TO:- Audit and Risk Committee

Councillor John Michell , Councillor Andrew Adams , Councillor Barry Bond MBE , Councillor Steph Dufty , Councillor Christopher Evans , Councillor Warren Fisher , Councillor Martin Perry , Councillor Sue Szalapski

Notice is hereby given that a meeting of the Audit and Risk Committee will be held as detailed below for the purpose of transacting the business set out below.

Date: Thursday, 27 June 2024
Time: 16:00
Venue: Council Chamber, Council Offices, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX

D. Heywood
Chief Executive

A G E N D A

Part I – Public Session

RECORDING
Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to
www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Audit and Risk Committee** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Tuesday, 06 February 2024 at 16:00

Present:-

Councillor Andrew Adams, Councillor Steph Dufty, Councillor Christopher Evans, Councillor John Michell, Councillor Martin Perry

34 **MINUTES**

RESOLVED: that the minutes of the meeting of the Audit and Risk Committee held on 28 November 2023 be approved and signed by the Chairman.

35 **APOLOGIES**

Apologies were received from Councillor Bond and Councillor Szalapski.

36 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

37 **EXTERNAL AUDIT PLAN 2024/25**

RESOLVED: Members note the External Audit Plan 2024/25.

38 **Q3 INTERNAL AUDIT PROGRESS REPORT**

RESOLVED: Members note the internal audit activity to date.

39 **RISK MANAGEMENT UPDATE**

RESOLVED: Members will review the Council's Strategic Risk Register.

40 **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2024/25 - 2028/29**

RESOLVED: Members support the recommendation for adoption by the council for the five key elements featured in the Treasury Management Strategy and Prudential Indicators 2024/25 - 2028/29:

1)   The Prudential Indicators and Limits for 2024/25 - 2028/29 contained within Appendix A of the report.
2)   The Minimum Revenue Provision (MRP) Statement contained within Appendix A (Paragraph 2.3) which sets out the Council's policy on MRP.
3)   The Treasury Management Strategy 2024/25 - 2028/29 contained within Appendix A.
4)   The Authorised Limit Prudential Indicator contained within Appendix A (Paragraph 3.2).
5)   The Investment Strategy 2024/25 contained in the Treasury Management Strategy (Appendix A), and the detailed criteria (included in Appendix B).

41 **Q3 TREASURY MANAGEMENT UPDATE**

RESOLVED: Members note the position set out in the Q3 Treasury Management Update.

42   **ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

RESOLVED: Members reviewed and approved the critical judgements that have been used in applying the accounting policies along with the assumptions about the future and other major sources of estimation uncertainty detailed at Appendix 1.

The Meeting ended at: 16:48

CHAIRMAN

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The report proposes the approval of the draft Annual Governance Statement 2023/24 (AGS). The approval of the AGS is a legal requirement under the Accounts and Audit Regulations 2015.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	This ensures that the systems in place address the risks and challenges that the Council faces through the Council Plan and that the governance systems in place are robust and rigorous
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Not required – not a decision causing any impact on any particular group or part of the community rather setting the governance approach for the Council.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	Approval for inclusion with Statement of Accounts	
FINANCIAL IMPACT	No	None
LEGAL ISSUES	Yes	Required to be completed by virtue of the Accounts and Audit Regulations 2015.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

3. INFORMATION

3.1 The Accounts and Audit Regulations 2015 ("the 2015 Regulations") provide a requirement for the Council to publish, with the financial statements, a Statement on Internal Control and the whole way that the Council is managed and run.

3.2 It is a legal requirement under the 2015 Regulations that the Council produces an Annual Governance Statement (AGS) setting out how it ensures that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

3.3 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.4 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.

