

Audit and Standards Committee - Tuesday 23 April 2024

Annual Report of the Audit & Standards Committee 2023/24

Recommendation(s)

I recommend that:

- a. Members consider and comment on the contents of the annual report for 2023/24 before forwarding onto Full Council with a recommendation to consider and approve this report.

Local Member Interest

N/A

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

Report

Background

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

3. Staffordshire County Council has an Audit & Standards Committee, originally established in 2005, with the key objectives to maintain and improve governance procedures. The Committee is a key component of the Council's corporate governance framework and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on both internal and external audit functions and financial and non-financial performance.
4. The benefits to the Council of operating an effective Audit & Standards Committee are:
 - Maintaining public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing and approving the Annual Statement of Accounts and the Annual Governance Statement.
 - Providing a sharp focus on the results of the work of the internal audit service where limited assurance reports are issued, and control weakness have been identified through special investigations and potential fraud instances.
 - Assisting the co-ordination of sources of assurance across the control framework i.e. information governance and health & safety management.
 - Raising awareness within the Council of the need for governance, internal control, and the implementation of audit recommendations.
 - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
5. The Committee continues to have a professional and arm's length relationship with EY, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed. The external auditor will change following the recent round of appointments from the 2023/24 financial statements to KPMG. The transition between auditors will form part of the 2024/25 forward plan.
6. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Director for Corporate Services and the Director of Finance (s151

Officer) in achieving the Council's aims and objectives. A detailed annual forward plan is produced and reported to each meeting of the Committee to ensure that key tasks are considered and completed to meet required timescales.

7. During 2023/24 the Audit & Standards Committee met six times and in line regulatory requirements and best practice outline within the CIPFA publication – Audit Committees: practical guidance for local authorities and police. Agendas have been set to ensure that the areas outlined in the Committees terms of reference are covered, together with any additional items requested by Members. The Accounts and Audit (Amendment) Regulations 2022 extended the dates for certain public and local bodies to publish and make available for inspection their annual accounts and supporting documents. These regulations apply only in relation to the annual accounts relating to the 2020/21 and 2021/22 financial years.

Internal Audit

8. The Audit & Standards Committee approved the Internal Audit Plan and Strategy at its 11 July 2023 meeting and a progress update report against the approved Internal Audit Plan was also presented to the Committee in December 2023. Scrutiny of the proposed plan provides Members with the opportunity to challenge and influence the areas scheduled for review by Internal Audit to ensure audit resources are deployed to the areas of greatest risk. The top risk areas for 2023/24 were identified as:

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| <ol style="list-style-type: none">1. Children & Families Transformation.2. Highways Transformation Programme.3. Digital Strategy & Transformation including the Corporate File Plan; Digital Strategy Refresh and Robotic Process Automation.4. Cyber Assurance – Governance & Culture, IT Risk Management, IT Disaster Recovery Management and Virtual Private Networks.5. Integrated Care System – Integrated Care Partnership6. Delivering Good Governance: Culture, Values & Behaviours Governance Review. | <ol style="list-style-type: none">7. SEND including Education, Health & Care Plans & Needs Assessment – Pathway, SEND Transport & SEND Personal Budgets & Direct Payments.8. Adult Social Care: Workforce Recruitment & Retention.9. Protect & Prevent Duties.10. Empowering Communities including the Communities Delivery Plan Governance Arrangements and Volunteering Principles & guidance. |
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9. As part of the Internal Audit Outturn Report for 2022/23, presented to the Committee in July 2023 an “Adequate Assurance” opinion was given on the overall adequacy and effectiveness of the organisation’s governance, risk, and control framework, i.e., the control environment. The audit plan was dominated by 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 was involved in other transformational work including the on-going highways transformation programme and provided assurance over new service delivery models such as the household waste recycling centres. 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 addition, the Service has continued to support the Council in undertaking the various required grant verification sign-off exercises along with checks to provide assurance that funding is accurately accounted for and has been used appropriately. No significant concerns were noted. The number of audits in this area has reduced as the Council returns to ‘business as usual’ following the COVID 19 pandemic.
10. 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. A number of recommendations were made to improve the Council’s invoicing, income collection and debt recovery arrangements in place. 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, additional continuous controls monitoring (CCM) specific to schools to provide greater assurance over financial transactions was performed. 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. No limited assurance opinions were 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

11. The Internal Audit Charter is reviewed and approved annually by the Committee, with it last approved at the February 2024 meeting. Included within the document are the reporting guidelines which determine those audit reports that are considered in full, by the Committee. Given that on average approximately 100 + reviews are performed annually, those reports that contain a limited assurance opinion, classed as a top high-risk review or the result of a special investigation are reported in full. Operational Management attended to provide details of how the agreed recommendations contained in the reports had been implemented since finalisation. During 2023/24 the Committee considered the following final audit reports:

