• The Corporate Delivery Plan 2023-24 has been refreshed, reflecting the key priority activity, this has been considered by SLT and Cabinet, supporting the overall Council Strategic Plan.</li> <li>• The strategic leadership team oversee the monitoring and delivery of performance measures in support of the Strategic and Corporate Delivery Plan. A quarterly Integrated Performance Report is considered by SLT and Cabinet.</li> <li>• Publication of agenda associated papers and minutes of public meetings on the County Council website. The Forward Plan will contain all matters which the Leader of the Council has reason to believe will be the subject of a Key Decision to be taken by the Cabinet during the forthcoming four-month period. It may also include decisions that are not key decisions but are intended to be determined by the Cabinet</li> <li>• The Constitution, through its Overview and Scrutiny rules has opportunities for the Council's four Overview and Scrutiny</li> </ul>	

	<p>Committees to challenge and debate policy and objectives before, during and after decisions are made. The work programme for each committee reflects the delivery of the County Council's and partners main outcome priorities, areas where their involvement could help improve performance and/or priorities and concerns raised by the public. The scope of each overview and scrutiny committee has been reviewed by respective Chairman and Vice-Chair in March 2022.</p> <ul style="list-style-type: none"> <li>• Agenda, minutes of Overview and Scrutiny Committees and any associated reports with recommendations to the Executive are available via the County Council's website.</li> <li>• Overview and Scrutiny training for members is provided initially at induction, also on an annual basis or on specific subjects within Overview and Scrutiny Committee meetings.</li> <li>• The County Council has both Procurement and Financial Regulations which set out the council's arrangements and ensure that processes continue to operate effectively and efficiently.</li> </ul>	<p>For Overview and Scrutiny, we will look at the relationship between the Executive (Cabinet) and Scrutiny. This will likely take the shape of a Protocol. We will also continuously review how the Scrutiny Committees align with Priorities.</p> <p><b>Responsible Officer:</b> Chris Ebberley, Head of Member &amp; Democratic Services</p> <p><b>Implementation Date:</b> 31<sup>st</sup> March 2024</p>
	<p><b>Robust internal control</b></p> <ul style="list-style-type: none"> <li>• Risk management arrangements/ policy have been formally approved and adopted and are reviewed and updated on a regular basis.</li> <li>• An annual report is produced by Internal Audit which provides an opinion on the council's control environment, and a self-assessment of its arrangements against the public sector internal audit standards and CIPFA's guide to the role of the Head of Internal Audit. The Council's Internal Audit service was externally reviewed in January 2023 to ensure adherence to the public sector internal audit standards by CIPFA and was awarded the highest level of compliance i.e., Full Compliance.</li> </ul>	

	<ul style="list-style-type: none"> <li>• Compliance with the Fighting Fraud &amp; Corruption Locally 2020 (CIPFA 2020). Hosted by CIFAS.</li> <li>• Fraud, Bribery and Corruption Policy which is subject to regular review and is approved by the Corporate Governance Working Group. The annual outturn report summaries anti-fraud activity in the year.</li> <li>• Production of a fraud, bribery and theft risk assessment and strategy.</li> <li>• Annual Governance statement prepared following a review of the governance framework by senior officers of the Corporate Governance Working Group chaired by the County Solicitor and considered/approved by Audit and Standards Committee.</li> <li>• An effective internal audit service is resourced and maintained. An independent external quality assessment is undertaken regularly – January 2023 exercise awarded the service with the highest level of compliance with the Public Sector Internal Audit Standards (PSIAS).</li> <li>• Internal Audit prepares and delivers a risk-based audit plan in line with international auditing standards which is kept under review to reflect changing priorities and emerging risks.</li> <li>• Audit and Standards Committee oversees the management of governance issues, internal controls, risk management and financial reporting. It meets approximately four times per year and is adequately supported in respect of its roles/responsibilities.</li> <li>• There are frameworks in place in relation to child and adult safeguarding.</li> <li>• A self-evaluation assessment based on the CIPFA best practice criteria has been performed by the Audit &amp; Standards Committee and will be refreshed regularly. Any improvements will be incorporated into the work programme of the Audit &amp; Standards Committee.</li> </ul>	
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	<p><b>Managing data</b></p> <ul style="list-style-type: none"> <li>• The following arrangements are in place: - <ul style="list-style-type: none"> <li>i. Designated data protection officer</li> <li>ii. Data protection policies and procedures</li> <li>iii. Acceptable Use Policy</li> <li>iv. Information Sharing Protocol (incorporating use of Data Sharing Agreements)</li> <li>v. Protective Marking Scheme</li> <li>vi. Mandatory training via Go on Privacy/GDPR/Cyber Security</li> <li>vii. Designate Senior Information Risk Owners (SIRO's) who undergo regular refresher training.</li> <li>viii. Information Asset Owners and Data Guardians</li> </ul> </li> <li>• The Council's Information Governance Framework provides guidance on the arrangements that must be in place to ensure personal data is kept protected and secure. Using Privacy by Design as per GDPR requirements.</li> <li>• Effective information sharing is undertaken in accordance with the Data Protection Act and the Staffordshire Information Sharing Protocol</li> <li>• Data Subjects are informed why their personal information is being collected and how it will be processed (including when shared with other bodies) through the Council's overall Privacy Notices published on our website and individual Privacy Statements on forms, in booklets etc.</li> <li>• Information Sharing Agreements, are reviewed on a regular basis, are in place to document the sharing of information using national agreements or the template in the Staffordshire Information Sharing Protocol.</li> </ul>	
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	<p><b>Strong public financial management</b></p> <ul style="list-style-type: none"> <li>• Financial management supports the delivery of services and transformational change as well as securing good stewardship through modern and up to date HR &amp; Financial management systems.</li> <li>• The Medium-Term Financial Strategy is in place which covers a rolling 5-year period.</li> <li>• Financial procedures are documented in the Financial Regulations.</li> <li>• Procurement procedures are documented in the Procurement Regulations.</li> <li>• Delegations from Council are outlined in the Schemes of Delegations</li> <li>• Financial Accountability Statements signed up to by WLT Leads.</li> <li>• Regular budget monitoring reports are produced and provided to Accountable Budget Holders who are supported by Finance Business Partners in the management of their delegated budgets.</li> <li>• The financial position is reported quarterly to Cabinet and Corporate Review Overview and Scrutiny Committee.</li> </ul>	
<p><b><i>Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability</i></b></p>		
<p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also</p>	<p><b>Implementing good practice in transparency</b></p> <ul style="list-style-type: none"> <li>• Agendas, reports, and minutes are published on the council's website.</li> <li>• Compliance with the Local Government Transparency Code 2015. Required data is published on the County Council's web site.</li> </ul>	
	<p><b>Implementing good practices in reporting</b></p> <ul style="list-style-type: none"> <li>• The Annual Governance Statement sets out the council's governance framework and the results of the effectiveness of</li> </ul>	



<p>ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	<p>the council's arrangements. The AGS includes significant governance issues.</p> <ul style="list-style-type: none"> <li>• Annual Financial Statements are compiled, published to timetable and included on the council's website. This includes the External Auditors audit opinion on the Council's financial statements and arrangements for securing Value for Money.</li> <li>• The Annual Governance Statement is separately published on the Council's website once it has been approved by the Audit &amp; Standards Committee.</li> </ul>	
	<p><b>Assurance and effective accountability</b></p> <ul style="list-style-type: none"> <li>• Recommendations in the Annual Governance Statement inform positive improvement within the Council's governance arrangements.</li> <li>• Compliance with CIPFA's Statement on the Role of the Head of Internal Audit (2019)</li> <li>• Compliance with Public Sector Internal Audit Standards</li> <li>• An effective internal audit service is resourced and maintained. The Service has direct access to members and provides assurance on governance arrangements via an annual report containing an opinion on the council's risk, governance and control arrangements.</li> </ul>	



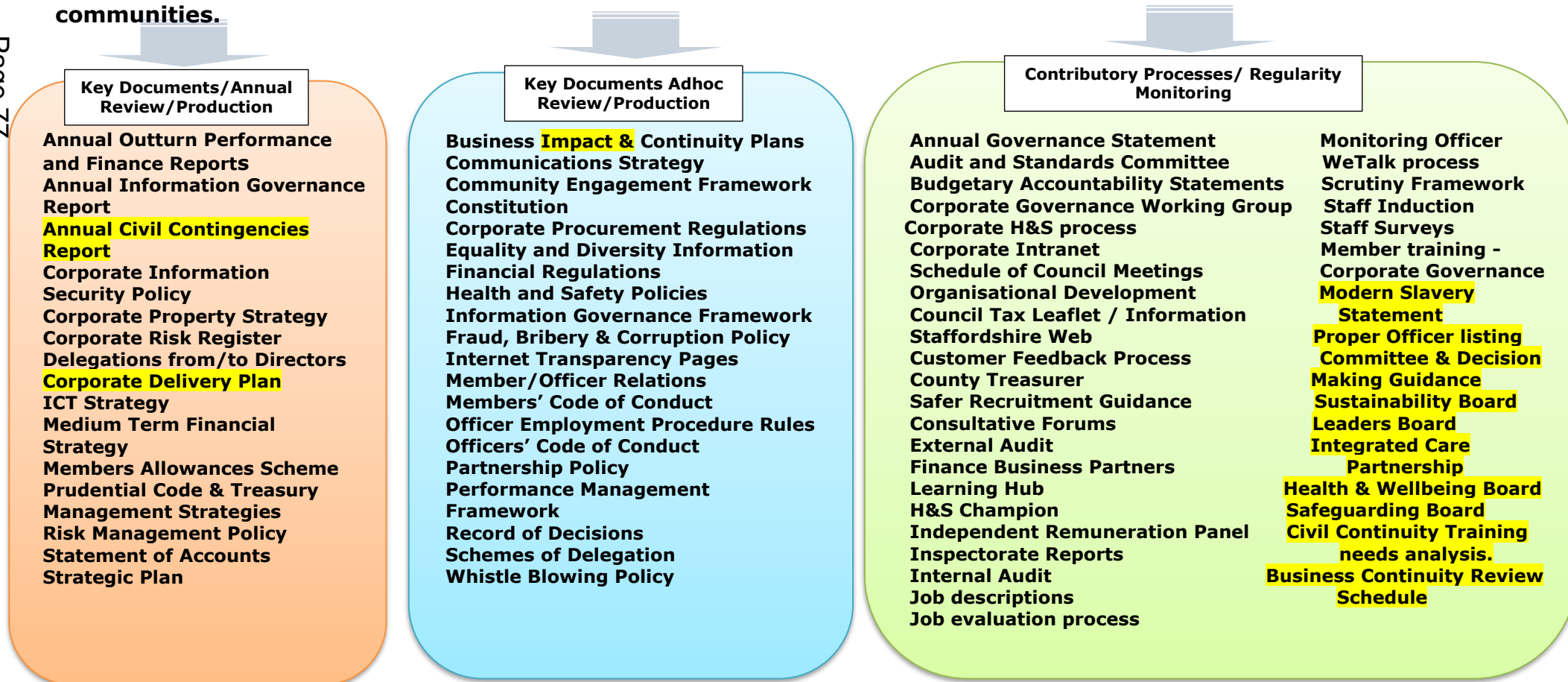
# 1. Single Sheet Framework

## Governance Framework - Principles, Statutory Obligations and Organisational Objectives



Corporate Governance comprises the systems and processes, cultures, and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

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

## **Audit and Standards Committee - Tuesday 11 July 2023**

### **FRC Quality Report**

#### **Recommendation**

I recommend that:

- a. Members note the contents of the FRC Quality Report.

#### **Report of the Director of Finance**

### **Report**

#### **Background**

1. In October 2022 the Chartered Institute of Finance and Accountancy (CIPFA) updated their guidance Audit Committees: Practical Guidance for Local Authorities and Police. Within the guidance, it outlines the three principal aspect regarding the Audit Committee's role in relation to the external audit process:
  - To provide assurance that the external auditor team maintains independence following its appointment.
  - To receive and consider the work of external audit.
  - To support the quality and effectiveness of the external audit process.
2. On a regular basis the Financial Reporting Council (FRC) undertakes a quality inspection of the external audits performed across major audits within the Local Government sector. A sample of audit work is selected covering all providers to ensure that quality thresholds are maintained, highlighting any areas for improvement. The results of the 2022 review are contained in Appendix 1 attached.
3. This report can provide a source of assurance to assist the Audit & Standards Committee in demonstrating their effectiveness to the authority as part of their role in reviewing and supporting external audit arrangements with a focus on independence and quality. As part of the review of the effectiveness of the Audit & Standards Committee exercise undertaken with Members in May 2023, it was agreed that the latest version of the FRC report would be shared for information.

### **Equalities Implications**

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

### **Legal Implications**

5. Any new (significant) costs arising from Action Plans that cannot be contained within existing budgets will need to be considered within the Medium-Term Financial Strategy (MTFS).

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

6. The net budget of the Internal Audit Section in 2023/24 is £1,082,580

### **Risk Implications**

7. Good corporate governance is essential to efficient and effective service delivery and will assist the Council in promoting its image with key stakeholders.

### **Climate Change Implications**

8. There are no direct implications arising from this report

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

- CIPFA Audit Committees: Practical Guidance for Local Authorities and Police – 2022 Edition

Appendix 1 – FRC Quality Report

### **Contact Details**

**Assistant Director:** Lisa Andrews, Assistant Director for Audit & Financial Services

**Report Author:** Lisa Andrews  
**Job Title:** Assistant Director for Audit & Financial Services  
**Telephone No.:** 01785 276402  
**E-Mail Address:** [Lisa.Andrews@staffordshire.gov.uk](mailto:Lisa.Andrews@staffordshire.gov.uk)



Financial Reporting Council

# Major Local Audits

## Audit Quality Inspection





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## Introduction: FRC's objective of enhancing audit quality

The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of major local audits.<sup>1</sup> This monitoring is performed by the FRC's Audit Quality Review (AQR) team. Our inspection of major local audits aims to hold firms to account for making the changes needed to safeguard and improve audit quality.

Auditors play a vital role in upholding trust and maintaining public confidence in local public bodies (principally local authorities and health bodies other than Foundation Trusts<sup>2</sup>) by auditing financial statements, satisfying themselves that proper arrangements are in place to secure Value for Money (VfM) and, where necessary, exercising additional powers and duties.<sup>3</sup>

The FRC's objective is to achieve consistently high audit quality so that the public can have confidence in the work of local auditors. To support this objective, we have powers to:

- Inspect the quality of major local audits.
- Set eligibility criteria for local auditors and oversee delegated regulatory tasks carried out by professional bodies, such as qualification, training, registration and monitoring of non-major local audits.
- Consider the implications of poor audit quality and bring enforcement action against auditors, if appropriate, in cases of a breach of the relevant requirements.

The timeliness of local auditor reporting is poor. Timeliness really matters, as it promotes transparency and accountability. As local public bodies face financial pressure and some engage in increasingly commercial activity, it is essential that high-quality financial reporting and the audit process identify and respond to risks on a timely basis. Audited bodies, local auditors and those with regulatory responsibilities must continue to work together to restore timely completion of audits so that public confidence is not further diminished.

In May 2022, the Department for Levelling Up, Housing & Communities (DLUHC) published the Government's response to 'Local Audit Framework: technical consultation'. This set out the next steps to implement the recommendations of the Redmond Review, including improving the oversight of local audit and the transparency of local authority financial reporting.

Legislation is required to ensure that the new regulator – the Audit, Reporting and Governance Authority (ARGA) – has the powers it needs to become the systems leader for local audit and hold to account those responsible for delivering the required improvements. In July 2022, The FRC published its position paper setting out the next steps in our transition to ARGA.<sup>4</sup> This included the recruitment of the Director of Local Audit, who started in September 2022, to make preparations to take on the role of systems leader in shadow form.

This report sets out the principal findings arising from the 2021/22 cycle of inspections at all six audit firms completing major local audits in England (the firms), and how the firms should respond to our findings.

1 The Local Audit (Professional Qualification and Major Local Audit) Regulations 2014 defines a major local audit as one which meets the following criteria:

- Total income or expenditure of at least £500 million, or
- For a local authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

2 The FRC is not responsible for audit quality monitoring at NHS Foundation Trusts. This is the responsibility of NHS England.

3 Further information on auditor's additional powers and duties is available in Auditor Guidance Note 4 issued by the National Audit Office (NAO) can be found [here](#).

4 The FRC position paper can be found [here](#).



## The FRC



The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.



We have responsibility for the public oversight of statutory auditors.



The FRC engages with key local audit stakeholders, such as DLUHC, NAO, ICAEW, CIPFA and PSAA, in order to contribute to sector-wide initiatives and governance.



## AQR



We monitor the audit quality of major local audits (which include the larger health and local government bodies).



We promote continuous improvement in audit quality.



Our team of over 50 professional and support staff has extensive audit expertise to provide rigorous inspection of audit firms completing major local audits.

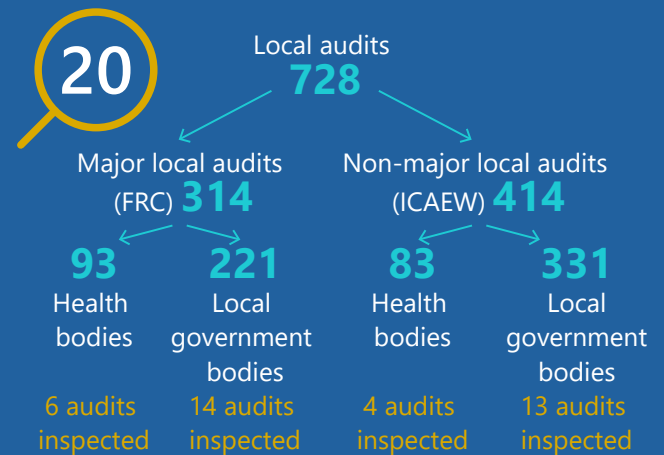


## The firms



Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
<b>Total</b>	<b>314</b>		<b>20</b>

## Our inspection process



We inspected the auditors' work on VfM arrangements at 14 bodies.



We work closely with audit committee chairs to improve the overall effectiveness of our reviews.



We assess the overall quality of the audit work inspected.



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As part of our 2021/22 inspection work, we inspected a sample of individual audits and assessed elements of the firms' quality control systems. This report sets out the FRC's findings on key matters relevant to audit quality at the firms.

Our risk-based selection of audits for inspection provided coverage of each of the audit firms in the market and selected audits with higher-risk attributes. We focused, for example, on audits we had not been able to previously inspect (due to the timeliness of auditor reporting); with qualified audit opinions; where the auditor's additional powers or duties were exercised; of entities experiencing financial difficulties or with material account balances related to commercialisation.

The scope of each individual inspection was also risk based and informed by a range of factors, including previous inspection findings, discussions with audit committee chairs and matters considered significant in the sector. Examples of matters considered significant in the sector included expenditure on services; the disclosure of senior officer remuneration; the appropriateness of capital expenditure; investment property valuation; and, in local government, adjustments between accounting basis and funding basis, such as minimum revenue provision.

Entity management and those charged with governance can make an important contribution to a robust audit. A well-governed entity, with effective internal controls and reporting that is accurate, transparent and timely helps underpin a high-quality audit. While there is some shared responsibility for the quality of audits, we expect firms to achieve high-quality audits, regardless of any identified risk in relation to management, those charged with governance or the entity's financial reporting systems and controls.

Higher-risk audits are inherently more challenging, requiring audit teams to assess and conclude on complex and judgemental matters. Professional scepticism and sector expertise are especially important in such audits. Our focus on higher-risk audits means that our findings may not be representative of audit quality across a firm's entire audit portfolio or on a year-by-year basis.

This report also considers other, wider measures of audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of the firms' local audits that do not meet the definition of a major local audit, the results of which are set out on page 10. The firms also conduct internal quality reviews. A summary of the firms' internal quality review results is included at Appendix 2. These results, together with our inspection findings, provide an overall view of the quality of local audits.

The FRC does not accept any liability to any party for any loss, damage or costs however arising, whether directly or indirectly, whether in contract, tort or otherwise from action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

# 1 Overview

## Inspection results: arising from our review of individual financial statement audits

Our selection of audits to inspect was impacted by the timeliness of local auditor reporting.

Figures compiled by Public Sector Audit Appointments Limited (PSAA) showed that 91% of 31 March 2021 audits of local government bodies were not completed by the target date of 30 September 2021 (42% were completed by 30 June 2022). The backlog of earlier audits is also concerning, with 19% of the 31 March 2020 audits incomplete by 30 September 2021. The incomplete audits include many that we would assess as being higher risk. The firms have informed us of many reasons for this lack of timeliness, including their own resourcing constraints among local audit specialists; the increased complexity of financial statements; delays caused by management; and unresolved accounting issues, such as those related to infrastructure assets.

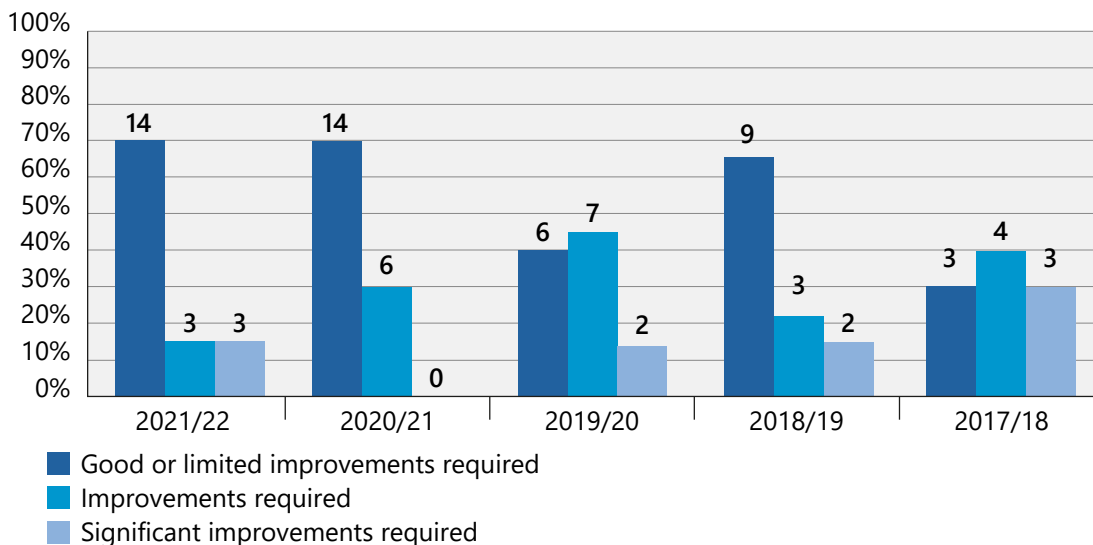
The impact was that seven of the 14 local government audits we initially selected for inspection based on risk had to be replaced because neither the 31 March 2021 nor the 31 March 2020 audits were finalised.

Including replacements, we inspected a total of 20 audits this year across the six firms, six were health bodies and 14 were local government bodies. The local government audits included two pension funds, 11 councils and one other body.

We inspected six 31 March 2020 year-end audits that had not been completed in time for us to previously inspect. All other audits we inspected were for the year ended 31 March 2021.

We replaced half of the local government audits we initially selected for inspection because neither the 31 March 2021 nor the 31 March 2020 audits were finalised.

### All financial statement reviews – for the firms inspected



**The number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, the increased number of audits assessed as requiring significant improvements is unacceptable. Inconsistency is preventing firms from eradicating poor quality audits.**

We assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years.

We continue to identify inconsistency in the quality of audits inspected. The increased number of audit inspections categorised as significant improvements required (15% in 2021/22 and none in 2020/21) and the significance of the underlying findings is unacceptable and concerning. The findings which contributed to this deterioration were inadequate financial statements review procedures, ineffective evaluation of identified misstatements and insufficient justification for issuing a qualified audit opinion. The firms must review their individual quality action plans to ensure this deterioration is addressed and that consistently high-quality audits are delivered.

We were encouraged to identify a range of good practice in risk assessment, execution of the audit, and completion and reporting.

Further details of key findings and good practice are set out in Section 2.

## **Inspection results: arising from our review of auditors' work on Value for Money arrangements**

The auditors' work considers whether or not a body has put in place proper arrangements to secure value for money in its use of resources.

Audit firms had to comply with the new requirements of the National Audit Office (NAO) Code of Practice, applicable for the year ended 31 March 2021. The work of auditors in this area was refocused to:

- Promote more timely reporting of significant issues to local bodies.
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas.
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness.
- Provide clearer recommendations to help local bodies improve their arrangements.

**70%**

The number of audits categorised as good or limited improvements required has remained consistent with the prior year.

**15%**

of audits were assessed as requiring significant improvements. This is unacceptable.

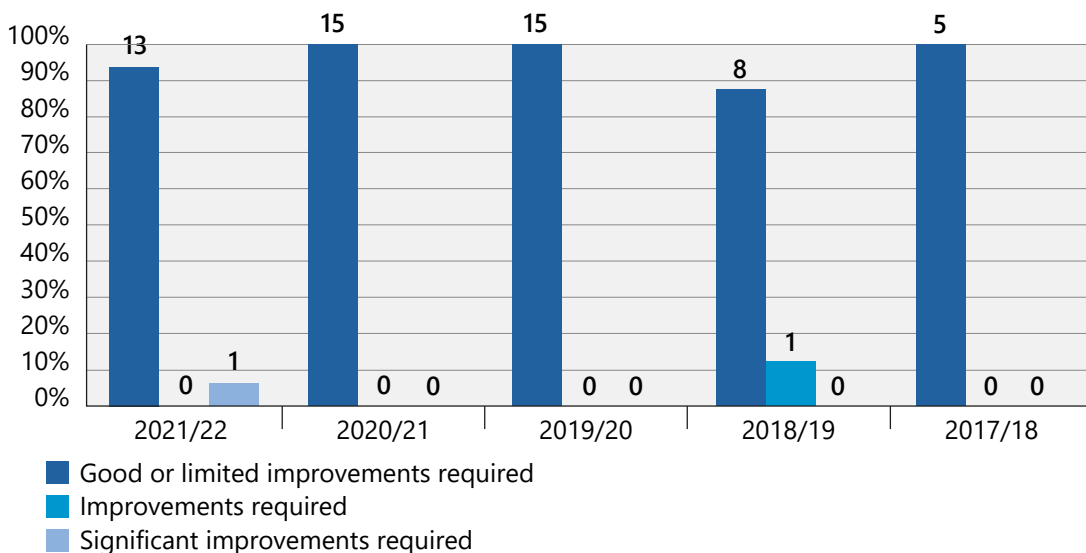
We inspected the auditors' work on VfM arrangements at 14 bodies across the six firms, six were health bodies and eight were local government bodies. The local government bodies included one pension authority, six councils and one other body. Because of the new requirements, all work that we inspected in this area related to the year ended 31 March 2021.

Special provisions were put in place for the reporting of the auditors' work on VfM arrangements due to the Covid-19 pandemic. The target date for completion was up to three months after the date of the completion of the financial statements audit.

Less of the auditors' work in this area was available for us to inspect than financial statement audits. This was primarily due to these special provisions extending the reporting period for the auditors' work combined with the broader issues surrounding the timeliness of local auditor reporting.

The auditors' work on VfM arrangements for 31 March 2021 year ends was reviewed in the 2021/22 inspection cycle.

### Our assessment of the quality of auditors' work on VfM arrangements: for the firms inspected



93% of VfM arrangements inspections required no more than limited improvements.

### Based on our inspections, the quality of auditors' work on VfM arrangements remains high at all but one firm.

Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

One inspection was assessed as requiring significant improvements. The area which gave rise to this categorisation was audit documentation, archiving and engagement with the FRC. The audit procedures and working papers on the VfM audit file were never finalised or reviewed. Changes were then made to the working papers after the firm was notified of our inspection. This is unacceptable and highlighted issues with quality control procedures related to archiving at the firm.

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The firm has established the reasons for this individual instance of unacceptable behaviour and must now determine what changes are required to its quality control procedures to prevent or detect reoccurrence.

Encouragingly, we identified a range of good practice points related to risk assessment, additional procedures and reporting.

Further details are set out in Section 2.

Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the scope of individual inspections.

We accept that our planned focus on higher-risk audits means that the grade profile of our inspection findings may be less representative of audit quality across the whole portfolio of an audit firm. The change in our approach to audit selection over time also means that historical comparisons of results need to be treated with care, although we have taken the same approach for the last three years.

For these reasons, and given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firms.

Any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.

We take robust action for all inspections assessed as requiring improvements or significant improvements. We consider all inspections assessed as requiring improvements or significant improvements against the Regulated Framework for Auditing and under the Auditor Regulatory Sanctions Procedure.

<https://www.frc.org.uk/auditors/audit-quality-review/auditor-regulatory-sanctions-procedure>

Where findings indicate that the Registered Auditor has failed to comply with the Framework, the FRC Enforcement Committee can sanction an audit firm for such breaches under the procedures or may refer the conduct in question for consideration under the FRC Accountancy Scheme or the disciplinary procedures of the relevant Recognised Supervisory Body.

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## **Inspection results: arising from our review of the firms' quality control procedures**

This year, our firm-wide work focused primarily on the following areas:

- Root cause analysis (RCA) process and audit quality initiatives.
- Engagement Quality Control Review (EQCR), consultations and audit documentation.
- Audit methodology (property valuations and going concern).

### **Root cause analysis process and audit quality initiatives**

We focus on RCA and audit quality initiatives given the importance of taking effective action to address our previous inspection findings. AQR reviewed the firms' responses to these findings and considered the efficacy of actions taken through current year inspections.

We continued to observe improvements at individual firms that were linked to the implementation of quality action plans.

### **Engagement quality control review, consultations and audit documentation**

Our key finding related to the need for all firms to:

- Ensure that the appointment of EQCR reviewers is appropriately focused on quality risks, including at non-major local audits.

We identified the following key finding at an individual firm:

- The firm must ensure that appropriate controls operate to prevent and detect the failure to archive audit files.

### **Audit methodology and training (property valuations and going concern)**

One other finding at an individual firm related to:

- Ensuring that the going concern work programmes used by local auditors are suitably tailored to the sector, including the continued provision of service approach.

Further details are set out in Section 2.



## Monitoring review by the Quality Assurance Department of ICAEW

The FRC granted ICAEW a recognition order as a Recognised Supervisory Body (RSB) in November 2015. Under this framework, ICAEW is responsible for the licensing, registering and monitoring of auditors who carry out audits of relevant authorities, as defined in schedule 2 of the LAAA 2014. ICAEW reviews audits outside the FRC's scope. ICAEW does not undertake work on the firm-wide controls or procedures. However, to maintain ICAEW's knowledge of relevant aspects of the firm and its procedures the ICAEW reviewed the results of the firm's audit compliance review (as it applied to local audit), reviewed a sample of CPD records for staff involved in the delivery of local public audit, and liaised with the FRC to obtain information relating to whole-firm procedures relevant to audit work within our scope.

ICAEW's reviews are risk-based, with the aim of reviewing a representative sample of a firm's local audit portfolio over a six-year cycle. ICAEW adopts a cyclical approach to the monitoring of registered local auditors. As a result, not all firms are reviewed every year. In 2021/22 ICAEW undertook reviews of Grant Thornton UK LLP (eight files), Ernst & Young LLP (eight files) and PricewaterhouseCoopers LLP (one file). PricewaterhouseCoopers LLP has no major local audits and so isn't included elsewhere in this report, but the audit reviewed by ICAEW was graded 'good'.

ICAEW reviews are designed to form an overall view of the quality of the audit. Where applicable, both the financial statement opinion audit and work to support the VfM conclusion are reviewed. ICAEW assesses the audits it reviews as either 'good/generally acceptable', 'improvement required' or 'significant improvement required'. Visit [icaew.com/auditguidance](https://www.icaew.com/auditguidance) for further information about ICAEW's audit monitoring process including its approach to assessing audits.

ICAEW has completed its 2021/22 monitoring review and the reports summarising the audit file review findings and any follow up action proposed by the firms were considered by ICAEW's Audit Registration Committee in October 2022.

### Summary

Overall, the audit work continues to be of a generally good standard. Of the 17 reviews, 15 were either good or generally acceptable. One audit required improvement and one audit required significant improvement. These results are consistent with the 2020/21 reviews, with the same grading profile year on year.



# 88%

**Of the seventeen ICAEW financial audit reviews, fifteen were either good or generally acceptable.**



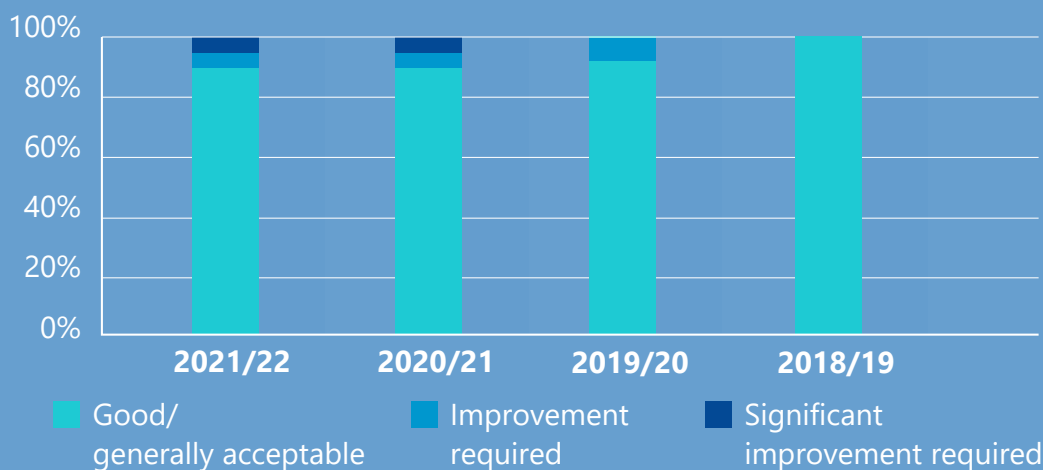


Work to support the VfM arrangements conclusions continues to be of a good standard with all reviews being either good or generally acceptable.

ICAEW continues to identify and share examples of good practice across all the firms subject to review.

## Results

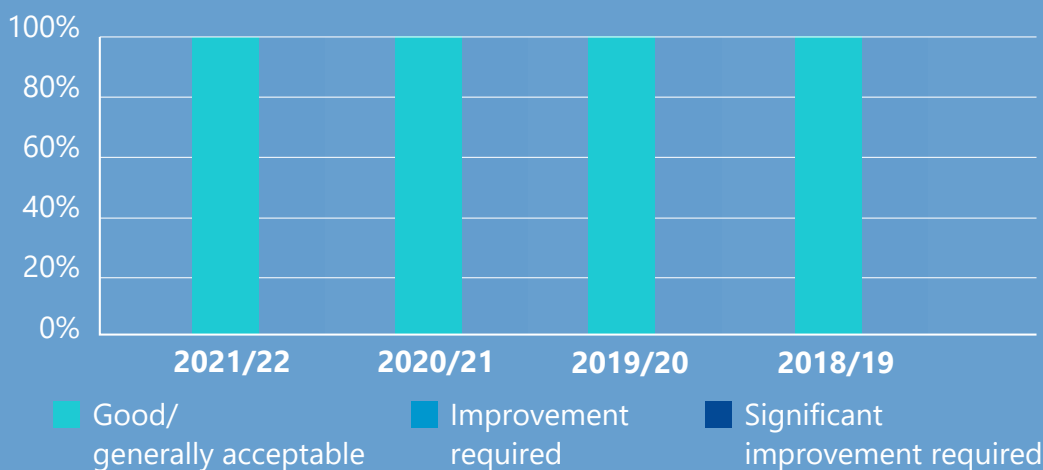
### Financial audit



# 100%

All of the eleven VfM arrangements reviews were either good or generally acceptable.

### VfM



## 2 Reviews of individual audits and the firms' quality control procedures

### Review of individual audits

We set out below the key areas where we consider improvements in audit quality are required. As well as findings on audits assessed as requiring improvements or significant improvements, the key findings can include those on individual audits assessed as requiring limited improvements but considered key due to the frequency of occurrence across the audits we inspected.

It is imperative that all firms consider what improvements they need to make in response to our findings, regardless of whether the findings were identified on their own audits.

### Financial statements audit

#### Urgently improve financial statements review procedures and the evaluation of identified misstatements

Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement. Auditors must:

- Ensure that the financial statements are consistent with underlying records.
- Evaluate the impact of unadjusted audit differences on the financial statements before concluding that they are free from material misstatement.

#### Key findings



We identified significant improvements required on three audits. On all three audits, the procedures performed were inadequate or ineffective as they failed to ensure that primary statements were free from material errors. Key findings included failure to:

- Detect two material errors in the audited financial statements. This included cash deposits in the primary statements being overstated by £1.7 billion. This was caused by an error in accounts preparation that was not present in underlying records or the notes to the accounts.
- Detect material errors and disclosure omissions in the audited financial statements, including the loss on disposal of non-current assets being overstated by £45 million. This was caused by incorrect adjustment of an audit difference.
- Evaluate the impact of unadjusted audit differences on each line item in the financial statements. Based on the unadjusted audit differences that the auditor reported to the Audit Committee, operating expenses were materially misstated. Operating expenses were the benchmark used by the auditor to set its materiality level.

**AQR identified material errors in two sets of audited financial statements.**

**On one audit, the unadjusted audit differences reported to the Audit Committee were material.**

## Ensure there is sufficient justification to support modification of an audit opinion

An auditor forms an opinion on the financial statements by evaluating the audit evidence obtained, modifying their report if sufficient audit evidence cannot be obtained to conclude that the financial statements are free from material misstatement. Audit teams must ensure that modified audit opinions are supported by clear reasoning that is consistent with the underlying audit evidence.

### Key findings



We identified weaknesses in the justification supporting modified audit opinions on two audits, one of which was assessed as requiring limited improvements. We reported a similar finding at a different firm last year.

One audit was assessed as requiring significant improvements because there was insufficient justification for modifying an audit opinion. The audit opinion was modified due to an inability to obtain sufficient appropriate evidence over inventory. The auditor was unable to attend management's inventory stock counts. Alternative procedures, including the auditor's own independent inventory count at balance sheet date, were performed over part of the inventory held with no issues arising. The residual inventory balance was not material. No consideration was given to how undetected misstatements could possibly be material.

## Improve the quality of audit procedures over pension asset valuation

Investment asset valuations and return on investments are key drivers of the net assets available to fund pension benefits. Both are key performance indicators on which management and other users of the financial statements focus. The valuation of investments can be highly complex, particularly when there is an absence of quoted prices in active markets. Audit teams must perform sufficient procedures to assess the reasonableness of asset valuations, including adequately evaluating the use of, and conclusions from, service auditor reports.

### Key findings



We raised findings on two audits, one requiring more than limited improvements. Findings that required improvements included:

- Insufficient evidence was obtained that the valuation of investment assets classified at Level 2 was materially accurate. The primary substantive procedure over the valuation of these assets was to compare valuations obtained from the custodian to those provided directly by fund managers. Considerable assurance was taken when they agreed, on the basis that both parties performed completely independent valuations. There was insufficient evidence that these valuations were independent.

**On one audit, there was insufficient justification for modifying an audit opinion.**

- Insufficient evidence was obtained to rely on the valuation controls at fund managers. The service auditor reports received for two fund managers were not evaluated. The service auditor reports received for eight of the other nine fund managers were inaccurately evaluated, with the auditor reaching the incorrect conclusion that there were no relevant valuation processes or controls in place.
- There was no evidence that audit procedures were performed to test the accuracy of the return on investments, comprising profit on disposal of investments and changes in market value of investments. The return on investments was highly material.

We reported good practice in this area at a different firm.

### **Continue to improve the evaluation and challenge of assumptions used in investment property valuations**

Accurate valuation of investment property provides users of the financial statements with assurance over a body's stewardship of public money. Valuations can assist users in holding bodies accountable for the decisions made when investing public money in property.

The valuation of investment property is complex and involves the use of assumptions and the application of judgement. Auditors should evaluate and challenge those assumptions which could have a material effect on valuations.

#### **Key findings**



We raised findings on two audits, one requiring more than limited improvements. On one audit, improvements were required due to insufficient evaluation and challenge of key assumptions used in the valuation of investment property. We reported good practice in this area on other audits at the same firm.

## Improve the quality of audit procedures over the valuation and classification of financial assets

Some councils have become increasingly commercial. The nature and value of material one-off items should be presented in a way that is helpful to users of the financial statements. Auditors are expected to obtain appropriate audit evidence that material items are valued appropriately.

Classification of financial assets is important in understanding liquidity and ensuring accurate presentation of the cash flow statement. Auditors are expected to appropriately test classification.

### Key findings



We identified weaknesses on five audits, two of which required more than limited improvements:

- On one audit, improvements were required due to insufficient consideration and challenge of the financial model supporting the valuation and classification of a long-term debtor.
- On another audit, there were insufficient procedures to conclude on classification of financial assets as short-term investments or cash and cash equivalents.

## Continue to enhance audit procedures over expenditure

Auditors should undertake appropriate procedures to test the accuracy and occurrence of expenditure. The validity of recorded expenditure is important to users of the accounts as financial planning, including savings plans, is based upon it. Previously, we reported that the firms needed to address deficiencies in the audit work on expenditure.

### Key findings



We inspected the testing of expenditure on most of the audits inspected. The quality of audit work inspected has improved. However, we identified ten audits that required limited improvements across all six firms, including:

- On two audits, there was no testing of the completeness and accuracy of source data when performing substantive analytical procedures.
- On another audit, there were arithmetical errors when performing substantive analytical procedures.
- On a further audit, there were weaknesses in the supporting evidence obtained when testing employee benefits. In particular, where differences between amounts paid and supporting records provided by management were identified.
- On an additional audit, no roll-forward procedures were undertaken when testing the operating effectiveness of controls at an interim date.
- On the same audit, there were weaknesses when testing the operating effectiveness of automated controls.

## Continue to enhance the testing of journal entries

Management override of controls is presumed to be a significant risk and a fraud risk on all audits. The level of risk varies, but this risk is present in all entities and appropriate testing should be performed. Auditors are required to design an appropriate response to this risk, which must include testing of journal entries. When selecting journals for testing, auditors consider identifying characteristics that fraudulent journals often have.

### Key findings



The quality of audit work inspected has improved. However, we identified five audits that required limited improvements across three firms, including:

- On one audit, testing was not performed as planned for two of ten identifying characteristics because the auditor entered incorrect date ranges into the firm's journals software when running reports.
- On the same audit, journals recorded in the 20-day period after year end were tested because the auditor expected that to be the closedown period. The period covered by this testing should have been extended to three months after year end to align with the actual closedown period.
- On two further audits, journal entries with the characteristics identified by the auditor were not tested for appropriate business rationale or authorisation.

## Implement measures to improve audit quality in response to other issues driving lower audit quality assessments

### Key findings



On one audit assessed as requiring improvements, we identified deficiencies in the testing performed over business rates. Findings included that:

- Material debtors and creditors were not appropriately tested.
- A sufficiently precise expectation was not set when performing substantive analytical procedures over business rates income.
- There was insufficient evaluation of key assumptions used by management's expert when valuing the provision for business rate appeals.

## Good practice



We identified examples of good practice in the audits inspected, including the following:

### Risk assessment and planning

Timely risk assessment and planning is important to ensure the audit team tailor an effective audit approach which responds to those risks.

- **Fraud risk assessment:** The audit team's fraud risk assessment demonstrated a good understanding of the sector and financial pressures at the council. Because of the incentive for management to manipulate its reserves position, the audit team identified fraud risks for revenue expenditure funded from capital under statute, minimum revenue provision and the flexible use of capital receipts. The audit team appropriately designed tests of details to address these risks.

### Execution

The execution of an audit plan needs to be individually tailored to the facts and circumstances of the audit.

- **Use of an expert to assist audit property valuations:** The audit team appropriately evaluated the competence, capabilities and experience required to audit a highly specialised property. It engaged an auditor's expert to provide support in testing the valuation, which enhanced the team's audit evidence in this higher-risk area.
- **Evaluation of assumptions used in investment property valuations:** The audit team's testing of yields was particularly robust and included evaluation of the comparators used by management's valuer against third-party market data. Where appropriate, the audit team demonstrated challenge of management's valuer.
- **Challenge of management:** The audit team demonstrated rigour when challenging the assumptions made in setting the business rates appeals provision, in particular by benchmarking to other councils. The audit opinion was ultimately qualified as the auditor was unable to obtain sufficient appropriate audit evidence over the amount of the provision.

### Completion and reporting

The completion and reporting phase of an audit is an opportunity to stand back and assess the level of work performed against the audit plan and ensure that the reporting of the outcome of the audit is appropriate and timely.

- **Evaluation of errors identified in testing:** The audit team robustly followed up on errors identified in its additions testing by extending its sample and challenging management to recognise a prior-year adjustment.
- **Consultation:** The audit team consulted with an internal panel of senior public sector specialists on the sufficiency and appropriateness of the audit procedures performed over a subsidiary whose financial performance had deteriorated in the year. There was clear evidence of challenge by the audit team in areas such as the disclosure of events after the balance sheet date and parent company guarantees.

Good practice examples included effective use of experts and internal consultation with senior public sector specialists on higher-risk matters.

## The auditors' work on Value for Money arrangements

### Urgently improve audit documentation, archiving and engagement with the FRC

Sufficient and appropriate evidence serves a number of important purposes, including making the engagement team accountable for its work and enabling the conduct of audit quality inspections in accordance with applicable regulatory requirements. Audit firms are expected to finalise and archive their evidence and comply with regulatory requests.

#### Key findings



We identified findings on one inspection where significant improvements were required. Key findings included significant weaknesses in the audit team's evidence of procedures undertaken and its engagement with the FRC. In particular:

- The evidence on the VfM audit file was not finalised.
- The working papers and audit procedures on the VfM audit file were not reviewed.
- The VfM audit file was not archived.
- The firm incorrectly informed us that the VfM audit file had been archived before we selected it for inspection.
- A member of the audit team made changes to the VfM audit file after we had notified the firm of our inspection. This issue appears to be isolated.

**On one inspection, changes were made to the VfM audit file after we notified the firm of our inspection. This is unacceptable.**

#### Other findings



This year we inspected the auditors' work on VfM arrangements at 14 bodies and identified findings on six inspections across five firms, including:

- On one inspection, the audit team should have considered the council's group and commercial activities in its risk assessment and commentary.
- On another inspection, the reporting of a significant weakness in arrangements should have more clearly explained the nature and extent of the weakness identified, and the recommendation for improvement should have addressed all relevant matters.
- On a further inspection, the audit team reported that it had undertaken additional procedures that were not performed. Instead, the auditor relied on a regulator's monitoring visit. The auditor's reporting should have made clear the extent to which its conclusions relied on the findings of a regulator's monitoring visit instead of its own additional procedures.

None of these findings were assessed as significant enough to require more than limited improvements. They are, however, areas that all firms should maintain a focus on in future.



## Good practice



We identified examples of good practice in the inspections we performed, including the following:

- **Good integration with the financial statements audit:** The financial statements audit identified issues with the accounting for private finance initiatives, including payments made to the contractor for assets that had not been received. Integration with the financial statements audit work resulted in the identification of a significant weakness in contracting arrangements and recommendations for improvement being made.
- **Timely reporting:** On one inspection, a timely update was provided to the Audit Committee when a significant weakness in arrangements was identified. The audit team issued an addendum to its audit plan highlighting the issues identified, its updated risk assessment and the proposed changes to the audit strategy.
- **The Auditor's Annual Report:** On four inspections, the auditor's reporting was comprehensive, well-structured, and made good use of benchmarking data. Communication was clear, including the nature of significant weaknesses identified and their impact on the entity.
- **Consultation:** On one inspection, the audit team consulted with an internal panel of senior public sector specialists to determine if the identified significant weaknesses in arrangements required the auditor to exercise its additional powers and duties. There was clear explanation of their reasoning and conclusion for why this was not required.

## Review of the firms' quality control and review procedures

We review firm-wide procedures based on those areas set out in International Standard on Quality Control (ISQC) 1, in some areas on an annual basis and others on a three-year rotational basis. Our firm-wide work covered all six firms completing major local audits. The table below sets out the areas that we have covered this year and in the previous two years.

Annual	Current year 2021/22	Prior year 2020/21	Two years ago 2019/20
<ul style="list-style-type: none"> <li>• Audit quality focus and tone of the firm's senior management</li> <li>• Root cause analysis (RCA) process</li> <li>• Audit quality initiatives, including plans to improve audit quality</li> <li>• Complaints and allegations processes</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the FRC's Revised Ethical Standard (2019)</li> <li>• EQCR, consultations and audit documentation</li> <li>• Audit methodology</li> <li>• Internal quality monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Audit methodology (recent changes to auditing and accounting standards)</li> <li>• Training for auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Partner and staff matters, including performance appraisals and reward decisions</li> <li>• Acceptance and continuance (A&amp;C) procedures for audits</li> </ul>

The key findings and good practice identified are reported in each firm's 2022 Audit Firm Specific Report on public interest entity audits.<sup>5</sup>

We extend our work on the firms' quality control and review procedures, where necessary, to cover matters specific to local audit and report the findings here. This work primarily focused on:

- RCA process and audit quality initiatives.
- EQCR, consultations and audit documentation.
- Audit methodology (property valuations and going concern).

The reason for the focus on audit quality initiatives and RCA is the importance of taking effective action to address recurring inspection findings.

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## Root cause analysis process and audit quality initiatives

Firms are expected to develop audit quality plans (AQPs) that drive measurable improvements in audit quality and include initiatives which respond to identified quality deficiencies, as well as forward-looking measures which contribute directly or indirectly to audit quality.

The RCA process is an important part of a continuous improvement cycle designed to identify the causes of specific audit quality issues (whether identified from internal or external quality reviews or other sources) so that appropriate actions may be designed to address the risk of repetition. All firms have been performing RCA for several years. We reviewed the firms' RCA processes last year and assessed changes, including responses to our previous findings, in the current year.

The key findings and good practice identified are reported in each firm's 2022 Audit Firm Specific Report on public interest entity audits.

We will continue to assess each firm's RCA process. We encourage all firms to develop their RCA techniques further as well as focus on measuring the effectiveness of the actions taken as a result.

We reviewed the RCA on all local audits where we had identified more than limited improvements in our last inspection cycle. All four of the firms impacted use the same RCA process as on public interest entity audits. The four firms developed actions to address our findings. We performed the following:

- Ensured actions were coherent and clear on how they would deliver continuous improvement and enhanced audit quality, linking to our findings.
- Assessed whether they included evaluation of required training.
- Conducted follow-up meetings with firms to discuss and challenge aspects of the RCA process and subsequent actions taken to improve audit quality.
- Considered, in hindsight, the efficacy of the RCA process and the actions taken with reference to current year inspection findings.

We observed improvements at firms that were linked to the implementation of AQPs. Where we found recurrent key findings at the same firm, further commentary is provided in Section 3.

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5 Audit firm specific reports on public interest entity audits can be found [here](#)

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## Engagement Quality Control Review, consultations and audit documentation

An EQCR is required to be an objective evaluation, by a suitably qualified audit practitioner, of the significant judgements made by the audit team. The reviews are completed on public interest entities and other heightened risk audits before the audit report is signed.

Our review evaluated the six firms' policies and procedures for the appointment of EQCR reviewers to local audits. All firms appoint an EQCR reviewer dependent on quality risk. Additionally, three of the firms appoint an EQCR reviewer to all major local audits. In aggregate, 59% of major local audits had EQCR involvement compared to less than 1% of other local audits.

### Key findings

Our key finding related to the need for each firm to:

- Ensure that the appointment of EQCR reviewers is appropriately focused on quality risks, including at non-major local audits.

We recognise that a firm's response to identified quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, a firm's response may include reviews of the engagement team's procedures relating to certain risks, or significant judgements, by personnel who have specialised technical expertise.

Consultation with a firm's central functions, on difficult or contentious matters, enables auditors to be guided by the collective experience and technical expertise of the firm. We reviewed the firms' policy for areas where mandatory local audit specific consultations are required. We had no key findings in this area.

Audit documentation comprises the evidence obtained and conclusions drawn during an audit. Archiving ensures that the documentation is maintained, should it be needed in the future. We reviewed the firms' arrangements relating to the assembly and timely archiving of final audit files, and the monitoring and approval of changes made to audit files after the signing of the audit report.

### Key findings

We identified the following key finding at an individual firm:

- On one inspection, we identified that the audit file supporting the auditor's work on VfM arrangements had not been archived. The firm's controls failed to identify that this audit file was not archived. The firm must ensure that appropriate controls operate to prevent and detect the failure to archive audit files.

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## Audit methodology (property valuations and going concern)

The firms' audit methodology, and the guidance provided to auditors on how to apply it, are important elements of the firms' overall system of quality control, to help audit teams perform audits consistently and comply with auditing standards. In the current year, we evaluated the quality and extent of the firms' methodology and training relating to the audit of property valuations and going concern assessments. We had no key findings in this area although we did identify some less significant issues.

### Other findings



During our inspection visit, we identified one audit where the auditor's report contained a material uncertainty in relation to going concern. The auditor's assessment focused on financial sustainability rather than the principle of service continuity.

Our finding related to the need for an individual firm to:

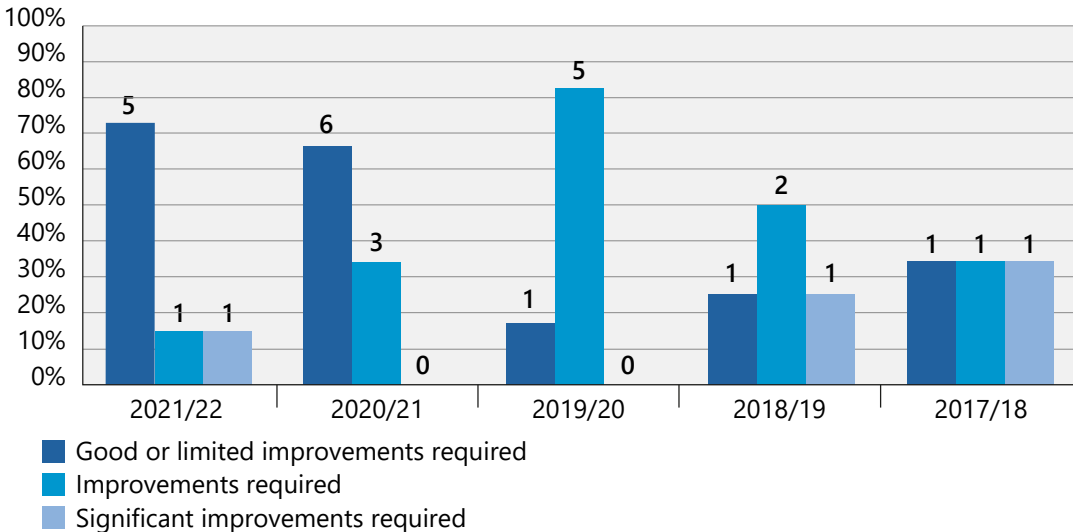
- Ensure that the standardised work programmes used by local auditors are suitably tailored to the sector, including the continued provision of service approach.

### 3 Review of individual firms

In this section, we set out our assessment of the six firms that perform major local audits. We completed at least two audit inspections at each firm.

#### Grant Thornton UK LLP

##### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

We assessed 71% of financial statement audits as requiring no more than limited improvements compared with 67% in the previous year and 23% on average in the preceding three years.

While there has been an overall improvement, it is unacceptable that one financial statement audit we inspected was found to require significant improvements and another required improvements. Urgent and robust action is required to address these findings and to ensure that they do not recur.

We inspected the auditor's work on VfM arrangements at four bodies; all inspections were assessed as requiring no more than limited improvements (the same as the previous year).

The firm performed RCA on the three financial statement audits assessed as requiring more than limited improvements in the previous inspection cycle. AQR reviewed the RCAs and the firm's Public Sector Quality Investment Plan (PSQIP), which incorporated the firm's responses.

**71%**

At Grant Thornton UK LLP, five of the seven audits inspected were assessed as either good or limited improvements required.

**100%**

At Grant Thornton LLP, all four VfM arrangements inspections were assessed as good or limited improvements required.

Our selection of audits to inspect included higher-risk 31 March 2020 audits that we had been unable to inspect in our previous inspection cycle due to the timing of auditor's reports. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

This year, on one audit we inspected, we identified a recurrent key finding. It related to insufficient evaluation and, if necessary, challenge of significant assumptions in investment property valuations. AQR reviewed the firm's response to our previous finding, which was primarily the provision of training to practitioners. This training was provided after the audit on which we identified the recurrent finding was complete. We also identified good practice in this area on two other audits, indicating an element of inconsistency across the audits we inspected. As evaluation and, if necessary, challenge of key assumptions in investment property valuations is a recurring issue for the firm, it must take action to understand the root cause of continuing deficiencies and develop further actions to address inconsistency between audits.

## Key findings



Significant improvements were required to one audit. Findings included:

- Financial statement review procedures were inadequate and ineffective. They did not identify two material errors in the audited financial statements. This included cash deposits in the primary statement being overstated by £1.7 billion. This was caused by an error in accounts preparation that was not present in underlying records or the notes to the accounts.
- Insufficient substantive evidence was obtained that the valuation of pension assets was materially accurate.
- Insufficient evidence was obtained to rely on the valuation controls at fund managers when testing the valuation of pension assets.
- There was no evidence that audit procedures were performed to test the accuracy of the profit on disposal of investments and changes in their market value.

On a further audit, improvements were required:

- Insufficient testing was performed over business rates. The audit team did not:
  - Appropriately test business rates debtors and creditors.
  - Set a sufficiently precise expectation for the substantive analytical procedure on business rates income.
  - Evaluate the reasonableness of significant assumptions when concluding on the material accuracy of the business rates appeals provision.
- There was insufficient evaluation and, if necessary, challenge of the reasonableness of significant assumptions in investment property valuations.

The firm must take urgent and robust action to address these findings, including:

- Performing a full RCA for both audits assessed as requiring more than limited improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved. This must include actions to promote greater consistency between audits.
- Considering the results from its internal monitoring and of inspections performed by ICAEW to establish if there are any other areas of concern.
- Updating its ongoing PSQIP for all findings and required actions from this inspection cycle.

For the inspection assessed as requiring significant improvements, the firm has commenced these actions by providing us with their RCA, prior to our final report on the inspection being issued.

AQR will continue to test the efficacy of the firm's actions in its PSQIP in our next inspection cycle, where we may also select higher-risk audits that we were unable to inspect this year due to the timing of auditor's reports.

### Good practice



Good practice points were identified on three financial statement audits, including:

- Robust evaluation of errors in additions testing and challenge of management to recognise a prior year adjustment.
- Consultation on the sufficiency of audit procedures and disclosures for a subsidiary whose financial performance had deteriorated in the year.
- Use of an auditor's expert to help audit certain key assumptions in investment property valuations, in a manner that was proportionate to risk.
- Robust testing of key assumptions used in investment property valuations against third-party market data. Where appropriate, the audit team demonstrated appropriate challenge of management's expert.

Good practice points were identified on all four VfM arrangements inspections, including:

- Consultation with an internal panel of senior public sector specialists to determine if the identified significant weaknesses in arrangements required the auditor to exercise its additional powers and duties. There was clear explanation of the reasoning and conclusion for why this was not required.
- Comprehensive evidence of the team's work, evaluation and conclusions supporting the risk assessment and additional procedures.
- Comprehensive well-structured reporting that made good use of benchmarking data. Clear communication, including the nature of significant weaknesses identified and their impact on the entity.





## Monitoring review by the Quality Assurance Department of ICAEW

### Assessment of the quality of audits reviewed of Grant Thornton UK LLP

Overall, the audit work ICAEW reviewed was of a good standard. Seven of the eight files reviewed were either good or generally acceptable, but one file required improvement.

ICAEW concluded that one file needed improvement due to the insufficient challenge of management's expert on long-term asset valuations. This file was a 2019/20 audit and therefore, does not reflect recent improvements the firm has made in this area, following feedback from external reviews in 2020.

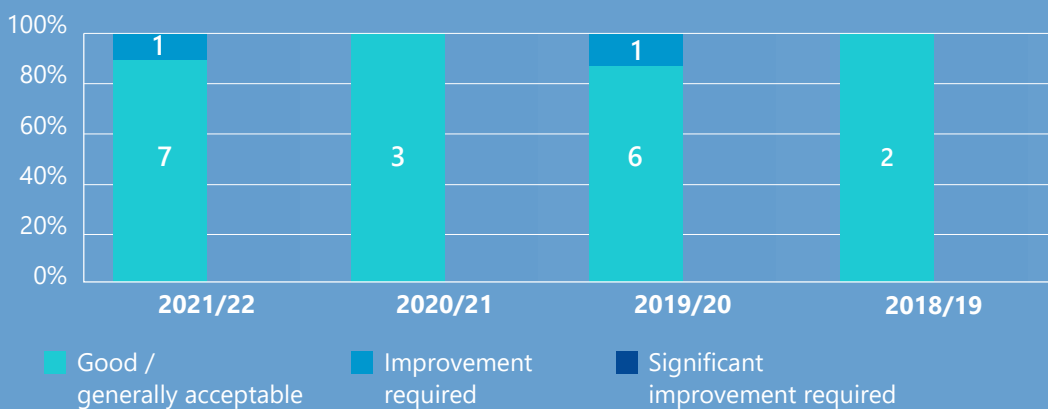
On two of the generally acceptable files, ICAEW identified some improvements needed to audit team's substantive analytical procedure on National Non-Domestic Rates (NNDR) income. ICAEW also identified an omission of a primary financial statement from the audit opinion on the file requiring improvement.

VfM work was good on each of the files reviewed, and ICAEW did not identify any issues with this aspect of the audit team's work.

ICAEW identified and shared examples of good practice across the audits. This good practice included:

- Several examples of applying high levels of professional scepticism.
- Clear and comprehensively documented work in the audit of long-term asset valuations.
- Good levels of challenge and corroboration on assessing valuer assumptions.
- Clear stratification of errors identified in PPE testing to inform the further audit work conducted.
- Comprehensive documentation of the VfM risk assessment.
- Good tailoring of improvement recommendations to reflect an impending local government reorganisation.

The results of ICAEW's financial audit reviews for the last four years are set out below



Note: Given the sample size, changes from one year to the next in the proportion of audits falling within each category cannot be relied upon to provide a complete picture of the firm's performance or overall change in audit quality.

# 88%

Of the eight ICAEW financial audit reviews, seven were either good or generally acceptable.

## Firms response to AQR and QAD inspections



It is pleasing to see that the investment our Firm has made in improving the quality of our audit work has been recognised by the FRC with 71% of financial statements audits requiring no more than limited improvements compared to 67% last year and an average of only 23% in the preceding three years. With the significant change in the work on VfM introduced by the new Code we are delighted that 100% of the VfM reviews were assessed as either Good or only requiring limited improvements, which maintains our track record in this aspect of our work from previous years. We are equally pleased that a large number of the files reviewed have also had areas of good practice identified across different aspects of our work.

Similarly, the QAD reviews concluded that 88% of our financial audit files reviewed in year met the required standard, with only one file (which related to a prior year audit that commenced before much of the enhanced training and documentation had been introduced) being assessed as 'improvement required'. It is pleasing to see that the QAD similarly identified that all of the five VfM files reviewed were good, with no issues identified. Again, QAD identified a number of good practice areas across the majority of our files.

We fully recognise that any file not achieving the required standard is not only disappointing but highlights that there is still work to do to ensure that our high quality standards are replicated across all of our audits. However, as demonstrated by the outcomes of our other external file reviews summarised within this report and our own internal file reviews, the majority of reviews are assessed as either good or only requiring limited improvement. We have responded promptly to the emerging findings of the file assessed by the FRC as requiring significant improvements by undertaking detailed root cause analysis as soon as we were aware that there were issues and well before the file review was finalised. We shared this with the FRC as part of our response to their draft report, reflecting how seriously we have taken this issue and our commitment to implement actions that will enhance future audit quality. A similar process will be followed for the two files assessed as 'Improvement required' by the FRC and QAD.

In addition to the root cause, regular 'lessons learnt' communications have been published and promoted for all team members to access and there has been training delivered to all teams on the key findings of the FRC and QAD reviews. In addition, specific mandatory training has been delivered in each of the key areas of property valuations, including the specific risks around investment property valuations, and the audit of Pension Funds, including the valuation of different categories of investments. New guidance and example working papers have been developed and shared on key areas such as business rates. All emerging issues and themes from both external and internal quality reviews are reported to the monthly Public Sector Audit (PSA) Quality and Financial Reporting Board by our Director & PSA Head of Audit Quality Regulation, to ensure a timely response to any development or changes required to our audit approach.

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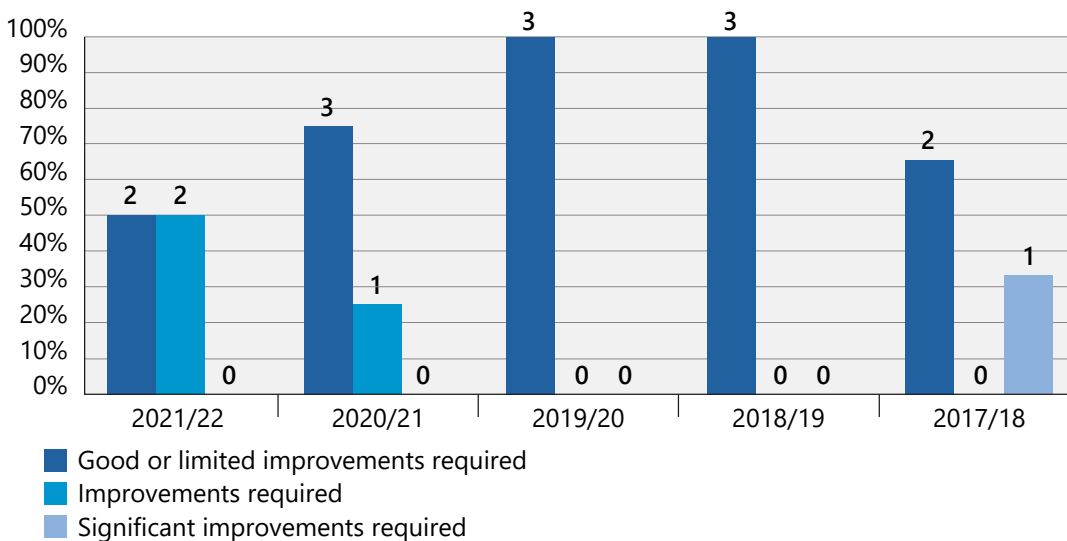
The key issue on the file identified as 'Significant Improvement Required' by the FRC relates to a transposition error in the production of the financial statements. The correct values were reported in the supporting note which was referenced within the primary statements. As soon as the issue was identified we engaged with the audited body to have the error corrected. We accept that our procedures should have identified and corrected this error. We will ensure appropriate checks are undertaken between the version of the accounts used by ourselves to undertake audit testing and the final version on which our audit opinion is given. We have also introduced the requirement for auditors to perform additional checks on the version published by the audited body.

The firm's internal quality reviews of PSA files concluded in late September 2022 and identified similar themes to both the FRC and QAD. We have now launched a root and branch review of guidance and template working papers to ensure that they are providing the necessary support to audit teams to enable high quality audits to be delivered and clearly evidenced. The extent of our use of External Quality Control Reviewers (EQCRs) and Quality Support Teams (QST) inputs is being reviewed and enhanced as both of these roles act to enhance the quality of our work on complex audits. Our central quality support teams are also proactively engaging with Key Audit Partners and audit teams on a more regular basis to ensure that emerging themes are detected and discussed at the earliest possible stage.

We recognise the importance of continuous improvement and have taken prompt action to ensure that the learning from file reviews is shared with audit teams in a timely way. We are disappointed that our work did not meet the required standards in all instances and will continue to strengthen our procedures and training to limit the risk of this reoccurring.

## Ernst & Young LLP

### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

We assessed 50% of financial statement audits as requiring more than limited improvements compared with 25% in the previous year and 24% on average over the past five years.

It is concerning that two financial statement audits we inspected were found to require improvements. Robust action is required to address these findings.

All three VfM arrangements inspections were assessed as good or limited improvements required (all good or limited improvements required in 2020/21).

The firm performed RCA on the one financial statement audit assessed as requiring more than limited improvements in the previous inspection cycle. AQR reviewed the RCA and the actions taken in response to our finding. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

# 50%

At Ernst & Young LLP, two of the four audits inspected were assessed as requiring more than limited improvements.

# 100%

At Ernst & Young LLP, all three VfM arrangements inspections were assessed as good or limited improvements required.

## Key findings



The key findings in this inspection cycle were:

- On one audit, there were insufficient procedures to conclude on classification of financial assets as short-term investments or cash and cash equivalents.
- On another audit, insufficient consideration and challenge of the valuation of a loan, its classification as a long-term debtor, or group boundary implications. This resulted in a lack of evidence that the valuation of the loan was materially accurate or that its classification as long-term was appropriate.

The firm must take robust action to address these findings, including:

- Performing a full RCA for each audit assessed as requiring more than limited improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring and of inspections performed by ICAEW to establish if there are any other areas of concern.

AQR will test the efficacy of the firm's actions in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

## Good practice



A good practice point was identified on one financial statements audit:

- The audit team's fraud risk assessment demonstrated a good understanding of the sector and financial pressures at the council. Because of the incentive for management to manipulate its reserves position, the audit team identified fraud risks for revenue expenditure funded from capital under statute, minimum revenue provision and the flexible use of capital receipts. The audit team appropriately designed tests of details to address these risks.

A good practice point was identified on one VfM arrangements inspection:

- On one inspection, a timely update was provided to the Audit Committee when a significant weakness in arrangements was identified. The audit team issued an addendum to its audit plan highlighting the issues identified, its updated risk assessment and the proposed changes to the audit strategy.



## Monitoring review by the Quality Assurance Department of ICAEW

### Assessment of the quality of audits reviewed of Ernst & Young LLP

Overall, the audit work ICAEW reviewed was of a good standard. Of the eight files reviewed, seven were either good or generally acceptable, but one file required significant improvement.

In the file needing significant improvement, the audit team needed to improve the work done to assess the classification of certain assets as investment properties and whether the negative investment property valuations were appropriate and complied with accounting standards. Improvement is also required on the same file in relation to the audit team's consideration of the cashflow statement, with our review identifying two material errors.

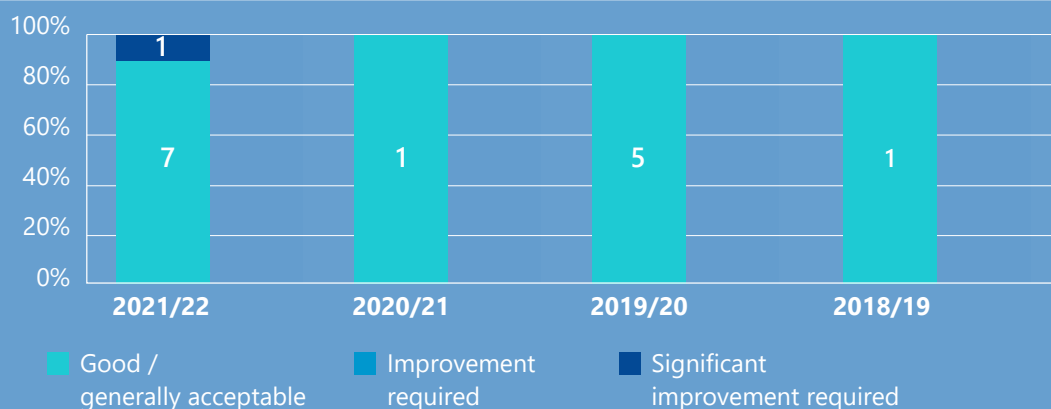
On four of the generally acceptable files, ICAEW identified improvements needed to financial statement disclosure. On two files, accumulated depreciation hadn't been 'zeroed' following a formal revaluation, while on a further two files there were misstatements in the defined benefit pensions scheme disclosure. Other findings (on two files) saw isolated improvements needed in relation to the audit evidence obtained.

VfM work was good on each of the files reviewed, and ICAEW did not identify any issues with this aspect of the audit team's work.

ICAEW identified and shared examples of good practice across the audits. This good practice included:

- The scope and strategy section of the audit file being well-documented, demonstrating a good understanding of the audited entity.
- Good consideration of the risks of fraudulent revenue recognition.
- Clear documentation of the impact of the COVID-19 pandemic.
- Clear and succinct consideration by the audit team of matters identified in the consulting actuaries' report.
- Good use of publicly available information to test the classification of assets.

The results of ICAEW's financial audit reviews for the last four years are set out below



Note: Given the sample size, changes from one year to the next in the proportion of audits falling within each category cannot be relied upon to provide a complete picture of the firm's performance or overall change in audit quality.

# 88%

Of the eight ICAEW financial audit reviews, seven were either good or generally acceptable.

## Firm's response to AQR and QAD inspections



The positive results of nine out of twelve of the financial statement reviews and 100% of the value for money arrangements reviews conducted by the FRC and ICAEW's QAD this year reflect the hard-work and dedication of our team of local audit specialists, and reflect the effort and investment that we continue to make in delivering consistently high-quality audits. We are pleased that examples of good practice were identified across these files and welcome the insights and recommendations on areas for improvement noted in this report.

We are disappointed that three of the engagements reviewed by the FRC and ICAEW's QAD this year fell short of the high audit quality standards that we set ourselves and that our regulators and other stakeholders rightly expect from us.

We have begun the root cause analysis process and will be sharing lessons learnt (both positive and negative) and actions taken in response to the RCA with the audit practice to improve audit quality more broadly.

We are also developing training which communicates the details of the findings, and supports teams in avoiding similar challenges in future engagements.

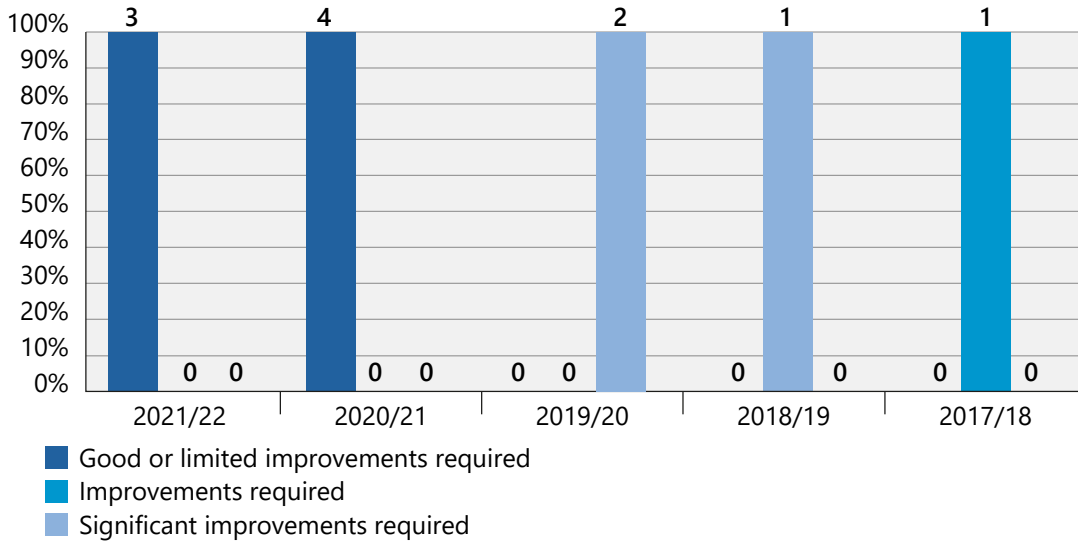
In addition to these specific responses to the findings highlighted, we also continue to evolve our Audit Quality Strategy to enable our people to concentrate their efforts in the right places to drive consistent high quality, whilst maintaining an emphasis on wellbeing. Our refreshed strategy includes renewed focus on:

- Greater standardisation and simplification;
- More effective coaching; and
- Rebalancing and reducing workloads.

We are encouraged that the key findings identified in previous years, particularly in relation to the audit of asset valuations, have not re-occurred this year following our timely intervention and ongoing efforts to support teams in this complex area. The FRC have noted that they have "identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings." We have confidence that the actions that we have taken to date have been effective, and are committed to consistently delivering high quality audits that serve the public interest.

## Mazars LLP

### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

The firm has maintained the significant improvement in audit quality results compared to its performance prior to 2020/21. We assessed 100% of financial statement audits as requiring no more than limited improvements compared with 100% in the previous year and nil on average in the preceding three years.

In response to previous improvements in quality results, AQR considered it appropriate to decrease the number of audit inspections to three. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

All three VfM arrangements inspections were assessed as requiring no more than limited improvements (all good or limited improvements required in 2020/21).

In our next inspection cycle we may select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

# 100%

At Mazars LLP, all three financial statement audits inspected were assessed as good or limited improvements required.

# 100%

At Mazars LLP, all three VfM arrangements inspections were assessed as good or limited improvements required.



## Good practice



Good practice points were identified on two financial statement audits, including:

- Robust testing of key assumptions used in property valuations against third-party market data. Where appropriate, the audit team demonstrated appropriate challenge of management's expert.
- Use of an auditor's expert to review investment property valuations, in a manner that was proportionate to risk.

Good practice points were identified on two VfM arrangements inspections, including:

- Comprehensive evidence of the team's work, evaluation and conclusions supporting the risk assessment and additional procedures.

## Firm's response to AQR inspections



We welcome the results of the FRC's inspection of our 2020/21 local audit work. We are passionate about delivering high-quality audit to public bodies for the benefit of the communities they serve. Our positive results over the last two inspection cycles demonstrate the efficacy of the investments we have made and are testament to the hard work and commitment of our teams.

Our work on VfM arrangements is a key part of the local audit and we are pleased that the FRC identified good practice in the way we document and evidence this work. We are also pleased the FRC continues to recognise good practice in our approach to auditing the valuation of property assets, reflecting the investments we have made to support our teams in this key area.

Notwithstanding these strong results, we remain committed to the continuous improvement of our local audit work and we will continue to drive forward our audit quality agenda. This remains the responsibility of our Key Audit Partners, reflecting our commitment to setting an appropriate "tone from the top" with regard to audit quality. We will consider the actions required to address the limited improvement areas identified in this year's FRC inspections and from our own internal quality reviews. We will also look to learn more from the good practice identified to understand the principal drivers for the high-quality work and share this across our audit service line.

## KPMG LLP, BDO LLP, Deloitte LLP and PricewaterhouseCoopers LLP

We previously inspected a single audit at each firm so aggregated the inspection results into one graphical summary to avoid publicly identifying the results of individual inspections.

PricewaterhouseCoopers LLP no longer perform any major local audits so are not currently in scope of our inspection activity. AQR increased the number of audits inspected at the other firms to two. Performing more than one inspection at each firm allows us to individually report on each firm and responds to previous audit quality results at some of the firms.

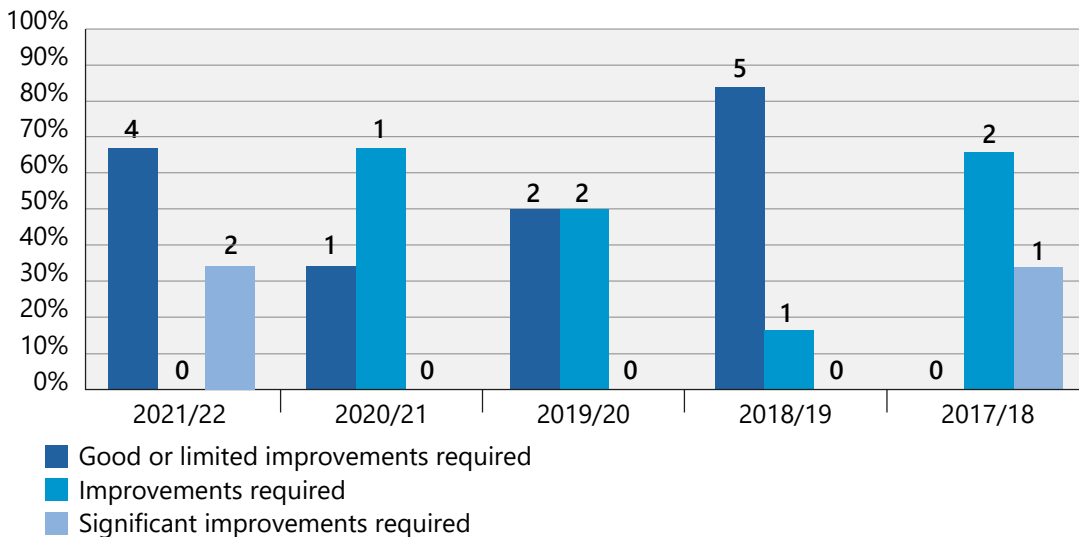
The graph below aggregates the results of the financial statement audits we inspected. This allows us to present comparators without publicly identifying the results of individual inspections.<sup>6</sup>

Care is required in interpreting these results. The grade profile of our inspection findings may not be representative of audit quality at individual firms or across the whole portfolio of audits performed by this group of firms.

**PricewaterhouseCoopers LLP do not currently have any major local audits so are no longer in scope of our inspection activity.**

**AQR increased the number of audits inspected at the other firms to two. This allows us to individually report findings at each firm.**

### Our assessment of the quality of financial statement audits reviewed



The results of each firm's 2021/22 audit inspections are presented individually below.

<sup>6</sup> In 2020/21 and 2021/22, three firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP.

In 2019/20, all four firms were inspected.

In 2018/19, three firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP.

In 2017/18, two firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP or Deloitte LLP.

## KPMG LLP

The two financial statement audits inspected were assessed as good or limited improvements required.

The two VfM arrangements inspections were assessed as good or limited improvements required.

No individual instances of good practice were identified on these two inspections.

The firm should aim to maintain the quality of work observed and consider the results of its internal monitoring to establish if there are any areas of concern.

### Firm's response to AQR reviews



We are pleased that our continued drive and investment in audit quality has sustained our audit quality inspection results. Audit quality is at the heart of our strategy and our focus now is on embedding further, sustainable improvements across our business. Our Audit Quality Plan brings together our key priority areas to drive continuous improvements in audit quality. This year's plan includes a focus on: the continued rollout of KPMG Clara - our modern global audit system; continued investment in our "high challenge, high support" culture; and embedding changes to our Root Cause Analysis (RCA) process which drives audit quality through our aligned behaviours. We have also continued to embed changes to our governance, to help build trust in our firm and the wider profession and in readiness for International Standard on Quality Management (ISQM) 1.

## BDO LLP

Of the two financial statement audits inspected, one was assessed as requiring significant improvements and one was assessed as good or limited improvements required.

The one VfM arrangements inspection was assessed as requiring significant improvements.

It is unacceptable that two inspections were assessed as requiring significant improvements. Urgent and robust action is required to address these findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

# 100%

At KPMG LLP, the two financial statement audits inspected were assessed as good or limited improvements required.

# 100%

At KPMG LLP, the two VfM arrangements inspections were assessed as good or limited improvements required.

# 50%

At BDO LLP, one of the two financial statement audits inspected was assessed as requiring significant improvements.

## Key findings



The key findings in this inspection cycle were:

- On one financial statements audit, there was insufficient justification to support modification of the audit opinion. The audit opinion was modified due to an inability to obtain sufficient appropriate evidence over inventory. The auditor was unable to attend management's inventory stock counts. Alternative procedures, including the auditor's own independent inventory count at balance sheet date, were performed over part of the inventory held with no issues arising. No consideration was given to how undetected misstatements could possibly be material.
- On the same financial statements audit, the impact of unadjusted audit differences was not considered on each line item in the financial statements. Based on the unadjusted audit differences that the auditor reported to the Audit Committee, operating expenses were materially misstated. Operating expenses were the benchmark used by the auditor to set its materiality level.
- On one VfM arrangements inspection, there were significant weaknesses in the audit team's documentation, archiving and in its engagement with us as a regulator. In particular:
  - The evidence on the VfM audit file was not finalised.
  - The working papers and audit procedures on the VfM audit file were not reviewed.
  - The VfM audit file was not archived.
  - The firm did not realise that the VfM audit file had not been archived.
  - The firm incorrectly informed us that the VfM audit file had been archived before we selected it for inspection.
  - A member of the audit team made changes to the VfM audit file after we had notified the firm of our inspection. This issue appears to be isolated.

The firm must take urgent and robust action to address these findings, including:

- Performing a full RCA for each inspection assessed as requiring significant improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring to establish if there are any other areas of concern.
- Updating its ongoing Public Sector Audit Quality Improvement Plan (PSAQIP) for all findings and required actions from this inspection cycle.

AQR will test the efficacy of the firm's actions in its PSAQIP in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

### Good practice



More encouragingly, good practice points were identified on two financial statement audits, including:

- Engaging an auditor's expert to provide support in testing the valuation of a highly specialised property. This enhanced the audit evidence in this higher-risk area.
- Robust risk assessment discussions among the engagement team, including Key Audit Partner-led fraud discussions, demonstrated a good understanding of the risks facing the organisation.
- Interactions and discussions with the Audit Committee were clearly recorded and evaluated to determine if additional audit procedures were required in response.

A good practice point was also identified on one VfM arrangements inspection:

- Good integration with the financial statements audit. The financial statements audit identified issues with the accounting for private finance initiatives, including payments made to the contractor for assets that had not been received. Integration with the financial statements audit work resulted in the identification of a significant weakness in contracting arrangements and recommendations for improvement being made.

### Firm's response to AQR reviews



The firm's Leadership Team, Audit Executive and Public Sector team have noted the disappointing findings from the AQR reviews of the financial statements and VfM conclusion for one major local audit. On determining the issues underlying these findings we immediately undertook robust actions and we are carrying out further actions, consistent with our overall objective of delivering high quality audits. These actions are set out below.

We were pleased to note the good practice, ie around engaging an auditor's expert, risk assessment discussions and recording and evaluating interactions with audit committees. These were all in areas where there had been a focus over the prior 12 months to improve practice and enhance audit quality. We will further review the root causes of the behaviours to enable audit teams to emulate them elsewhere. More generally we will consider all of our root cause analyses and internal monitoring and update our Public Sector Quality Improvement Plan for all findings as appropriate.

## **Financial statements audit**

With regards to the findings in relation to the Financial Statements audit, whilst we are in the process of completing a root cause analysis into the matter under our new dedicated RCA partner the indications are that the failings arose from the Key Audit Partner (KAP) in the sector concerned having insufficient personal and team resource for his portfolio.

Accordingly, subsequent to the receipt of these results we reviewed and adjusted the relevant KAP's portfolio so that he has available capacity to ensure the delivery of high quality audits. Second, the firm has not pitched or re-pitched for any further major contracts in this area. The portfolio review and the decision not to tender were undertaken as part of a wider audit stream initiative instigated by the firm's Leadership Team over the course of the last twelve months.

## **VfM arrangement assessment**

On learning that changes had been made to working papers by a member of staff we immediately carried out an urgent investigation into the matter, under the overall direction of the firm's Leadership Team. The individual concerned was suspended within three days of the FRC querying the matter with us and dismissed following completion of the investigation.

BDO's forensics team, as part of their investigation, obtained a full list of VfM engagements from the BDO Public Sector team and identified that a number of these files had not been archived and were 'locked' when the issue was identified on this VfM audit in 2022. The forensic team also reviewed these files for evidence of late amendments to working papers. No concerns of inappropriate conduct were identified from this review. The firm are satisfied, in respect of VfM work, this is an isolated incident.

The reason that the individual was able to change the working papers post finalisation was because the file had not been archived. The root cause of the files above not being archived was due to the fact that the policy in place at the time did not explicitly refer to archiving of VfM files. That policy was changed to be in place for all VfM arrangement assessments for periods beginning on or after 31 March 2022. To be clear there has always been a policy in place to archive all financial statement audit engagements.

From Q4 2022, we will also implement central oversight and monitoring of all signed opinions and conclusions to ensure timely completion of the corresponding workpaper files.

## Deloitte LLP

Of the two financial statement audits inspected, one was assessed as requiring significant improvements and one was assessed as good or limited improvements required.

The one VfM arrangements inspection was assessed as good or limited improvements required.

It is unacceptable that one of the two financial statement audit inspections identified that significant improvements were required. Urgent and robust action is required to address these findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

### Key findings



Significant improvements were required on one audit, where financial statement review procedures were inadequate and did not ensure that the financial statements were free from material errors and disclosure omissions. This included the £45 million overstatement of the loss on disposal of non-current assets caused by incorrect adjustment of an audit difference.

The firm must take urgent and robust action to address this finding, including:

- Performing a full RCA for the financial statement audit assessed as requiring significant improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring to establish if there are any other areas of concern.
- Updating its ongoing Audit Quality Plan (AQP) for all findings and required actions from this inspection cycle.

AQR will test the efficacy of the firm's actions in its AQP in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

# 50%

At Deloitte LLP, one of the two financial statements audits inspected was assessed as requiring significant improvements.

# 100%

At Deloitte LLP, the one VfM arrangements inspection was assessed as good or limited improvements required.



## Good practice



Good practice points were identified on the two financial statement audits:

- On one audit, the strategy for selecting samples for detailed valuation testing was particularly well focused on risk. The audit team performed a planning analytical procedure to inform its sample selection. The audit team set a precise expectation for the movement in value of each individual property using third-party market data to identify outliers for sample testing.
- On another audit, the audit team demonstrated rigour when challenging the assumptions made in setting the non-domestic rates appeals provision, in particular by benchmarking to other councils. The audit opinion was ultimately qualified for this matter.

A good practice point was also identified on one VfM arrangements inspection:

- The commentary was supported by comprehensive evidence of the team's procedures, evaluation and conclusions reached. This included detailed notes of meetings with key officers.

## Firm's response to AQR reviews



Audit quality is and will remain our number one priority. We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality.

We are therefore extremely disappointed that one of our audits fell significantly short of the high standards we set and which should be expected from our audits. We have completed an RCA (as we do for all external inspections) and we are in the process of finalising the actions identified to respond to the RCA findings. These actions will be captured in our AQP which is monitored, reviewed and challenged by the Audit Executive and the Audit Governance board. In addition we are performing remediation of the audit file for the audit in question and the entities accounts will be restated. We are considering our internal monitoring to identify whether any additional matters in relation to local audits, or findings of a similar nature have arisen and where we need to take action.

It is positive that the FRC acknowledged that they did not identify any recurrent key findings which would cast doubt on effectiveness of previous actions taken. We take inspections very seriously and we have sought to address previous findings in particular through enhancing our audit approach in relation to property valuation. We have also reflected on the wider matters identified in the FRC cross firm reports. We regularly share findings and areas of challenge in inspections with our audit practitioners to support continuous improvement. We also value the identification of good practice in both the financial statement audits reviewed and will ensure that we share the lessons from that good practice with our teams.



## Appendix 1: Key local audit information

### Identifying major local audits

An analysis of available local audit data for the year ended 31 March 2022 identified 314 major local audits within AQR scope. The number of bodies changes annually as the definition of a major local audit is dependent upon meeting one of the following criteria:

- Total income or expenditure of at least £500 million; or
- For a local authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

The following table sets out the total number of local audits by sector, along with those assessed as meeting the major local audit definition. The audits for opted in local government bodies were awarded to five audit firms in five tiered tranches, following a full tender process conducted by PSAA in 2017. These audit appointments were made to cover five accounting periods, ending with 31 March 2023. The table also sets out the number of major local audits whose financial statement audit was subject to inspection by AQR.

Category	Total population	Major local audits	Inspected by AQR in 2021/22
Health Bodies (NHS Trusts and clinical commissioning groups)	176	93	6
Local government councils	347	131	11
Other bodies	128	16	1
Local authority pension funds	77	74	2
<b>Total</b>	<b>728</b>	<b>314</b>	<b>20</b>

## Audit firms completing local audits

There were six audit firms that completed at least one audit of a major local body for the financial year ended 31 March 2022.<sup>7</sup> The three firms with the largest market share of major local audits were Grant Thornton UK LLP, Ernst & Young LLP and Mazars LLP, with a collective share of 80%. All the firms involved, including the number of audits they completed and their respective market shares, were as follows:

Audit firm	Number of local audits	Market share	Number of major local audits	Market share	Inspected by AQR in 2021/22
Grant Thornton UK LLP	287	39.4%	125	39.8%	7
Ernst & Young LLP	189	26.0%	72	22.9%	4
Mazars LLP	121	16.6%	55	17.5%	3
KPMG LLP	49	6.7%	24	7.7%	2
BDO LLP	44	6.1%	21	6.7%	2
Deloitte LLP	38	5.2%	17	5.4%	2
<b>Total</b>	<b>728</b>		<b>314</b>		<b>20</b>

<sup>7</sup> PricewaterhouseCoopers LLP audited one non-major local audit for the year ended 31 March 2021. This was inspected by the Quality Assurance Department of ICAEW in its 2021/22 monitoring cycle.

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## Appendix 2: Firms' internal quality monitoring

### Results of firms' own monitoring

#### Background

This appendix sets out aggregated information relating to the six firms' internal quality monitoring (IQM) for individual audit engagements. It should be read in conjunction with each firm's transparency report, which provides further detail of the IQM approaches and results, and the firm's wider system of quality control. We consider that publication of these results provides a fuller understanding of quality monitoring in addition to our regulatory inspections, but we have not verified the accuracy or appropriateness of these results.

Due to differences in how inspections are performed and rated, the results of the firms' IQM may differ from those of external regulatory inspections and should not be treated as being directly comparable to the results of other firms.

#### Firms' approach to internal quality monitoring

The firms' internal inspection programmes generally consider the full population of both major and non-major local audits performed. The programmes are varied but are usually risk-based as well as structured to cover Key Audit Partners over a fixed period of time. Audit files are selected for review based on a number of criteria, including risk and public interest. Reviews are supervised by the firms' own internal quality teams.

#### Scope

The firms' IQM programmes, relating to local audit, covered 20 individual audits, of which eight related to major local audits.

The aggregate number of major local audits covered by the firms' own IQM was less than that of the AQR and amounted to:

Coverage of all local audits            2.7%

Coverage of major local audits        2.5%

Two firms had not completed and one firm had not started their planned IQM programmes when this report was compiled. This appendix excludes individual IQM reviews that had not been completed.

Three of the remaining five firms, who had completed at least one IQM review, did not review the work on VfM arrangements on each audit selected for review. Three of the remaining five firms reviewed 31 March 2020 local government audits where 31 March 2021 audits were not complete.

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## Results

### Financial statements audit

In aggregate, the firms reported that across the 20 financial statement audits reviewed, 18 (90.0%) were of a good standard or required only limited improvements. One audit was assessed as requiring improvements and one audit as requiring significant improvements.

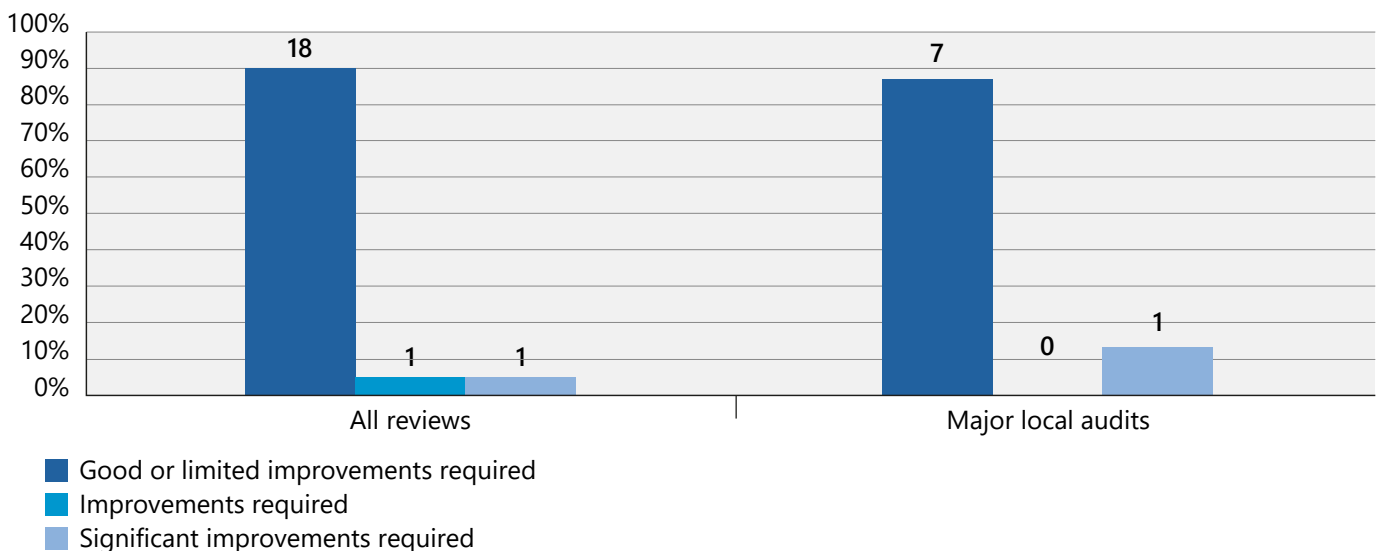
For the firms' major local audits, seven financial statements audits were reviewed and six (87.5%) were assessed as either good or requiring limited improvements. One audit was assessed as requiring significant improvements.

The firms reported that of the 16 VfM arrangements reviews, 15 were of a good standard or required only limited improvements. One review was assessed as requiring improvements.

The results of the firms' financial statement opinion reviews for local audits are set out below.

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### Aggregate of the firms' own internal quality monitoring



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The firms' various IQM programmes generally use the same grading categories as AQR but where this is not the case, we have aligned as closely as possible to those that would result from the AQR process.



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**Financial  
Reporting Council**  
8th Floor  
125 London Wall  
London EC2Y 5AS

+44 (0)20 7492 2300  
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# Audit and Standards Committee Forward Plan 2023/2024

*If you would like to know more about our work programme, please contact Lisa Andrews, Assistant Director - Audit & Financial Services, 01785 276402 or Lisa.Andrews@Staffordshire.gov.uk*

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Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
<b>25 April 2023</b>				
External Audit – Verbal Update. <ul style="list-style-type: none"> <li>• Financial Year 2020/21</li> <li>• Financial Year 2021/22</li> </ul> Report of Ernst & Young				
Annual Report of the work of the Audit & Standards Committee Joint Report of the Director for Corporate Services and Director of Finance Lead Officer: Lisa Andrews				
Special Panel of the Audit & Standards Committee for the appointment of Independent Remuneration Panel Members. Report of the Director for Corporate Services. Lead Officer: Chris Ebberley				
Annual Report on Information Governance				

Agenda Item 13

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Report of the Director for Corporate Services Lead Officer: Tracy Thorley/ Natalie Morrisey				
Internal Audit Plan 2023/24 Report of the Director of Finance Lead Officer: Debbie Harris				
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports ( <i>Part 2 items</i> ).				
Infrastructure+ Asset Data Management – Progress report on implementation of Internal Audit recommendations. Lead Officers: David Walters/Scott Denny				
Settlement Agreements - Progress report on implementation of Internal Audit recommendations Lead Officer: Sarah Getley				
Internal Audit Special Investigation/limited/ Top Risk Areas reports ( <i>Part 2 items</i> ).  <b><u>Top Risk Reviews</u></b> <ul style="list-style-type: none"> <li>• Highways Transformation Programme Position Statement</li> <li>• Send Strategy Implementation (Substantial Assurance)</li> </ul> <b><u>Special Investigation</u></b>				



Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
<ul style="list-style-type: none"> <li>SEND Personal Budgets (significant fraud with police circa £180k)</li> </ul>				
<b>11 July 2023</b>				
Internal Audit Outturn Report 2022/23 Report of the Director of Finance Lead Officer: Debbie Harris				
Update regarding the situation within the External Audit provision. Report of the Director of Finance Lead Officer: Lisa Andrews/Rachel Spain				
External Audit – Verbal Update. <ul style="list-style-type: none"> <li>Financial Year 2020/21</li> <li>Financial Year 2021/22</li> </ul> Report of Ernst & Young				
Code of Conduct for Members – Annual Report on the Management of Complaints Report of Director for Corporate Services Lead Officer: Julie Plant				
Code of Corporate Governance –2023 Update Report of the Director for Corporate Services Lead Officer: Lisa Andrews				
Review of the Effectiveness of the Audit & Standards Committee – Verbal Update. Report of the Director of Finance Lead Officer: Lisa Andrews				
Appointment of Members to Standards Panel 2023/24. Lead Officer: Chris Ebberley				
FRC Annual Report on the Quality of External Audit.				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Proposed changes to the Constitution. - Countryside & Rights of Way Delegations Report of Director for Corporate Services Lead Officer: Julie Plant				
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports ( <i>Part 2 items</i> ).	As required	As required		
Appendix 2 – Counter Fraud Outturn Report 2022/23 Lead Officers: Debbie Harris				
<b>19 September 2023</b>				
Final Report to those charged with Governance (ISA 260) 2020/21 a) Staffordshire County Council Report of Ernst & Young	Moved from December 2021			
Final Report to those charged with Governance (ISA 260) 2020/21 b) Staffordshire Pension Fund Report of Ernst & Young	Moved from December 2021			
Annual Audit Letter – 2020/21 Report of Ernst & Young	Moved from September 2022			
Civil Contingencies Governance Annual Report – 2022/23 Report of the Director for Corporate Services Lead: Tracy Thorley				
Review of the Effectiveness of the Audit & Standards Committee – Results of the Member Workshop.				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Report of the Director of Finance Lead Officer: Lisa Andrews				
Strategic Risk Management - Risk Management Policy Statement & Strategy. Report of the Director of Finance Lead Officer: Lisa Andrews				
Report to those charged with Governance (ISA 260) 2021/22 c) Staffordshire County Council Report of Ernst & Young	Moved from December 2022			
Report to those charged with Governance (ISA 260) 2021/22 d) Staffordshire Pension Fund Report of Ernst & Young	Moved from December 2022			
External Audit Plan 2022/23 – Staffordshire County Council. Report of Ernst & Young	Moved from March 2023			
Staffordshire Pension Fund Audit Planning Report 2022/23 Report of Ernst & Young	Moved from March 2023			
Annual Governance Statement 2022/23 Report of the Director of Corporate Services Lead Officer: Lisa Andrews				
Training on Statement of Accounts Lead Officer: Rachel Spain				
Draft Statement of Accounts 2022/23 Presentation and Report of Director of Finance Lead Officer: Rachel Spain				
Review of the Effectiveness of the Audit & Standards Committee – Updated Terms of Reference.				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Review of the Effectiveness of the Audit & Standards Committee – Consideration of the Appointment of Independent Members to the Committee.				
Proposed changes to the Constitution	As required. (KL to advise)			
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports ( <i>Part 2 items</i> ).	As required			
Nexus & Company Governance – Follow Up Report. Lead Officer – Debbie Harris/Kate Loader				
<b>31 October 2023</b>				
Health, Safety and Wellbeing Performance Annual Report Report of Director for Corporate Services Lead Officer: Becky Lee	B/fwd. from December 2022 meeting			
National Fraud Initiative - Update Report of the Director of Finance Lead Officer: Debbie Harris				
Annual Audit Letter – 2021/22 Staffordshire County Council				
Annual Audit Letter – 2021/22 Staffordshire Pension Fund				
Proposed changes to the Constitution	As required. (KL to advise)			

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports (Part 2 items).	As required			
<b>12 December 2023</b>				
Internal Audit Plan 2023 – 2024 Progress Report.  Report of the Director of Finance Lead: Debbie Harris				
Proposed changes to the Constitution	As required. (KL to advise)			
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports (Part 2 items).				
<b>20 February 2024</b>				
Report to those charged with Governance (ISA 260) 2022/23	Moved from December 2022			

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
- Staffordshire County Council Report of Ernst & Young				
Report to those charged with Governance (ISA 260) 2022/23 - Staffordshire Pension Fund Report of Ernst & Young	Moved from December 2022			
Proposed changes to the Constitution	As required. (KL to advise)			
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports (Part 2 items).				
<b>19 March 2024</b>				
Annual Audit Letter – 2022/23 Staffordshire County Council Report of Ernst & Young (EY)	EY to provide update			
Annual Audit Letter – 2022/23 Staffordshire Pension Fund Report of Ernst & Young (EY)				
External Audit Plan 2023/24 Report of KPMG				
Staffordshire Pension Fund Audit Planning Report 2023/24 Report of KPMG				
Review of the Effectiveness of the Audit & Standards Committee. Report of the Director for Corporate Services Lead Officer: Lisa Andrews				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Internal Audit Charter 2024/25 Report of the County Treasurer Lead Officer: Debbie Harris				
Proposed changes to the Constitution	As required. (KL to advise)			
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<p><b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports (<i>Part 2 items</i>).</p> <p>Infrastructure+ Asset Data Management – Further Progress report on the implementation of Internal Audit recommendations. Lead Officers: David Walters/Scott Denny</p>				
<b>23 April 2024</b>				
Annual Report of the work of the Audit & Standards Committee Report of the Director for Corporate Services Lead Officer: Lisa Andrews				
Strategic Risk Management - Risk Management Policy Statement & Strategy. Report of the Director for Corporate Services Lead Officer: Lisa Andrews				
Annual Report on Information Governance Report of the Director for Corporate Services Lead Officer: Tracy Thorley/ Natalie Morrisey				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Internal Audit Plan 2024/25 Report of the Director of Finance Lead Officer: Debbie Harris				
Proposed changes to the Constitution	As required. (KL to advise)			
Standard Matters	As required. (JP to advise)			
Forward Plan for the Audit and Standards Committee Lead Officer: Lisa Andrews				
<b>PART TWO EXEMPT</b> Internal Audit Special Investigation/limited/ Top Risk Areas reports (Part 2 items).				

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<p><b>Membership</b></p> <p><i>Mike Worthington</i> Bernard Peters (Chair) James Salisbury <i>Carolyn Trowbridge</i> Janice Silvester-Hill (Vice Chair) Richard Cox Arshad Afsar Ian Wilkes Keith Flunder Graham Hutton Ross Ward Ann Edgeller Bernard Williams Philippa Haden Phil Hewitt</p> <hr/>	<p><b>Calendar of Future Committee Meetings</b> <b>(All meetings at 10.00 a.m. unless otherwise stated)</b></p> <p>24 April 2023 11 July 2023 19 September 2023 01 November 2023 13 December 2023 21 February 2024 21 March 2024 24 April 2024</p> <p>Meetings usually take place at County Buildings, Martin Street, Stafford ST16 2LH</p>
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