3.5 The AGS sets out how the Council meets the tests under the 2015 Regulations in line with the relevant guidance.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

Not required

5. PREVIOUS MINUTES

None

6. BACKGROUND PAPERS

   1. Council's Constitution
   2. Accounts and Audit Regulations 2015

7. RECOMMENDATION

7.1 That Audit & Risk Committee support the attached draft Annual Governance Statement 2023/24 (at Appendix 1).

Report prepared by:
Lorraine Fowkes - Monitoring Officer (Corporate Director of Governance)

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

SOUTH STAFFORDSHIRE COUNCIL

Annual Governance Statement

1.   Introduction

South Staffordshire Council is committed to improving governance on a continuing basis through a process of evaluation and review in accordance with the Council's governance framework.

Each year the Council is required to produce an Annual Governance Statement (AGS) by the Accounts and Audit (England) Regulations 2015 to be published alongside the Statement of Accounts. The AGS is in accordance with the Guidance issued by Chartered Institute of Public Finance and Accountancy (CIPFA) – Delivering Good Governance in Local Government – issued in 2016. There were no changes to the legal framework or CIPFA guidance for this year.

The key purposes of the governance framework are to ensure that:

- business is conducted in accordance with the law and proper standards,
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility,
- proper arrangements for the governance of its affairs, and that
- there are effective arrangements for the management of risk.

The AGS sets out how the corporate governance arrangements have been working and the effectiveness of the systems of internal control during the year. It also sets out any key changes during the financial year up to the date of approval of the Annual Financial Report. This AGS will be formally considered at the meeting of the Council's Audit and Risk Committee on 27 June 2024.

2.   The Principles of Governance

South Staffordshire Council's governance framework derives from six core principles identified in Delivering Good Governance in Local Government.

The publication defines governance as:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

It goes on to state that:

> *To deliver good governance in the public sector both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

> *Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.*

The guidance sets out 6 key principles

Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

Managing risks and performance through robust internal control and strong public financial management

Ensuring openness and comprehensive stakeholder engagement

Key Principles

Developing the entity's capacity, including the capability of its leadership and the individuals within it

Defining outcomes in terms of sustainable economic, social and environmental benefits

Determining the interventions necessary to optimise the achievement of the intended outcomes

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

<u>**How do we know that our arrangements are working?**</u>

Set out below are the measures in place to measure how we are performing against these key principles and any issues identified from the measures in place.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 –
AUTHOR: L FOWKES – 27 JUNE 2024

Core Principles from the CIPFA Framework

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes -
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management

Assurances required

- Delivery of and communication of the Council Plan
- Quality services are delivered efficiently and effectively
- Clearly defined roles and functions
- Management of risk
- Effectiveness of internal controls
- Compliance with laws, regulation, internal policies and procedures
- Value for money and efficient management and resources
- High standards of conduct and behaviours
- Public accountability
- Published information is accurate and reliable
- Implementation of previous governance issues

Sources of assurance

- The Constitution and internal delegations
- Council, Cabinet and Committees
- Audit and Risk Committee
- Scrutiny including Overview and Scrutiny and Asset Scrutiny Panel
- Standards and Resources Committee
- Internal and External Audit
- Corporate and Extended Leadership Team
- Council Plan
- Medium Term Financial Strategy
- Capital Strategy
- Codes of Conduct
- Integrated Performance Management Framework

Review of Effectiveness

- External Audit Report – opinion
- Annual Internal Audit Report – substantial assurance
- Annual Statement of Accounts
- Local Government Ombudsman Report – one upheld complaint against the council in 2023/24
- Scrutiny reports – including reports from the Asset Scrutiny Panel
- Residents' survey
- Annual Governance Statement
- Staff Surveys

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

Principle A) - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The standards of conduct and personal behaviour expected of Members and officers are defined and communicated through Codes of Conduct, protocols and the Council's constitution. Arrangements are in place to ensure that officers and members are made aware of what is expected of them and details on how to make a complaint are set out clearly on the Council's website.

Importantly the Council's Standards and Resources Committee meets regularly and receives regular updates on conduct complaints. The Standards and Resources Committee promotes and maintains high standards of conduct by members proactively and deals with any allegations that a Member is in breach of the Council's Code of Conduct. The Council adopted a revised Code of Conduct in May 2022 and training for all members was provided post May 2023 elections. Further training will be held in Summer 2024.