- Highways Transformation Programme Position Statement
- SEND Strategy Implementation
- SEND Personal Budgets
- Nexxus & Company Governance Follow Up
- Review of the arrangements regarding County Farm sales
- Sales to Cash 2022/23
- Building Resilient Families & Communities – Grant Verification Checks
- Children's Disability Services

12. A number of risk areas were identified, and Members requested further progress updates to the Committee in year to ensure that the actions identified had been fully implemented as agreed. The scheduling of these were incorporated into the Forward Plan. These progress updates are also supplemented with the periodic reporting on the implementation of past audit recommendations, the last update given to Members of the Committee in December 2023.

- Infrastructure+ Asset Data Management – Progress report on implementation of internal audit recommendations. (April 23 & March 24)
- Settlement Agreements
- SEND Transformation update

13. Members received the results of the Internal Audit five yearly External Quality Assessment to evaluate compliance of the service with the Public Sector Internal Audit Standards (PSIAS) on 21 March 2023 meeting. CIPFA had been commissioned to carry out the

assessment and had done so via a combination of actions including reviewing documentation and a sample of completed audits, surveys and interviews with key stakeholders (including South Staffordshire Council as an external customer' of the service) and reviewing the annual self-assessments carried out by the service, also following the PSIAS.

14. The assessment had found that the Internal Audit Service 'Generally Conforms' (highest rating available) to the standards with no recommendations for improvement and only one advisory action for management. This was the highest rating available under the process.

Counter Fraud Work

15. The Audit & Standards Committee has received during the year various reports and updates in relation to the Council's local response to fraud. The Counter Fraud Plan was approved annually by the Committee at the 11 July 2023 meeting, which formally sets out the Council's counter fraud activities to be conducted in-year. Progress against this plan was also provided to the Committee at its December 2023 meeting.
16. During 2023/24 the Audit & Standards Committee has received the investigation report relating to the SEND Personal Budgets which was a significant fraud and subject to Police investigation transactions review. In addition, an update on the latest National Fraud Initiative 2022 data-matching exercise was also given to Members of the Committee on 12th December 2023.
17. A full and comprehensive report on all the Council's counter fraud activities for the year is included in the Internal Audit Outturn Report which is presented at the July meeting each year.

Governance and Risk Management

18. The annual review of the Code of Corporate Governance was undertaken in July 2023. This is a key document in the governance framework and depicts how the Council operates and manages its governance processes. The basis of this document is the CIPFA/Solace document 'Delivering Good Governance in Local Government Framework 2016'.
19. During 2023/24, the Audit & Standards Committee reviewed and recommended approval of several changes to the Council's Constitution and Schemes of delegation by Full Council namely:

- Proposed changes to the constitution – Countryside & Rights of way
 - Member / Officer relationships – update of existing guidelines
 - Adoption of Statutory Guidance on Settlement Agreements / Constitutional Changes
 - Proposed constitutional changes – Nexxus
20. The Draft Annual Governance Statement (AGS) for 2022/23 was approved by the Committee at the 12 December 2023 meeting. The Accounts and Audit (Amendment) Regulations 2022 were published in June 2022 and extended the reporting deadline for the 2022/23 accounts to 30th November 2023. The main governance issues raised in the AGS related to the changes being made to the SEND service as well as the Children’s operating system, the constant presence of cyber security risks and the need to prepare for the potential request for decision making documentation to be submitted to the UK Covid-19 Inquiry. Also, other key actions taken forward into 2023/24 included the importance of remaining vigilant over supply chain failure for key services; to continue to review and evaluate the governance arrangements in place for Local Authority Trading Companies (LATCOs), the need to prepare the necessary arrangements to provide assurance for the Care Quality Commission (CQC) Local Authority assessment framework inspection anticipated to occur in 2024/25, as well as the need to review cyber security governance arrangements operating within third party suppliers of Council systems/services to ensure they are sufficiently robust.
21. Following the publication of the full Children’s OFSTED inspection report on 12 January 2024 which contained the rating of ‘requires improvement to be good’ the AGS for 2022/23 was updated to include the key findings, actions and recommendations from the report. This was subsequently represented to the 20 February 2024 meeting by the Chief Executive who provided an overview to Members of the key actions, improvement mechanisms and associated timescales to address the points raised.
22. The Council’s Draft Statement of Accounts (SoA) for 2022/23 have been published on the Staffordshire Website in accordance with the timescales required by the Accounts and Audit (Amendment) Regulations 2022. Thereby facilitating public scrutiny of the Council’s financial position. However, due to the delays and backlogs within the external audit regime currently these have yet to be audited alongside the 2021/22 Statement of Accounts. Therefore, a decision was taken to defer presenting the draft accounts to Members until the outstanding audited accounts had been scrutinised to prevent confusion. This arrangement has been discussed with Members

throughout 2023/24 and is expanded upon in section 32. – External Audit.

23. The Annual Code of Conduct for Members report on the Management of Complaints was presented to the 11 July 2023 meeting. The report referred to fifteen complaints/alleged breaches of the Code of Conduct for Members during the period June 2022 and June 2023. It was confirmed that fourteen complaints received had been concluded with no breaches of the code of conduct. The remaining one was awaiting consideration.
24. Members discussed the absence of mechanisms for elected members to report abusive/offensive acts against them where the matter was not deemed to cross the threshold for Police consideration. The Director for Corporate Services summarised proactive measures being introduced to support members harassed or abused, particularly via social media. The potential to hold a member's event on this matter would be explored to identify common experiences and identify ways in which problems may be addressed.
25. At the 25 April 23 meeting the Committee approved the appointment of Cllrs M Worthington, C Trowbridge, R Cox, A Edgeller and P Hewitt to serve as a panel to appoint to the two member vacancies on the Independent remuneration Panel.
26. A report was presented to the Committee to note the appointment by Full Council of the following Members – Cllrs P Haden, G Hutton, C Trowbridge, B Williams and M Worthington to serve as a Standards Panel for 2023/24.
27. Also, the Annual Report on Information Governance was presented at the 25 April 2023 Committee meeting. The report considered the County Council's compliance with legislation on Information Governance, particularly in relation to access to data and information, and the use of investigatory powers. Compliance was monitored by a range of national bodies. Specific reference was made to focussing 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 introduced to improve security included the use of the SIEM system to analyse and respond to online security threats. There has been an increase in the number and complexity of requests from the public for information.

28. Members also received the Health, Safety and Wellbeing Performance 2022/23 Annual Report at the 12 December 2023 Committee meeting. The key conclusions noted were:
- The report provided an indication that health and safety performance was maintained and continued to be managed effectively during 2022/23.
 - Continuous improvement is important and the enhanced audit programme during 2022/23 and which will continue into 2023/24 will ensure all services have an up-to-date audit maturity level and clear action plans.
 - The work completed during 2023/24 will continue to focus maintaining and improving health and safety standards and enhancing the wellbeing of our people.
29. The first Civil Contingencies Governance Annual report for 2022/23 was presented to the 19 September 2023 meeting of the committee. This demonstrates transparency and accountability over the function. The report detailed Civil Contingencies arrangements on a national, regional and local level, specifically highlighting the role of the Staffordshire Resilience Forum (SRF) the existence of which has been recognised as 'forward thinking' by the Cabinet Office. The SRF led a multiagency, cross-County, co-ordinated approach to Emergency Planning and resilience arrangements. The governance structure, involving shared responsibility between subject matter experts and bespoke policies with review cycles was also outlined.

Effectiveness of the Audit & Standards Committee

30. During May 2023 Members participated in a workshop to assess the work and effectiveness of the Committee using the updated 2022 Audit Committee guidance from CIPFA. Subsequently, Members had completed self-assessment forms identifying their strengths and possible development needs to be able to fulfil their role in overseeing audit activity and governance for the Council. A training schedule was developed and approved by Members at the 19 March meeting. A series of three workshops will be held during 2024 to address the areas highlighted.
31. A review of the terms of reference for the Audit & Standards Committee has also been undertaken against the new 2022 CIPFA guidance, several amendments and additions were identified. These were approved by Members at the September

meeting and subsequently referred to Full Council for approval and incorporation into the County Council Constitution.

32. As part of the review of the 2022 Audit Committee Guidance issued by CIPFA on evaluating the effectiveness of the Committee consideration was given to the recommendation that Audit Committees look to co-opt an independent person(s) to the committee. They would be selected to provide additional skills/technical knowledge to the Committee. As part of the report considered by Members, approximately 57% of County Councils had already recruited such an individual and a further 22% actively intending to do so. Following discussions, it was agreed that the proposal be supported and provided for as part of the revised draft terms of reference that were to be submitted to Full Council for approval. This was subsequently approved, and work is ongoing to facilitate the appointment of the individual(s).

External Audit

33. The External Auditor, Ernst Young presented their "Staffordshire County Council and Staffordshire Pension Fund Auditor's Annual Report -2020/21" at the 20 February 2024 meeting. The report contained the final opinions for both the Financial Statements and the Value for Money requirement, no issues were identified.
34. Throughout 2023/24 Members have received updates from the External Auditor (EY) regarding the delays to the audit of the statement of accounts for 2021/22 & 2022/23 at each Committee Meeting. The Committee received a verbal update from the Director for Finance on the External Audit situation at the March 2024 meeting, focusing on the outstanding accounts to 2022/23, and the consultation regarding future arrangements. A consultation had been issued by the Department for Levelling Up, Housing and Communities (DLUC) which closed at the beginning of March 2024. The outcome of the consultation was yet to be published. The proposal outlined three phases to address the audit backlog nationally. Phase 1 was a reset where outstanding audits up to the financial year 2022/23 were addressed. Phase 2 was a recovery phase where current and future years arrangements would be addressed, with progress being made on the timeliness of audit completion. Phase 3 was a reform stage where changes would be made to address the systemic challenges present in the audit system.

35. Phase 1 would address the outstanding accounts for 2021/22 and 2022/23, signing these off by the backstop date of the 30th September 2024. These would be signed off by disclaimer opinions, issued by the external auditors (EY), however no set wording had yet been agreed. Work would still need to be done on the value for money conclusion and an Annual Audit Report for both years would need to be brought to the Committee. The backstop date applied to both of these aspects as well.
36. The new external auditors (KPMG) would be part of the recovery phase and backstop dates had been proposed, over a period of four years, to enable audits to be completed in a timelier manner, with the audit for the 2026/27 accounts completed by the 30th November under normal timescales.
37. A risk was highlighted to the Committee in that the draft accounts for 2021/22 and 2022/23 would not be thoroughly audited as per previous years and therefore it would be possible that errors would be contained within the account.
38. The Committee was informed that a further consultation was being conducted by CIPFA regarding the Code of Practice. This was to specifically cover a number of minor and technical changes and to look to simplify the measurement of property, plant and equipment and to use a specified indexation for those not valued by qualified valuers and reduced disclosures for pensions reporting. This would reduce the workload in preparing the accounts and in turn the time taken by the external auditor. It is proposed that these arrangements cover the 2023/24 and 2024/25 accounts to aid the facilitate the recovery of audit timetable, subject to final approval by CIPFA. These potential arrangements were supported by Members.
39. Members discussed the disclaimer opinions for the outstanding audits and noted the risk associated with these. It was clarified that, should the consultation and proposal be accepted, a change in legislation would be made to allow for disclaimer opinions to be officially recognised. The Director of Finance would still be able to sign off accounts and certify that in their opinion, they demonstrated a true and fair view of the financial situation of the County Council and have the same legal standing as an unqualified opinion.
40. Following the Public Sector Auditor Appointment process conducted by PSAA during 2022/23 – KPMG were appointed as the Councils External Auditor for a period of five years with effect from the 2023/24 - Statement of Accounts. The Committee received a verbal report from Richard Lee, Director from KPMG at the 19 March 24

meeting. The update introduced the new external auditors and the team who would be working on both the County Council and Pension Fund accounts from the 2023/24 period onwards. Given the current external audit position, Members raised concerns regarding auditor capacity which were addressed, and assurance provided that sufficient resources were available, and the decision to re-enter the Public Sector external audit market had been scrutinised to ensure that KPMG was well-equipped to deliver the work.

41. In terms of the process to date, KPMG had been working with officers throughout the Council and the Committee to get to know responsible people in the authority and develop their understanding of systems and processes. It was confirmed that an Audit Plan would be brought through to the 23 April 2024 Committee which was expected to cover the work to date on financial statements of the authority and Pension Fund, including the value for money risk assessment. Members queried arrangements in place for the smooth transition between external auditors, KPMG stated that the audit plan would strive to cover this point as part of the PSAA transition arrangements. The Committee noted that disclaimed/modified opinions for the next three audit years would be likely due to not receiving the relevant assurances from the previous external auditors (EY) (relating to 21/22 & 22/23) and subsequent impact from the backstop, however timely reporting and sign off of the accounts would need to be in place.
42. Members sought confidence that the work being undertaken was within scope of the fees set. It was clarified that the fees were set by the Public Sector Audit Appointments (PSAA) and made available online. Those fees did not include the audit impact of the implementation of an audit standard (ISA315) which would be on top of the scale fee, which all local authorities would experience. Any variations to scope, such as emerging issues which required specific audit focus, would have financial implications. Any elector challenge would also incur a fee.

Equalities Implications

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

Legal Implications

44. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (Amendment) Regulations 2022 require specifically that a relevant body must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control

and governance processes, taking into account public sector internal auditing standards or guidance’.

Resource and Value for Money Implications

45. The net budget of the Internal Audit Section in 2023/24 was £1,027,510.

Risk Implications

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

Climate Change Implications

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

List of Background Documents/Appendices

- 2023/24 Audit & Standards Committee Agenda Papers and Minutes.

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