

Annual report of the Audit and Standards Committee



**Chair -
Councillor
Angus Lees**

2022/23 Municipal Year



**Vice-Chair -
Councillor
Dave Borley**

This annual report gives a summary of the work completed by Audit and Standards Committee during the 2022/2023 municipal year.

The overarching purpose of this Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

To fulfil this responsibility the Committee oversees the work of Internal and External Audit, the Risk Management Framework, Fraud, Governance including approving the Code of Corporate Governance, Whistleblowing Policy and Annual Governance Statement (including assurance framework), Treasury Management, approval of the annual Statement of Accounts, approving Contract Standing Orders, Financial Regulations and Codes of Conduct and dealing with the misconduct of Members.

As you can see the Committee has wide ranging responsibility covering many aspects of the Council's work. If the Council is to achieve its priorities it must have effective systems of governance, risk management and internal control. The Committee plays a pivotal role in ensuring that this is the case.

We commend this annual report to the Council. We would like to place on record our appreciation of all the hard work and support given by Councillors, Officers, and External Audit who have contributed to our work during 2022/2023.

Full details of Audit and Standards Committee meetings, including agendas, minutes and reports, can be viewed online by accessing the [Committee Management Information System](#).

Alternatively, please contact Democratic Services on 01384 815238 or e-mail democratic.services@dudley.gov.uk.

Internal Audit

The main role of the Audit and Standards Committee in relation to internal audit is:

- To oversee its independence, objectivity, performance and professionalism.
- To support the effectiveness of the internal audit process.
- To promote the effective use of internal audit within the assurance framework.

During the year, the Committee have received for approval the Internal Audit Plan 2022-23, the Internal Audit Annual Report 2021-22, reports on the performance of Audit Services and Annual Audit Reports for the Chief Executive and the Deputy Chief Executive.

Outcomes:

- Approved the Internal Audit Plan for 2022/23 and ensured that it was based on the Council's key risks.
- Monitored the performance of Audit Services and the achievement of key performance indicators.
- Approved the Annual Audit Report for 2021/22 and acknowledged the Head of Audit and Risk Management's annual opinion on the effectiveness of governance, risk management and internal control. This would then be used to inform the Annual Governance Statement.
- Discussed progress in addressing the recommendations that came out of the external quality assessment on Audit Services.
- Challenged the Chief Executive, Deputy Chief Executive, Directors and Senior Managers on the Chief Executive and Deputy Chief Executive's annual reports and emphasised the importance of matters raised being addressed on a timely basis. Also, supported Audit Services by challenging why Actions raised in previous audit reports were still outstanding. The Committee made it clear that Audit Services must be taken seriously, and Audit Actions should be addressed as soon as possible. The Chief Executive and Deputy Chief Executive agreed to implement processes to ensure Directors are held to account if Audit Actions are not addressed on a timely basis.
- Members supported the follow up work undertaken by Audit Services on Minimal opinion audits and Critical and High priority Audit Actions and recognised that resources were not available to follow up Medium priority Actions on the same frequency.

- The Chartered Institute of Public Finance and Accountancy (CIPFA's) latest position statement on Audit Committees was noted.
- The Committee requested Members complete an Audit Committee skills and knowledge questionnaire and return it to the Head of Audit and Risk Management.
- Due to the size of the annual reports, Committee requested that a summary of findings is included at the start of the report. This change was reflected in the Deputy Chief Executive's Annual Report that was presented to the March 2023 meeting.
- The Committee recommended that the Children and Young People Scrutiny Committee receive a report on the work and progress of the Children's Transport Team as part of their annual scrutiny programme.

External Audit

The main role of the Audit and Standards Committee in relation to External Audit is:

- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence.
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

During the year, the Committee have received the External Auditor's Annual report 2020-21, the Statement of Accounts 2021-22 and an updated Audit Findings Report 2020-21.

Outcome:

Annual Report 2020-21

- In presenting the Annual Report for 2020-21 the Committee were made aware that the External Auditors are no longer required to provide a Value for Money (VFM) opinion. Instead, the External Auditors are required to consider whether there are any significant weaknesses in the Authority's financial sustainability,

governance, and arrangements for securing the economy, efficiency, and effectiveness in its use of resources.

- The External Auditors raised concerns on the use of reserves to fund services and considered that this was not a sustainable position and the Authority would have to make savings to balance out the expenditure. Members commented that Dudley is a low council tax and low spending Council and questioned how this would be achieved.
- In relation to governance, the External Auditors noted that all core areas are now in place. However, a few areas of concern were raised around management of the Very Light Railway project, the role of the Monitoring Officer and particularly, Member/Officer relationships. If relationships between Members and Officers were not satisfactory, this could have an impact on the ability of the Authority to provide services. The External Auditors stated that the position of the Monitoring Officer was normally at Director level and recommended that this should be reviewed. The Committee resolved to refer this recommendation to the Chief Executive for consideration.
- Although the External Auditors did not identify any significant weaknesses in the Authority's arrangements for securing value for money and no key recommendations were made, a number of improvement recommendations were raised. Council Senior Management provided a response to each of these recommendations and these will be monitored by the Committee going forward.

Statement of Accounts 2021-22

- The Statement of Accounts for 2021-22 was discussed with Committee. The Director of Finance and Legal Services stated that the External Auditors had not completed their review and only identified relatively minor issues to date.
- The Committee approved the Annual Statement of Accounts but acknowledged that if the External Auditors identify other changes that do not affect useable reserves, then the Chair can approve the revised accounts.

Updated Findings Report 2020-21

- It was noted that there were a number of amendments to the 2020/21 Audit Findings report in particular relating to property valuations, since it was originally presented to the Committee on 20th September 2021. Issues identified in relation to council housing and land and buildings valuations had delayed the audit being finalised and also required significant changes to the two previous years' accounts.

- Members raised questions in relation to the property valuation process and were informed that an external company had been appointed to carry out the valuations and this should help to alleviate the current workload pressures.
- The External Auditor raised recommendations in relation to land and buildings valuations and the need for a formal process for routine authorisation of journals. The Head of Financial Services confirmed that processes had been developed and would be implemented retrospectively on journal authorisations for a specified limit by the 2023/24 financial year.
- A Member questioned the £20,000 spend on digital forensics work. The External Auditor confirmed that the Digital Forensics Group within Grant Thornton UK LLP had provided Freeths LPLP with a data hosting platform in order to undertake an investigative review on behalf of the Council. Members were advised that this was in relation to a legal case and assurances were given that there was no conflict of interest in this area.
- The updated Audit Findings Report 2020-21 was noted by Committee
- The External Auditor's draft Letter of Representation was noted and the Chair was authorised to sign following consultation with the Director of Finance and Legal.

Risk Management

The main role of the Audit and Standards Committee in relation to risk management is:

- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the committee.

During the year, the Committee have received two reports on the Council's Risk Management Framework and the Council's Corporate Risks.

Outcome:

- Received two risk management reports during the year and reviewed the action being taken to address the key risks.
- Acknowledged the action undertaken to embed the new Risk Management Framework and supported the work currently being undertaken on this by the Head of Audit and Risk Management.

- Selected two risks (Recruitment and Retention and Procurement) for detailed scrutiny and questioned the appropriate Director/Senior Manager on the management of the risks.

Fraud

The main role of the Audit & Standards Committee in relation to fraud is:

- To monitor the Anti-Fraud and Corruption Strategy and Fraud Action Plan.
- To understand the fraud risk and potential harm to the Council from fraud and corruption.

During the year, the Committee has received an Annual Fraud Report and an Interim Performance Report, that also includes significant fraud matters.

Outcomes:

- Discussed and commented on the Annual Fraud Report, which is a report of fraud work completed by Audit Services in relation to prevention, detection, investigation and resolution. It also lists fraud work undertaken by other Council teams.

Governance

The main role of the Audit and Standards Committee in relation to governance is:

- To review the Council's corporate governance arrangements and approve the local code of corporate governance.
- To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the Head of Audit and Risk Management's annual opinion.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives

During the year, the Committee have received reports on the Code of Corporate Governance, Annual Governance Statement, the re-appointment of the Standards Sub-Committee and the Annual Report of the Committee of Standards in Public Life.

Outcome:

- Approved the re-appointment of the Standards Sub-Committee for 2022/23 with its existing terms of reference and membership to deal with complaints against Members.
- The Annual Report of the Committee on Standards in Public Life was discussed and noted.
- Discussed and approved a revised Local Code of Corporate Governance. Members asked questions in relation to the Council's digital programme and how it would affect residents who are not able/or do not want to transact with the Council in a digital way. The Deputy Chief Executive agreed to discuss with the Committee the strategy on how the Council will support residents, particularly the elderly and vulnerable, to access services online. A report was subsequently brought to the April meeting of the Committee.
- Discussed the Annual Governance Statement 2021-22. The Committee asked for the statement to include the outcome of the special review that was discussed at the November meeting of the Committee. Committee also agreed for the same change to be made to the 2020-21 Annual Governance Statement as the issues were also present during 2020-21.
- It was raised with Committee during the March 2023 meeting that issues had been identified with Housing compliance data and a referral to the Regulator of Social Housing had been made. The Committee agreed a change to the Annual Governance Statement for 2021-22.
- During the discussion of the Annual Governance Statement, Members' also asked questions in relations to race equality, sickness levels, breaches of the Employees' Code of Conduct, exit interviews, Special Education Needs and Disabilities budget and Dudley Integrated Health and Care NHS Trust.
- In relation to the Annual Governance Statement, the Committee asked the Assistant Director People and Inclusion to provide a breakdown of the different reasons for sickness absences and for leaving the Local Authority, and further information in relation to the number of Employee Code of Conduct breaches, what these breaches related to and how these had been dealt with by the Local Authority.

Whistleblowing

The main role of the Audit and Standards Committee in relation to whistleblowing is:

- To review the effectiveness of the whistleblowing process
- To approve the Whistleblowing Policy

During the year, the Committee has received a whistleblowing monitoring report.

Outcome:

- Discussed and commented on the annual report on whistleblowing and the whistleblowing referrals received during the year.
- Members were concerned whether whistleblowers were victimised or disadvantaged as a result of their complaint. The Monitoring Officer advised that whistleblowers (if name known) were not generally followed up but he would take this into account when he carries out a comprehensive review of the Whistleblowing Policy later in the year.

Treasury Management

The main role of the Audit and Standards Committee is in relation to scrutiny of the treasury management strategy and policies.

During the year, the Committee have received two treasury management reports.

Outcome:

- Discussed and commented on treasury management activities undertaken during the year.
- Members raised questions on the reasons for additional borrowing, why there had been a decrease in investment and long-term borrowing, why gross borrowing was significantly higher than benchmarked authorities, the rationale for using surplus grant money when it needed to be repaid to the government, and why three loans were taken out in January and where the Council's investments are held.

Suspensions

The main role of the Audit and Standards Committee is in relation to scrutiny of the suspensions process.

During the year, the Committee has received a suspensions report.

Outcome:

- Discussed and provided comments on employees who were suspended pending an investigation into an allegation(s) of gross misconduct during the period 1 October 2021 to 30 September 2022 inclusive. Also, reviewed medical suspensions.
- Members suggested that information on key themes identified because of suspensions in any particular service area, and the learning and training provided, be included in future reports.

Special Review

The Committee considered a report of the Deputy Chief Executive on the findings of an internal audit report.

Outcome:

- The recommendations included in the report were agreed.
- The Committee requested further work be undertaken on the issues identified concerning compliance with formal processes, policies and the Constitution and that the following additional recommendations be made:
 - That the findings in relation to any individual or individuals be investigated under appropriate procedures to ascertain whether any further action is required and that this investigation include interviews with Members as appropriate.
 - That the Head of Procurement submit a report to the Committee by April 2023 concerning exceptions to contract standing orders.
 - That the appropriate Director review the current capacity within internal audit to determine whether this is sufficient.
- The Committee requested a further report be submitted to the Committee in due course to give an update on any actions required and/or any further processes or steps considered to be appropriate.