A key part of the remit of this Committee is overseeing responsibility for the recently reviewed policy on Comments, Compliments and Complaints, and our Customer Promise, this includes receiving reports on the complaints and comments made by residents and others and the lessons learned as a result. The Committee receives all copies of reports from the Ombudsman and also receives updates to every meeting on any substantial cases. Members have the opportunity to input into mitigation measures required following a complaint and to track compliance with any Ombudsman recommendations.

The Standards and Resources Committee Chairman reports to Council on matters arising from the Committee.

The Council has an Anti-Money Laundering policy in place, as well as a Whistleblowing policy; both of these policies were reviewed in 2021/22 and approved at the January 2022 meeting of the Standards and Resources Committee; the policies are due for review in 2024 and will be reported through to the committee. The Council revised its Counter Fraud and Corruption Policy in October 2023.

The Section 151 Officer confirms that the Council's financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer in Local Government (2010).   The Section 151 Officer is undertaking a review of financial management compliance with standards in 2024/25.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

Principle B) Ensuring openness and comprehensive stakeholder engagement

The Council continues to engage with the community and partners individually and collectively to demonstrate that it delivers services and outcomes that meet the needs and expectations of the public. Community engagement features strongly in the new Council Plan and the well-established Locality+ operating model of the Council is integral to how the Council seeks to operate and deliver services. An operational partnership group now meets on a regular basis and a joint delivery plan is in place. A Community Safety Group also meets on a regular basis.

All Council meetings are open to the public except where personal or confidential matters are discussed; all main meetings are recorded and the recordings made available on the Council's YouTube channel with a link to this on the Council's website. All public agendas and minutes are placed on the Council's website, along with the Council's policies and strategies. The website was refreshed in 2022 with greater accessibility tools and improved search function, ensuring improved access for residents.   However, the website is subject to continuous review and refresh to ensure it provides the functionality required. The Council continues to use Social Media to get the message out as to what is taking place at relevant Committees and also by sharing a weekly note with Parish Councils (which they in turn share with their communities) as to what is happening at the Council this week. This is in addition to the Council's newspaper, the South Staffordshire Review, published digitally twice yearly and sent to residents via the Gov.Delivery platform.

It should be noted that a clear statement of the Council's purpose and vision was set out in the Council Plan 2020-2024. This plan, was agreed by Council in March 2020; this set out the Council's vision, its approach and its priorities:

- Prosperous Communities
- Vibrant Communities

2023/24 was the final year of the Council Plan and a new plan was produced for the 2024-2028 period. The new plan was approved by Council in March 2024. The Council's vision is a place of vibrant communities, deliver by four over-arching priorities:

- financial stability
- economic growth
- sustainable environment
- empowering our communities.

The themes of strong finances, strong council and strong communities from the 2020-2024 Council Plan are continued in the new plan.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

Alongside the development of the new Council Plan, a comprehensive review of the performance framework was undertaken in early 2024. There is a move away from the old system of performance targets and to a more community focused approach, concentrating on the outcomes for our communities and performance indicators that have real meaning and impact. It is envisaged that these will develop and adjust over the Council Plan period. Engagement with our communities to develop and refine these indicators will be undertaken.

Principle C) Defining outcomes in terms of sustainable economic, social and environmental benefits

In addition to the approach taken on Council Plan outcomes detailed above the Council has in place a number of other ways in which it defines the outcomes for its communities. The impact of the cost of living continues to be closely monitored by the Council and as with last year's AGS, the Council has seen an increased call on welfare and support services. The Council has accommodated this increased demand and adjusted service provision accordingly.

The Council reviewed and continues to do so, the support made available to our residents and businesses to ensure economic and other benefits. Building on the strong position developed as a result of Covid recovery and the ten point plan for recovery in the economic development area put in place, support for businesses and residents continues to be a strength of the Council. There is the South Staffordshire Business Partnership and Ambassador programme which hosts events across the district. Like all of the Council plans and policies, environmental impacts are integrated into the plan. Again, this has been recognised in the new Council Plan, with economic growth one of the four priorities.

