
**Minutes of the Audit and Standards Committee
Thursday 20th April, 2023 at 6.00pm
at Saltwells Education and Development Centre,
Bowling Green Road, Netherton**

Present:

Councillor A Lees (Chair)

Councillor D Borley (Vice-Chair)

Councillors P Atkins, J Cowell, M Evans, E Lawrence, J Martin and A Taylor.

Officers:

I Newman (Director of Finance and Legal), G Harrison (Head of Audit and Risk Management), and K Taylor (Senior Democratic Services Officer).

Officers in Attendance via Microsoft Teams:

A Taylor (Senior Principal Auditor), M Landy (Principal Auditor) and E Newman (Principal Auditor).

Also in Attendance:

T Robbins (Head of Procurement) – for Agenda Item No. 5 – Risk Management Report.

M Granger (Corporate Fraud Manager) – for Agenda Item No. 9 – Annual Fraud Report.

59 **Apology for Absence**

An apology for absence from the meeting was submitted on behalf of Councillor S Ali.

60 **Appointment of Substitute Member**

There were no substitute Members appointed for this meeting of the Committee.

61 **Declarations of Interest**

No Member made a declaration of interest in accordance with the Member's Code of Conduct.

62 **Comments of the Chair**

The Chair shared an update received from the Deputy Chief Executive following consideration of the findings of an internal audit report in November, 2022, in particular that a further update report together with proposed Action Plan to address the issues identified was due to be brought to this meeting, but as the report of the External Monitoring Officer was only considered by the Appointments Committee on 5th April, 2023 this had caused a delay and the Action Plan would now be brought to the July meeting. The Deputy Chief Executive apologised for the delay.

63 **Internal Audit Plan 2023/24**

The Committee considered a report of the Director of Finance and Legal of the proposed Internal Audit Plan for 2023/24, which was attached as Appendix A to the report submitted.

In presenting the report, the Head of Audit and Risk Management advised that the Plan was produced to enable him to deliver an internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.

The detailed process to produce the Audit Plan was then presented, as set out in paragraph 7 of the report. It was noted that Audit Services ensured that the list of auditable areas was complete and scored based on perceived risk, and then adjusted for any assurance received.

Members were advised that Heads of Service had received a questionnaire requesting them to identify any changes to their service area, projects that they were involved with, any emerging risks, any assurance received and suggestions for inclusion in the 2023-24 audit plan.

The Risk Management Framework required Risk Owners to identify any assurance received on the management of their risks, however due to the length of time taken by directorates to identify their risks and understand the new risk processes, the recording of assurance received had been delayed. Risk Owners would be requested to identify sources of assurance against their risks from quarter 1 of the new financial year.

It was noted that meetings had been held with the Chief Executive, Deputy Chief Executive, Directors, and a number of Heads of Service to discuss their risks and any emerging risks and proposals for inclusion in the audit plan. The proposed Audit Plan for 2023/24, which had been approved by the Strategic Executive Board (SEB) was attached as Appendix A to the report, and included a brief description of each audit.

Reference was made to Appendix B to the report submitted which detailed the audit plan reserve list and it was noted that the list would be utilised if an audit that was currently in the plan had to be cancelled, or additional resources allocated to Audit Services. It was noted that Directorates had been informed of the list.

In conclusion, the Head of Audit and Risk Management presented a breakdown of the Audit Plan by Directorates, Schools, and other work.

Arising from the presentation of the report, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor J Cowell, the Head of Audit and Risk Management confirmed that any planned audits for 2023/24 that were postponed would be included in the reserve list for the next municipal year.
- b) Members raised concerns in relation to the number of ICT audits that had received Minimal assurance ratings, where improvement was dependent on the software provider addressing some serious security deficiencies identified within their software.

In responding, the Head of Audit and Risk Management referred to the challenges in influencing suppliers to address issues identified within their software, but assured Members that the Council would ensure the improvements were made.

- c) In responding to a question raised by the Chair in relation to remunerating the shortfall within the Audit Services income target of £69,000 for 2023/24, should the position of the Principal Auditor be filled, the Head of Audit and Risk Management advised that a review could be undertaken by an external consultant with a view to identifying payment or VAT errors.

Resolved

That the proposed Internal Audit Plan for 2023/2024, attached as Appendix A to the report, be approved.

64 Risk Management Report

A report of the Director of Finance and Legal was submitted on the risks reported to Strategic Executive Board (SEB) and the status allocated by the Risk Owner and to provide an update on the embedding of the Risk Management Framework.

In presenting the report, the Head of Audit and Risk Management referred to the proposed changes to the risk thresholds contained within the Risk Management Framework as outlined in paragraph 6 of the report submitted. It was also proposed that the 'red' description be amended from Extreme to Very High and for the Council's risk appetite to be increased from 16 to 20.

Members were advised that the Risk Assurance Protocol (RAP) would be circulated in April, 2023 for the 2022-23 financial year, and would form a key part of the Council's assurance framework and would be referenced within the Annual Governance Statement.

Reference was made to the current risks which were listed in the table in paragraph 11 of the report and amended to include the proposed amendments referred to in paragraph 6. Appendix A provided further details on the risks included on the SEB risk report that were rated Very High.

The Head of Audit and Risk Management stated that there were sixteen risks rated very high at the gross level and six rated very high at net level which related to recruitment and retention of staff, contract management, budget, statutory building safety and compliance responsibilities, regeneration benefits and programme management. These risk scores were considered generally unacceptable and needed to be addressed.

At this juncture, the Head of Procurement gave a detailed presentation on Risk R.404 in relation to the failure to demonstrate compliance with Contract Standing Orders/Procurement legislation, and in doing so acknowledged the need for a fully resourced Procurement Team, guidance, and training. It was noted that the consequences of the risk affected the ability to ensure value for money and contracts not awarded. Reference was made to the measures implemented to date including the support provided by an experienced Head of Procurement, the development of a Procurement Action Plan, which was managed by the Procurement Management Group, together with the appointment of qualified and experienced procurement staff.

It was recognised that a change in culture, the understanding of procurement compliancy and the centralisation of procurement was needed in order to progress further. Members were advised that training had been delivered to 152 Council officers over the last year with contract management training due to be delivered in the next 12 months which would reiterate key points. New below threshold tender documents and terms and conditions were also being produced to support the self-service and compliance of below threshold tenders, and further consideration would be given to the centralisation of Housing procurement by the end of Quarter 1.

The Head of Procurement referred to the measures required in ensuring the correct governance structures were in place including a review of the Procurement Code in 2022 and the Exemption to the Rules and Waiver processes having been refined in line with the Contract Standing Orders (CSO). It was noted that the Procurement Management Group Terms of Reference would be revised together with the CSO, which would be submitted to the Audit and Standards Committee in September, 2023 for approval. The two documents were being revised to ensure all procurement above the Goods and Services threshold were dealt with by the Procurement team.

Reference was made to the internal audit report that had been key in developing the Procurement Action Plan, together with a Peer Review undertaken with the Cabinet Office with a re-review expected in 2024. The Peer Review produced a benchmark for the team to work towards and help support the Procurement Action going forward.

It was reported that category strategies would be developed by the Procurement team to support service areas and outline analysis of external spend, and that the Procurement Management team would embed new ways of working to assist with procurement support to Council Service areas leading to improvements in compliance, savings, efficiencies and commercialisation. The need to link contract values to Purchase Orders to help create an audit trail was also mentioned.

Arising from the presentation, Members asked questions, made comments and responses were provided where necessary as follows:-

- a) In responding to a question raised by Councillor M Evans, the Head of Procurement suggested that the proposed measures to be implemented had not been affected or delayed by employees working remotely, and that it was evident that the new working styles had provided an opportunity for staff to build relationships and engage more with stakeholders which allowed projects to progress more efficiently.

Reference was made in relation to the internal procurement training session delivered during 2022, and the Head of Procurement confirmed that the training had been delivered to provide an understanding of the principles underpinning the procurement process, the tender process for contracts with thresholds and recognising fraud. It was confirmed that regular brief sessions would be provided ensure training was accurate and current.

- b) It was reported that not all expenditure related to contracts was recorded through Agresso, however the process involved in awarding contracts via a Purchase Order was referred to.
- c) Councillor J Cowell queried whether systems and process were sufficiently robust to prevent officers selecting providers with a personal or financial interest.

The Head of Procurement referred to the ongoing work in linking purchase orders to contract values on existing systems, and stated that further consideration could be given to future controls however it was anticipated that this would be expensive to implement. It was suggested that such orders could be submitted to the Procurement Team for assessment however the complexity associated with this was highlighted.

- d) In responding to a question raised by the Chair in relation to the centralisation and modernising of the supplier database, the Head of Procurement confirmed that there was a centralised database with service areas responsible for recording information. Members were assured that the database provided details of each contract and supplier awarded. It was noted that low level contracts were inputted manually.
- e) The Chair sought assurance as to how successful the ambitious plan would be to align and what was expected to be achieved and the measures needed to ensure that compliance was being adhered to by officers. He also referred to the disparities within functions and directorates and anticipated that funding was needed in order to address the proposals mentioned, in which he fully supported and welcomed.

In responding, the Head of Procurement reiterated the emphasis in the need for a culture change and the extensive time and challenges faced in achieving this. He referred Members to the significant amount of work undertaken and the positive changes already made, and advised that he considered Dudley to be under performing in comparison with neighbouring authorities in Procurement, however, he was confident that this would improve with adequate time and investment.

- f) Councillor D Borley suggested whether the Local Authority would consider introducing cost savings initiatives and reward schemes for officers identifying savings.

In responding, the Head of Procurement welcomed the suggestion and acknowledged that further work was needed to encourage Council employees to consider areas commercially and challenge existing contracts to ensure best value for money.

- g) In responding to a question raised by Councillor J Cowell in relation to sole suppliers, the Head of Procurement confirmed that consideration would be required by the Director as to whether the contract would be exempt from the need for a competitive procurement process. Any exemptions to contract standing orders were reported to the Audit and Standards Committee annually.
- h) The Director of Finance and Legal referred to the discussions held at the Strategic Executive Board in relation to the proposed changes to the Risk Management Framework and confirmed that these would be implemented subject to approval by the Audit and Standards Committee.

- i) It was confirmed that the proposed risk threshold had been assessed against the risks set out in the Risk Management Framework, and that the matrix outlined within the Framework was approved by Audit and Standards Committee in 2022.
- j) Reference was made to the Peer Review undertaken with the Cabinet Office, and it was noted that Dudley had scored 2% below good, however the Head of Procurement was confident that this would significantly improve following the re-review in 2024.
- k) In responding to a question raised by the Chair in relation to Directorates management of spend throughout the year, the Director of Finance and Legal assured Members that clear controls were in place and referred to the annual reporting schedule to Cabinet and regular discussions held with Directorates in near to real time.

Resolved

- (1) That the information contained in the report and Appendix A to the report submitted detailing the SEB risks, be noted.
- (2) That the proposed changes to the Risk Management Framework, as set out in the report, be approved.
- (3) That the information contained in the presentation on risk R.404 relating to failure to demonstrate compliance with Contract Standing Orders/Procurement legislation and comments made by Members as outlined above, be noted.
- (4) That risk R.408 relating to failure to seize the opportunities and exploit the benefits that are envisaged from the huge regeneration programme investment that impacts on the council's vision for 2030 be identified as the specific risk for in-depth scrutiny the next time a risk report was referred to the Committee for consideration.

65 **Audit and Standards Committee Annual Report 2022/23**

A report of the Director of Finance and Legal was submitted on the Annual Report for Audit and Standards Committee 2022-2023, attached as Appendix A to the report. The report would be submitted to Full Council in July, 2023 for approval.

Resolved

That the Annual Report for Audit and Standards Committee 2022/2023, be approved and referred to full Council at its meeting in July 2023.

66 **Questions Under Council Procedure Rule 11.8**

There were no questions to the Chair pursuant to Council Procedure Rule 11.8.

67 **Exclusion of the Public and Press**

Resolved

That the public and press be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of exempt information relating to any individual(s) and to the financial or business affairs of any particular person (including the authority holding that information) as defined under Part I of Schedule 12A to the Local Government Act 1972, as amended.

68 **Annual Fraud Report**

A report of the Director of Finance and Legal was submitted, on the work that Audit Services, and other Council teams, had undertaken and was planning to undertake to manage the risk of fraud and corruption across the Council. Appended to the report submitted was the Fraud Action Plan and further details of Fraud Investigations undertaken during 2022.

Arising from the presentation, Members made comments and raised questions with regard to action taken in relation to Blue Badge misuse, recovery of financial gains from sub-letting Council properties, further engagement and advertising of the Fraud Hotline and the number of fraud investigations that had been ongoing for a long period, which were responded to at the meeting.

Further to comments made, Members raised concern of the information reported on the one prosecution case in particular that after a brief investigation, the Police concluded that there was insufficient evidence to give a reasonable prospect of securing a successful prosecution, despite the evidence that was available at that time. The Committee commended the work undertaken by the Local Authority in instigating its own criminal investigation which resulted in a custodial sentence and the recovery of any criminal gains using powers provided by the Proceeds of Crime Act legislation that was being pursued. The Chair undertook to write to the West Midlands Police and Crime Commissioner in relation to the comments made.

Resolved

- (1) That the information contained in the report, be noted.
- (2) That the Fraud Action Plan for 2023, attached as Appendix A to the report, be approved.
- (3) That the Chair, on behalf of the Audit and Standards Committee, write a letter to the West Midlands Police and Crime Commissioner outlining Members comments in relation to the prosecution case discussed during the meeting.

69 **Chairman's Remarks**

As this was the last meeting of the municipal year, the Chair thanked Members for their attendance and contribution at the meetings and expressed thanks to officers for their assistance and valuable work contribution during the year.

The meeting ended at 7.40pm

CHAIR