

## Minutes of the Audit and Standards Committee Meeting held on 30 October 2018

Present: Martyn Tittley (Chairman)

### Attendance

|                                    |                  |
|------------------------------------|------------------|
| Mike Davies                        | Bernard Williams |
| Michael Greatorex                  | Victoria Wilson  |
| Ian Lawson                         | Jill Hood        |
| Carolyn Trowbridge (Vice-Chairman) | Susan Woodward   |
| Ross Ward                          |                  |

**Apologies:** Derek Davis, OBE, David Brookes, Colin Greatorex, Jeremy Oates and Paul Northcott

### PART ONE

#### 45. Declarations of Interest

There were no declarations of interest.

#### 46. Minutes of the Meeting held on 24 September 2018

**RESOLVED** – That the minutes of the meeting held on 24 September 2018 were confirmed and signed by the Chairman.

#### 47. Local Government Pension Scheme (LGPS) Asset Pooling Arrangements – Development of An Assurance Framework Update

The Interim Chief Internal Auditor explained that in 2013 the government had explored several options for improving the efficiency and sustainability of the LGPS and undertook extensive consultation on the potential to deliver savings through greater investment, management and collaboration. The target date for implementation of 1 April 2018 had been achieved.

Four criteria were set by government: benefits of scale (at least £25bn in assets); strong governance and decisions making; reduced costs and excellent value for money and an improved capacity and capability to invest in infrastructure.

On 23 March 2017 the County Council had approved the Council to enter into the Shareholders' Agreement and the Inter-Authority Agreement to establish a joint asset pool (LGPS Central), and investment management company (LGPS Central Ltd) and Joint Committee.

Staffordshire had joined with Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, West Midlands and Worcestershire to form a partnership (or Joint Asset

Pool) called LGPS Central and investment company (LGPS Central Ltd) and a Joint Committee. West Midlands Integrated Transport Authority (WMITA) are also a partner, but not a shareholder of the investment company. The pensions pool had, when first established, a combined asset value of £35bn. This value has slightly increased since this time.

LGPS Central Ltd is an asset management company with an authorised contractual scheme. Except for WMITA, all the local authorities are members of LGPS Central Ltd. Four sub-funds had been established since April 2018 and other sub funds are to be launched after this date. The benefits of LGPS Central Ltd are robust governance arrangements around the company and assurance by setting up an FCA regulated entity and retention of ownership/control and oversight of the company. However, it was a costlier arrangement due to overheads and governance cost irrespective of the amounts invested.

The governance structure was described, specifically the separation of the shareholder/client and company/regulator functions and oversight arrangements. Detail was given in page 21 of the report.

The responsibilities of the Pool are to monitor the company and this aspect is included in the assurance framework. Staffordshire County Council's Internal Audit Service have taken the lead on the development of a pensions pooling assurance framework although this exercise has involved all partner funds' Internal Audit teams in getting to a draft document.

In creating LGPS Central there had been a split in roles and responsibilities in terms of what the pension fund administrator retains and what went into the Pool. LGPS Central being responsible for the structure and range of the funds offered, hiring and firing of the investment manager and the investment management company, LGPS Central Ltd, monitors the investment manager and their performance and ensured that the investment company satisfies all the regulatory requirements.

The individual pension funds retained responsibility for the funding strategy, the investment strategy and all liabilities of the pension fund and the pool had responsibility for looking after the shareholder and investment areas and for pension fund performance monitoring. Many of these areas are included within the assurance framework and will be audited as part of pension fund audit plan going forward, the results of which will be reported to the Committee in accordance with the internal audit charter and reporting protocol.

The Pool's role as an investor is discharged through the Joint Committee. The Joint Committee is governed by an Inter-Authority Agreement. The Joint Committee being responsible for considering common investor issues, monitoring the delivery of the client service and performance of investments and ensuring the delivery of LGPS Central objectives. The Committee has one elected member from each Partner Fund on the Joint Committee and meets twice yearly in June and December. The Chairman of the Pensions Committee of Staffordshire County Council sits on the Joint Committee. Decision making responsibilities remained with individual Partner Funds.

The Shareholders' Forum is governed by the Shareholder's Agreement. The forum was responsible for providing control and influence over the company; oversight of the operation and performance of LGPS Central Ltd and represented the ownership rights and interests of the shareholding councils and decision making with regard to reserved matters (requiring 75%-100% approval) this included, for example, extending scope of LGPS Central Ltd. Each fund has one representative who sat on the Shareholder Forum.

The difference between shareholder and Joint Committee functions were described. **Shareholder** functions related to ownership of the Operator (i.e. LGPS Central Ltd) and are subject to company law, articles of the company and a shareholder agreement. **Investor** functions related to the investment in the collective investment vehicles (e.g. authorised contractual scheme). Representation was through the Joint Committee that operated under public law requirements.

The Practitioner Advisory Forum (PAF) supports both the Joint Committee and the Shareholders Forum by providing technical and advisory support. They are made up of a working group of officers from each authority. The role of the PAF is to ensure the objectives of the LGPS Central are being delivered; provided a central resource for advice, assistance, guidance and support for the Joint Committee, Shareholders' Forum and for the Councils as a collective group of investors in the Pool; provided technical support during Shareholders' Forum and Joint Committee and managed conflicting demands and interests and spoke with "one voice".

Regarding the governance structure of LGPS Central Ltd. The governance framework ensures strict adherence to both the FCA (Financial Conduct Authority) regulatory obligations and with regard the Companies' Act. The Company Board was supported by five Committees. The main sub-committee was the Audit, Risk and Compliance Committee whose role it was to ensure the integrity of financial statements and the financial reporting process; oversight of compliance with legal and regulatory requirements, as well as performance of the internal audit function and checking the effectiveness of the Company's systems of internal controls and policies and procedures for risk assessment and risk management.

Staffordshire County Council were co-ordinating a collaborative internal audit response and put their name forward to act as the lead to develop an assurance framework involving internal audit functions from all LGPS Partner Funds; external audit; PAF Officers; LGPS Central Ltd and representatives from other authorities involved in different pooling models via the Midlands County Council Internal Auditors Group and the Local Authority Chief Auditors Network. The draft assurance framework had been completed in October 2018 but will continue to be a live document which is updated to take account of new risks. Whilst LGPS Central Ltd, as a new company, is not required to have an annual assurance framework (AAF) 01/06 review in year 1, it has been agreed that they will undertake their own internal review against the control objectives contained in the AAF 01/06. The results of this work will feed into our assurance for 2018/19.

The interim Chief Internal Auditor explained the stages carried out in developing the pensions pooling assurance framework. In 2017-18 background research was undertaken. In July 2018 a meeting took place with LGPS Central Ltd to firm up the

assurance framework and to discuss what they could provide. In August 2018 the Company agreed to make available their various policies and procedures and contract compliance monitoring plans; their annual report; their internal control review setting out the results of their review against the AAF 01/06 control objectives. It has been agreed that the internal control review work would also be reviewed by their own independent internal audit team to give independent assurance to this exercise.

The Assurance Framework is based on the three lines of defence model. The first line of defence being the management controls and internal control measures. The second line of defence was management oversight, questioning who had provided oversight, how frequently and what evidence was required. The third line of defence is internal audit who looked back over the first and second line of defence and feedback their results to the Audit and Standards Committee.

The Assurance Framework structure is based on the LGPS Central Pool's Risk Register. Key risks identified were governance, company/financial and operational matters, wider pooling and investment. Bigger risks were identified on the investment and governance side. There were fewer risks on the company/financial and operational side as these risks will be largely covered by the AAF 01/06 external review report.

The LGPS Framework was described in detail on page 32 of the report. The current position was that discussions were taking place with the eight partners with regard and who was going to do what; who was going to what collectively and who was going doing work individually, and how this information would be shared. Discussions were taking place with LGPS Central Ltd and the Pool regarding setting up a Sharepoint facility where all this information could be collated and shared with partner funds' internal audit functions e.g. with the Audit and Standards Committee. A meeting would be taking place in the next couple of weeks to decide to who does what and this can then be taken forward. The Internal Audit Team would be interested in taking forward communication between LGPS Central, LGPS Central Ltd and Partner Fund Authorities and our own financial cost models and assumptions and how this operates, as well as assurance around the transitions process. In terms of what work there was to be taken forward as a collective, the interim Chief Internal Auditor described the LGPS Central governance arrangements, information from the outcomes of the AAF report and monitoring of any exceptions. External Audit may be interested in the governance arrangements, delivery of the investment strategy, performance of investments, the transitions and the strategic allocations.

In terms of next steps, decisions will be taken about who does what individually and collectively; the format and frequency of assurance documents; how information is shared and the mechanism for keeping the assurance framework up-to-date. The County Council's Internal Audit Team will offer to keep the master document up-to-date. Finally, within each area of risk it was envisaged that standardised control matrices, terms of reference and test plans are developed to ensure consistency across all local authorities when auditing the pooled arrangements.

The interim Chief Internal Auditor explained to the Audit and Standards Committee what information is received in relation to the Pension Fund audit work. The Committee receives the pension fund audit plan as an appendix to the main County Council Plan. Going forward the Committee is likely to receive reports of internal audit work carried out

on the Pool's governance arrangements, work in relation to transitions along with some assurance regarding the Company's system of control, in accordance with the pension fund audit plan.

Members asked how the Committee's work fitted in with the work of the Pensions Panel. The Chairman explained that the role of the Audit and Standards Committee was to ensure that systems and processes were in place. The role of the Pensions Panel was to performance manage the pension funds. The Chairman paid tribute to the Internal Audit Team who had developed the Assurance Framework.

Members asked if the Council received remuneration from other authorities in the Pool for the work that had been undertaken on their behalf. The interim Chief Internal Auditor responded that this work was about the Council getting their own independent assurance. The company would get their own assurance through the AAF 01/06 review. The interim Head of Treasury and Pensions stated that she had worked with the Pool setting up the company and in October 2017 when the Pool was set up for the Council she had taken a step back and monitored the performance of the Pool. The interim Head of Treasury and Pensions is Staffordshire's representative on the Practitioners' Advisory Forum and this on-going assurance was paramount and welcomed.

Members asked if any problems with the other partners were envisaged. From an audit point of view the eight internal audit teams had worked well together. From a technical point of view the partner funds had signed up to the inter- authority agreement and there were procedures if a partner wished to leave the Pool. Key to the successful operation of the pool was the way in which partners had worked openly and transparently.

Members asked how an authority bid into the Pool for a level of investment they wished to make in their own area. The interim Head of Treasury and Pensions explained that Staffordshire had an investment strategy. She drew an analogy with "a sweet shop" explaining that individual authorities decided what they wanted to buy from "the shop" e.g. equities, bonds, properties, alternative assets. The LGPS had undertaken a survey of all their partner funds and had decided what they might like to sell to authorities. The individual authorities then go to the "sweet shop" and decide what they wanted to purchase. There was some form of collaboration and co-operation regarding what is purchased. The Pool undertook the bidding and would only sell what authorities wanted to buy.

**RESOLVED:** That the report be received.

#### **48. CIPFA Guidance for Local Authority Audit Committees - Update**

The interim Chief Internal Auditor introduced a report and gave a presentation on the CIPFA Practical Guidance for Local Authorities and Police 2018. This updated guidance that was issued in 2013. The publication was long awaited as several publications and legislation had come into being during this intervening period. A copy of the document would be shared with the Committee.

In introducing this item the interim Chief Internal Auditor reminded Members of the benefits of an Audit Committee: promoting good governance and its application to decision making; raising awareness of effective control environment; supporting

effective risk management arrangements; advising on robustness of the assurance framework; reinforcing effectiveness of internal audit and external audit; aiding achievement of objectives via effective assurance arrangements; supporting the development of robust value for money arrangements; helping implement ethical governance values, and countering fraud and corruption and promoting transparency, accountability and effective public reporting. The interim Chief Internal Auditor also reiterated that the Audit Committee was a key component of the authority's government arrangements.

The position statement set out the main scope of the Audit Committee and then other chapters of the guidance detailed the core and wider functions and a self- assessment checklist that had been completed by the Internal Audit team in March 2018. The key changes were highlighted and referenced against the pages in the guidance document. The Interim Chief Internal Auditor then went on to explain what the key changes were.

The Audit Committee should be independent of Executive and Scrutiny functions. The Guidance went a step further and the latest publication states that the Committee should also include an independent member.

Secondly, there is reference to audit committees considering the robustness of risk management and consider not only partnerships but also collaborations. As the Guidance also included the Police, this reference referred to the emergency services. The Chairman stated that this also included commercial collaborations.

The Guidance went on to suggest that in monitoring the effectiveness of the control environment, supporting standards and ethics should be included.

In regard to the purpose of Audit Committees, previously Audit Committees were seen to add value in relation to developing an effectiveness of the control environment. Now, in addition, there was a need to raise awareness of the need for sound internal controls within the organisation.

In relation to supporting the quality of the internal audit controls, the Guidance suggested reinforcement of the objectivity, importance and independence of internal and external audit functions.

In terms of the core functions of the audit committee, the high-level core functions remained unchanged. However, there were some changes within the detail. The detail had been updated to include the new deadlines for the review of the AGS and financial statements and with reference to internal audit, reference was made to the PSIAS (Public Sector Internal Audit Standards) including the mission of internal audit, the Code of Ethics, definition of internal audit and the core principles of an effective internal audit team.

In terms of the Audit Committee's role in overseeing the independence, objectivity and importance of internal audit, there was some finer detail in terms the Audit Committee confirming the organisational independence of internal audit and around the safeguards in place to limit impairments of the Head of Audit and Financial Services. Both details are included in the Annual Outturn Report. Changes had taken place within the internal audit team so that the interim Chief Internal Auditor's role was now solely around audit

and the interim Head of Internal Audit and Financial Services had retained the risk management responsibilities. There was further detail in the Guidance around receiving communications on performance relative to the internal audit plan and other matters. The Committee receives an update on recommendations; delivery against the plan; the annual outturn report and the limited assurance reports in the plan. There was also a section on approving any significant additional consulting services (not included in the Audit Plan) – there were none of these. In terms of value for money, where external audit has issued a qualified conclusion on the Council's value for money the Committee should ensure there is a robust plan to address the issues. Further guidance was given on this to the Committee in the report. With reference to Counter Fraud and Corruption, reference was made to the revised counter fraud standards referring to the Fighting Fraud Locally Checklist and managing fraud and corruption. An update to this was given as part of the annual outturn report. An update on the Fighting Fraud Locally Checklist was scheduled for discussion at a future meeting of the Committee. In terms of external audit and how the Audit and Standards Committee gives oversight to the work of external audit and promotes its independence. In the latest guidance, the role of the Committee in terms of the appointment of external audit by a Panel or PSAA (Staffordshire County Council has gone down the PSAA route) and monitoring the external audit process was recognised. It states within the guidance that external audit should disclose to the Committee a statement regarding its independence. This was stated in the audit plan presented to the Committee in March, in the external auditor's plan presented in July and in the ISO 260 report. There is a new section on potential threats to independence within the Guidance.

Quoting recent national examples, Members asked how the Committee could be assured of the integrity of the external auditors appointed, given the small market place that there is for external auditors. The interim Head of Audit and Financial Services stated that the Financial Reporting Council were reviewing the issue regarding the monopoly that the four main audit companies have, and guidance is awaited. PSAA do their own annual review of the external auditor and the interim Chief Internal Auditor agreed to share the scope of this review with the Committee.

Turning to the core functions, the deadline for review of the annual governance statement had been revised to 31 July from 30 September. In relation to partnerships governance, reference was made to the emergency services collaborations and recognition was given to the complexity of gaining audit assurance in partnerships and collaborations. In terms of the possible wider functions, there were no changes to the detail in this section. This was around the Audit Committee considering requests to consider issues referred from other Committees within the authority, working with different committees to consider ethics, working with other committees to review matters such as the treasury management function and commenting on other public reports from time to time.

Regarding the independence and accountability of the Audit and Standards Committee, 85 per cent of Councils had Audit Committees reporting to full Council. The number of standalone committees had declined from 58 per cent to 47 per cent. The Chairman reassured Members of the independence of the Audit and Standards Committee. The Guidance also states that the Head of Internal Audit should have free and unfettered access to the Chief Executive and Chair of the Audit Committee. This was the case in

Staffordshire. Finally, the Committee were regarded as most effective when discussing governance, risk and control issues with responsible managers directly.

The interim Chief Internal Auditor confirmed that the Committee was displaying all the attributes of what an audit committee should be. In terms of membership and effectiveness there is no change in terms of the five attributes that an Audit Committee should have but more detail is given e.g. the right mix of apolitical expertise and in relation to the Chair there are additional attributes such as promoting open discussion; encouraging a candid approach from all participants and being interested in several disciplines. Any register of interests should be maintained in the event that independent members are appointed to the Committee.

Members asked why the Committee did not have any independent Members.

The Chairman agreed that consideration of this should take place.

The latest Guidance identified the top three difficulties for Audit Committees as limited knowledge and experience of members; the Committee not being seen as a priority by other members and risks regarding the intrusion of political interests. A new risk had also been identified within the Guidance relating to the risk of a breakdown in the relationship between committee members and the Executive, Police and Crime Commissioner or Chief Constable or with senior management.

The above guidance suggests that changes to the Terms of Reference should also include a review of the governance and assurance arrangements for significant partnerships or collaborations and that the Committee consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. This is given in the annual audit report but should be reflected in the Terms of Reference. Currently explicit reference is not given to audit having free or unfettered access to the Chairman of the Audit and Standards or being able to have a private meeting with the Committee if required. This will be taken into consideration in updating the Terms of Reference. In terms of external audit, consideration should be given to how the Committee fulfils the role of supporting external audit independence. A review of any issues raised by the PSAA would allow for consideration of this area. Under accountability arrangements, consideration should be given as to whether the Committee wished to produce an annual report. The interim Chief Internal Auditor suggested that consideration be given to revising the Terms of Reference and they be brought back to the next meeting of the Committee and then if approved that this go to full Council for inclusion of the revised terms of reference within the Council's Constitution.

There were no changes in respect of the skills required of Audit and Standards Committee members. Finally, there is a section on self-assessment and this suggests that the Committee review their Terms of Reference to ensure that it supports the ethical framework; that consideration be given to the appointment of independent members and in relation to the effectiveness of the Committee there are four additional points that should be considered, and these will be added to the self-assessment Checklist.

Members considered that the Audit and Standards Committee should have a higher profile within the Council. The Chairman suggested that this be considered as part of



the Terms of Reference and that this be brought back to the next meeting. He agreed that it might be helpful to have a Report back to full Council on the work of the Committee and consideration should be given to the frequency of this report.

**RESOLVED:** a) A link to the Changes to the Practical Guidance for Local Authorities and Police 2018 Edition be shared with the Committee b) That the scope of the PSAA review of the external auditor be shared with the Committee c) the Terms of Reference will be reviewed and brought back to the December meeting.

#### **49. Forward Plan**

Members requested that they receive an update on the Audit and Standards Committee Terms of Reference at their December meeting.

Members requested that they receive an update on progress against the outstanding actions in the Data Sharing Agreements – Final Audit Report 2018/19 at their January 2019 meeting.

**RESOLVED** - That the Forward Plan be amended to include a) revised Audit and Standards Committee Terms of Reference in December 2018 and b) an update on the outstanding actions in the Data Sharing Agreements – Final Audit Report 2018/19 in January 2019 c) A self-assessment of Fighting Fraud Locally will be brought to the December meeting.

#### **50. 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 below.

#### **51. Exempt Minutes of the meeting held on 24 September 2018**

**(Exemption paragraph 3)**

#### **52. Data Sharing Agreements - Final Audit Report 2018/19**

**(Exemption paragraph 3)**

**Chairman**