Alongside the response to the challenges and changes faced, financial stability continues to be a priority for the Council. A balanced budget for a three year period continues to be maintained. It is however a challenging time and the Council is aware that significant issues and challenges lie ahead; the Resource Planning and Prioritisation (RPP) process provides a continuous process that ensures this remains at the forefront. The adoption of the RPP process has fed into the formal budget and council tax setting process with members being involved throughout, from early engagement in July 2023 through to adoption of the budget in February 2024. This process, and engagement of members, will continue in 2024/25.

The Council incorporates all elements of performance management into one integrated approach. This is reported to Cabinet on a quarterly basis and to Overview and Scrutiny Committee on half-yearly basis, with an annual report to Council. This provides effective member oversight on all key issues including budget, performance and risk. In 2023/24 the Council reviewed the IPM and sought to make it truly integrated. Work on this will continue into 2024/25, alongside the

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

development and fine-tuning of the performance measures as mentioned above. In addition, new national performance measures have been introduced by the Government, with the introduction of the Office for Local Government (OFLOG) and a suite of performance indicators. These will be incorporated into the Council's performance reporting alongside the local measures. In 2024 the Council will also be required to produce a Productivity Plan and submit this to central government.

The senior leadership of the council holds Challenge Boards across key areas to ensure oversight and ownership; for example a Waste Challenge Board has been established to review the proposals to address the changes to new waste legislation and the new waste collection contract that is currently being worked through.

Principle D) - Determining the interventions necessary to optimise the achievement of the intended outcomes -

The approach to performance management is detailed above. A key part of this is the role of Scrutiny by members through the 3 Scrutiny Committees namely Overview and Scrutiny Committee, Wellbeing Select Committee and the Asset Scrutiny Panel. Informal scrutiny and member engagement takes place via the Member Working Groups with a more flexible approach than the formal scrutiny committees – ensuring these important member groups have the opportunity to be involved in and shape key issues for the Council and residents.
Following the positive 2022 Corporate Peer Challenge undertaken by the Local Government Association (LGA), a progress review was undertaken in July 2023. The follow-up report commented positively on the progress made by the Council against the action plan arising from the original review. The full report can be seen here.

The Council has a learning culture, seeking to take examples of best practice and build on these within the existing positive environment. The Council takes opportunities to learn from others including engaging with Peer Reviews at other authorities, and taking part in the IESE Council of the Year events.
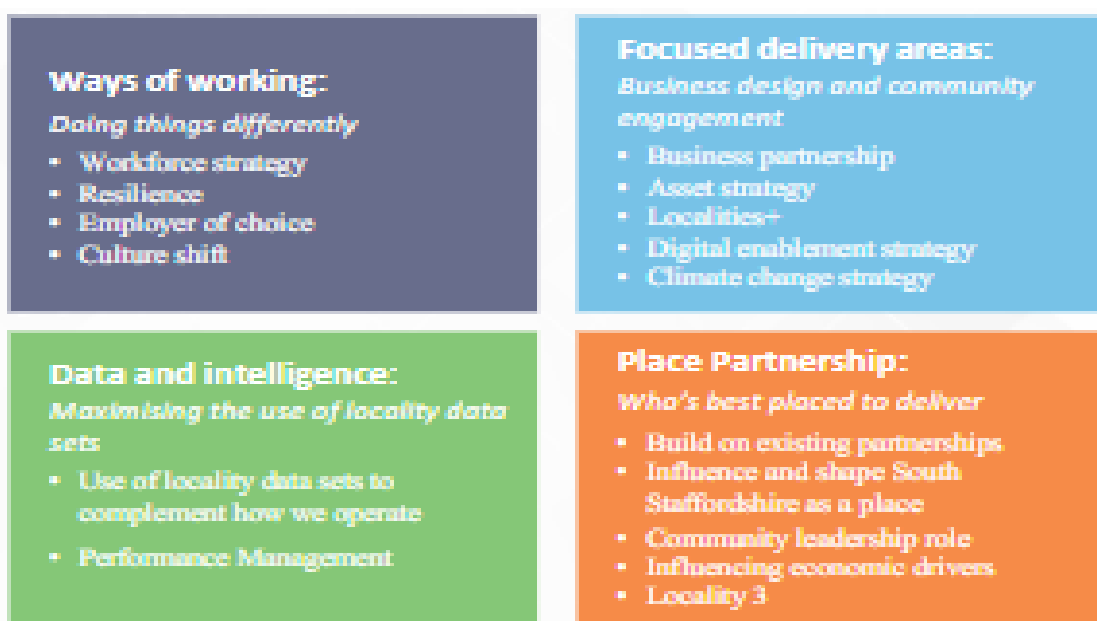
Principle E) - Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council has looked to develop a workforce that looks to do things differently in order to meet both the financial challenges we face and to further strengthen our communities; the approach is one of continuous challenge and change. A key element is the Council's Resource Planning and Prioritisation process (RPP). Whilst structured on an annual basis to tie-in with budget setting, the RPP process is a continual one with regular meeting between CLT and the Assistant Directors to track and challenge progress and issues throughout the year. In addition, the Assistant Directors have undertaken a piece of work mapping the key deliverables and how these interact across the Council to ensure forward planning minimises any potential

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

negative impacts and maximises the benefits. This was originally termed a 'pinch points' exercise but has expanded and developed to incorporate the service priorities across the Council, feeding into service planning. This is a continuous process with Assistant Directors meeting regularly to review and refresh. This approach has proven successful with service areas planning key events and resources accordingly, taking into account the impacts across other service areas.

The Evolution Programme has been introduced to continue to provide operational clarity of direction over the next four years. The Programme builds on the culture and environment of the council and sets out four key operational strands.

Ways of working:
Doing things differently
- Workforce strategy
- Resilience
- Employer of choice
- Culture shift

Focused delivery areas:
Business design and community engagement
- Business partnership
- Asset strategy
- Localities+
- Digital enablement strategy
- Climate change strategy

Data and intelligence:
Maximising the use of locality data sets
- Use of locality data sets to complement how we operate
- Performance Management

Place Partnership:
Who's best placed to deliver
- Build on existing partnerships
- Influence and shape South Staffordshire as a place
- Community leadership role
- Influencing economic drivers
- Locality 3

The Council remains committed to developing its staff and has a comprehensive Workforce Strategy which seeks to align workforce plans with our RPP model, providing strategic direction for workforce planning. Following on from ELT, senior leadership coaching has been held with Team Managers and Assistant Team Managers, proving both popular and effective both in terms of skills development but also enhancing working relationships across teams. Alongside this, there is a Wellbeing Strategy addressing and expanding the support offered to staff. Hybrid working is in place and this is both attractive to potential employees and also popular with existing staff.

In a staff survey undertaken in 2023 96% of staff surveyed would recommend the council as a place to work. This was an increase from the 93% from the 2022 survey.

The Council remains committed to a One Team One Council approach to development, performance management and recruitment of staff and that the key

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

five values of trust: transparency, positive relationships, listening to people and pride are embedded into the organisation.

In 2023/24 the Council:

- Commenced the next round of the Aspire programme - for developing future talent and for being your best self
- Continued the 'Ways of working' supported by training programme
- Continued to consider the recruitment of apprentices where possible

The Council seeks to be an Employer of Choice and has a number of offers in this area including, flexible working patterns, hybrid working, career development support, employee benefits scheme, generous leave entitlement and wellbeing resource hub.

Alongside staff development the Council prioritises member engagement and development focusing on three key areas:

- Information - sharing information with members in a timely and effective way

- Engagement - Members have a clear focus of local priorities through the ongoing development of locality working and a number of mechanisms are in place to ensure engagement with officers

- Training - Members are kept up to date on key topical areas through regular training opportunities

Members receive a monthly communications note from the Leader of the Council and regular communications from the Chief Executive and CLT on key matters. There is a bespoke weekly news round-up distributed by email to all members, capturing key events and news items of interest to members. The CEO meets with Group Leaders on a quarterly basis and the Leader of Council and Deputy Leader weekly and is joined by CLT colleagues.

Ward walks, giving members the opportunity to raise local issues and strategic matters with members of CLT were undertaken in Summer 2023. Arising from the ward walks, the capacity to undertake public realm improvement works was increased with the introduction of a new grounds maintenance team specifically to tackle the local issues raised by ward members. In late Winter/ early Spring 2024, virtual ward walks were held, giving members the opportunity to continue those conversations. This pattern of in-person and virtual ward walks will continue in 2024/25 and beyond.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

Training for members has continued in key areas such as planning and Code of Conduct. The training for members is co-ordinated by a panel of members known as the Member Engagement and Training Group; this meets regularly and reviews and challenges the training provided for members. Post the May 2023 election, a comprehensive member induction and training programme, with LGA support, was put in place; ensuring members were equipped to undertake their role and to ensure sound decision making. The programme was reviewed in late Autumn 2023, including undertaking a member survey, and feedback used to shape the planning programme for 2024.

Principle F) - Managing risks and performance through robust internal control and strong public financial management

The Council considers and counters risk across a broad range of areas supported by an approved risk management approach. As part of good governance risk management is built into the Integrated Performance Management Framework alongside budget management and performance. These reports are taken by the Council's Corporate Leadership Team to Cabinet for its approval. Although the monitoring and reporting of risks was well-established, it was recognised in 2023 that the risk management system needed review in order to be truly integrated and reflect the current risk appetite of the Council. This has been undertaken in early 2024 and will be embedded over the coming months. This revised approach will further enhance the Council's robust internal controls.

Reports on risk are also taken regularly to the Council's Audit & Risk Committee.

The Audit & Risk Committee met regularly during the year to consider regular reports from internal audit on systems reviews, quarterly risk management reports from the responsible s.151 officer and the Annual External Audit report.

The Internal Audit section has delegated responsibility for monitoring the effectiveness of systems of internal control, beyond the merely financial, and plays an important role in the Council's risk management processes. The audit plan is based upon formal risk assessment methodologies and is approved by the Audit and Risk Committee each year. Audit reports, including assessments of the adequacy of controls and recommendations for improvements, are sent to the responsible officers and the Audit and Risk Committee. Recommendations must be either accepted, with an appropriate action plan, or rejected with reasons given. Regular reviews follow up on the implementation of agreed recommendations.

The Audit & Risk Committee receives regular reports on the work of Internal Audit. Where specific problems are found the manager will be called to attend the Audit & Risk Committee to explain the situation and present their plans for improvement. This will be followed up in a subsequent report by Internal Audit. Audit and Risk

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

Committee have requested further reporting back of issues where they have considered this necessary, evidencing the effectiveness of arrangements in this area.

As set out above regular reports are brought to Cabinet on compliance with the budget during the year, as part of the integrated Performance Management Framework. This is in addition to the approach taken on setting the budget, where all members have been involved at an early stage in the budget setting process. As part of the RPP process Cabinet and all members are engaged at an early stage with briefings on key issues, risks and opportunities undertaken from July; this is then followed by a more detailed session in late Autumn setting out options and budget implications. This then feeds into the formal budget setting process which takes place in February.

In 2021 the Council entered into a shared service arrangement with Staffordshire County Council for its internal audit function. This gives greater resilience and provides a wide pool of expertise and experience benefiting the council going forward. This has proved successful with no issues around service delivery or assurance being raised.

In 2023, the Council appointed new External Auditors; changing from Grant Thornton to Azets. Having had the same external auditors for a number of years, the Council has embraced this change, seeing it as an opportunity for fresh challenge and engagement with a new team.

A full review of Risk Management is being undertaken in 2024/25 to strengthen the Council's position and give assurance on the effectiveness in this area.

4.   Review of Effectiveness

South Staffordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The review of effectiveness is informed by the work of the Corporate Leadership Team and the Extended Leadership Team within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the system of governance includes the following elements:-

- **Governance and Monitoring of the Constitution** - The Council's Monitoring Officer is responsible for governance and reviewing the Constitution on a

regular basis in order to ensure that it continues to operate effectively – this has taken place on a number of occasions including the annual review which went to Annual Council on 7 May 2024.   A number of changes were made at the annual review including the introduction of specific rules for budget motions.

No significant issues have been identified.

- **Scrutiny and Challenge –** Self-regulation is key to the Local Government performance management framework in England - ultimately the Council is responsible for its own performance. This takes place internally through the Corporate and Extended Leadership Team and through members. It is clear that there is regular and careful scrutiny of the Council's performance against its targets. A key part of this is through the formal scrutiny process but also through the Member Working Groups. Overview & Scrutiny has provided a method for members to look at key areas including performance against the priorities. This has helped inform the approach taken by Cabinet, officers and wider partners.

No significant issues have been identified.

- **Audit Functions**

External Audit - A critical part of this framework is the role of external audit providing advice and challenge where appropriate including supporting the training programme for members. It is pleasing to note that an unqualified opinion on the accounts was again provided last year. The Council has also received a positive report on its arrangements to secure value for money, with one improvement recommendation around performance information.

Financial Arrangements - The Section 151 Officer confirms that the Council's financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer in Local Government (2010).

Internal Audit – In 2023/24 the internal audit service carried out 19 reviews and of these:

> 14 were rated Substantial Assurance;
> 3 were rated Adequate Assurance;
> 0 were rated Limited Assurance;
> 2 were not rated as they were advisory.

SOUTH STAFFORDSHIRE –DRAFT ANNUAL GOVERNANCE STATEMENT 2023 – AUTHOR: L FOWKES – 27 JUNE 2024

The overall conclusion of the Chief Internal Auditor was that there was substantial assurance.

Of the nine High Level Audit recommendations outstanding from 2022/23 six remain in progress as at June 2024 and details of these have been reported to the Audit & Risk Committee on 27 June 2024.

In terms of the limited assurance reports, these are circulated to members of the Audit and Risk Committee, prior to presentation at the Committee. Immediate steps have been put in place to address the issues raised or are in progress. The officers responsible will be attending the Committee meetings to explain the response and will be reporting back to future Committee meetings on the steps taken. As stated above there is a robust process in place to ensure that high level recommendations are implemented and this will continue.

The Counter Fraud and Corruption policy was reviewed in 2023 and was approved by Audit and Risk Committee on 3 October 2023.

- **Conduct - Standards –** The Standards and Resources Committee retains oversight of Code of Conduct issues.

  The Monitoring Officer has no significant issues to raise.

5. **Conclusion**

The Review of Effectiveness has found the arrangements for the Governance Framework to be fit for purpose.

The following action points have been identified:

- o Implementation of High-Level recommendations made in 2023/24
- o Review of the Anti-Money Laundering and Whistleblowing policies in Autumn 2024
- o Implementation of the External Audit recommendation on internal audit of performance information

These will be addressed in 2024/2025 and reports will be brought to the Audit & Risk Committee on progress during the year.

SOUTH STAFFORDSHIRE COUNCIL
AUDIT AND RISK COMMITTEE 27 JUNE 2024
QUARTERLY TREASURY MANAGEMENT REPORT: QUARTER 4 – 010124 TO 310324
REPORT OF THE FINANCE TEAM MANAGER AND DEPUTY S151 OFFICER

PART A – SUMMARY REPORT

1.   SUMMARY OF REPORT

1.1   The report presents the 4th quarter summary information relating to treasury management activities and interest during 2023/24. The Council's position at the beginning and end of the quarter was as follows.

- Total on deposit at the start of the quarter £23,100,000
- Total on deposit at the end of the quarter £7,400,000
- Interest earned in the quarter was £288,327 against a budget of £140,500
- Total Borrowing at the start of the quarter was £15,000,000 (long-term borrowing over 40-50 years)
- