

Minutes of the Audit and Standards Committee Meeting held on 27 June 2016

Present: Martyn Tittley (Chairman)

Attendance

| | |
|-------------------|-----------------|
| Derek Davis, OBE | Robert Marshall |
| Michael Greatorex | David Smith |
| Derrick Huckfield | Alison Spicer |
| Kevin Jackson | Diane Todd |
| Philip Jones | Caroline Wood |

Apologies: Mike Davies, William Day, Brian Edwards and Mike Worthington

PART ONE

22. Declarations of Interest

There were none.

23. Minutes of the Meeting held on 21 March 2016

RESOLVED That the minutes of the meeting held on 21 March 2016 be confirmed and signed by the Chairman

The Chairman referred to information which had been circulated to members regarding the external audit and governance arrangements for Entrust; and to a letter from the Leader of the Council in response to a recommendation from the Audit and Standards Committee, regarding overall financial management within the County Council.

24. Code of Corporate Governance

The Director of Strategy, Governance and Change outlined progress made in implementing the Corporate Governance Action Plan 2015-16. At the end of April 2016, CIPFA/SOLACE published a revised Code of Corporate Governance framework with guidance for English authorities. The revised framework contained a number of key changes to the six core principles previously used to determine the County Council's governance arrangements. There were now seven principles within the 2016 framework. The existing Code would remain applicable during the period that the evaluation exercise is conducted.

RESOLVED That

- (a) the progress made on implementing the Corporate Governance Action Plan 2015-16 was noted;

- (b) the current Code of Corporate Governance was to be revised to reflect the core new principles contained within the 2016 framework.

25. External Audit Plan 2015-16

Mr Steve Clark, Ernst and Young LLP, updated the committee with regard to the findings of the interim audit performed in March 2016. Ernst and Young had not identified any significant issues or changes to the risk assessment as a result of their ongoing work.

A member asked for clarification regarding the role of external audit in helping the County Council to ensure it obtains Value for Money: a statutory duty of the Council. The member believed there were instances where the County Council had not received Value for Money.

Mr Clark explained that it was the duty of External Audit to give an opinion not about whether the County Council had obtained value for money, but whether it had appropriate procedures in place to enable that outcome to be delivered. Accordingly, they monitored a range of activity including whether the County Council were making informed decisions which resulted in achievable outcomes, whether they had resilient and sustainable resources and were working effectively with partners. External Audit were open to receive matters of significant concern raised by individual members.

The member believed that value for money should be evaluated in an impartial and measurable way so that the County Council could clearly evidence that it obtained value for money for its tax payers. He questioned how the County Council's Senior Leadership Team satisfied itself that a particular project was delivering value for money. The Head of Financial Strategy and Service Support stated that Commissioners should be clear in drafting specifications, about expectations around value for money linked to outcomes. Invariably such specifications would be tested under a competitive process. He undertook to produce a further briefing note on the subject.

In relation to the Local Government Audit Committee Bulletin, it was noted that CIPFA had recently published consultation on the Draft Code of Practice on the Highways Network Asset which required local authorities to implement new measurement requirements. In response to a question, the External Auditor acknowledged that some local authorities around the country were frustrated by this additional accounting requirement on grounds of cost and resources required. The External Auditor explained that if the Highways Network Asset measurement was not undertaken, the County Council's accounts would have to be qualified to record non-compliance.

RESOLVED That further briefing papers be produced in relation to a) the measurement of value money for specific projects and (b) the resource implications arising from the Highways Network Asset new measurement requirements.

26. Internal Audit Outturn Report 2015/16

The Chief Internal Auditor presented the Internal Audit Outturn Report which included the annual internal audit opinion for 2015-16. Internal audit offered an independent,

objective assurance and consulting activity designed to add value and improve the organisation's operations.

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

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

During 2015/16, the Committee continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports. Internal Audit would continue to track and report on the implementation of High Level Recommendations, including those contained within reports awarded "Adequate Assurance".

Areas where limited assurance opinions were given in 2015/16 together with specific areas of improvement and the corresponding high level recommendation were detailed in the report, and in response to a question from a member, monitoring of these matters should be included on Select Committee work programmes.

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

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

Overall, an "adequate assurance" had been given on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, i.e. the control environment in 2015/16. A number of audit reviews during 2015/16 had identified high level issues, which had resulted in the system being awarded a limited assurance opinion. The key actions identified must be implemented as agreed and progress monitored to strengthen the control environment. This would be a key focus for the 2016/17 Internal Audit Plan.

Internal Audit Strategy and Plan 2016/17

Members considered a report of the Director of Finance and Resources, illustrated by slides, on the proposed Internal Audit Strategy and Plan 2016/17.

The Audit Plan had been prepared in line with the Audit Strategy detailed in the report. As part of the agreement process for this year's plan, detailed discussions had been held with the Commissioners to consider that the Internal Audit work proposed complimented and added value to the process. This allows greater certainty regarding delivery of the audits within 2016/17.

Certain elements of the plan must be actioned regardless of the risk score, mainly to support the requirements of the External Auditor for financial systems. Increased emphasis would be placed on fraud and corruption work, particularly in relation to developing the proactive elements of the plan and the work of the North West Staffordshire Fraud Hub. Compliance work within Schools would continue to focus on the key risk areas of income, procurement and community facilities.

The Audit Plan defined the top risk audits/reviews assessed as outlined in the Audit Strategy.

Members discussed individual audit reviews and areas of risk and asked whether the increased volume of commissioned work was impacting on the work of Internal Audit. The Chief Internal Auditor confirmed appropriate resources were in place to audit the key risks of the County Council outlined in the 16/17 audit plan.

Internal Audit Charter 2016/17

The Committee considered a report of the Director of Finance and Resources on the Internal Audit Charter for 2016/17.

The Public Sector Internal Audit Standards and the Local Government Application Note Standard 1000 required that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Audit Charter and approved by the Board i.e. the Audit and Standards Committee. The Internal Audit Charter was a formal document, copy appended to the report, which set out:-

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

Only two revisions had been made to the Charter:

- Defining the mission of internal audit
- Inclusion of the core principles for the professional practice of internal auditing

RESOLVED – That:

- (a) the Internal Audit Outturn report containing the annual audit opinion for 2015/16 be received and noted;

- (b) the Audit and Standards Committee receive a briefing on the management of financial risk around the Staffordshire and Stoke on Trent Partnership Trust, at their meeting on 12 September 2016.
- (c) the Internal Audit Strategy and Plan for 2016/17 be approved.
- (d) the Internal Audit Charter for 2016/17, incorporating two small revisions, be approved.

27. Politically Restricted Posts

The Head of Democracy introduced a report recommending a change to the County Council's constitution to review the list of Politically Restricted Posts following recent restructuring within the Senior Leadership team.

RESOLVED That the list of Politically Restricted Posts and consequent changes to the Constitution contained in the report of the Director of Strategy, Governance and Change be recommended to full Council for approval.

28. Work programme 2016-17 for the Audit and Members Standards Committee

RESOLVED The Work Programme for 2016/17 for the Audit and Standards Committee be noted.

29. Exclusion of the Public

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

The Committee then proceeded to consider reports on the following issues:

PART TWO

30. Internal Audit Outturn Report 2015-16 - Appendix 1 - Fraud and Corruption

The appendix to item 6 was considered and noted.

31. Internal Audit Reports - Limited Assurance Review

Exemption paragraph 3

Members received a report summarising the results of an Internal Audit review of the systems, controls and risks relating to the administration and control of the processes in place for dealing with those aspects deemed to have limited assurance. Three Limited Assurance reviews related to Special Educational Needs Transport; DBS Safer Recruitment and Procurement (Outside the Commercial team).

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

32. Management of Risk - Better Care Fund

Exemption paragraph 3

Members were updated regarding the management of risk around the County Council's non receipt of its share of the Better Care Fund.

Members had a frank discussion and agreed that whilst the principle of integrating adult social care and health was sound, the mechanism of integration had not worked as envisaged and had exposed the County Council to a potential new pressure within its Medium Term Financial Strategy and which the Council was seeking to mitigate in 2016/17 by the introduction of a Spending Control Process. Such mitigation was deemed good financial management.

Chairman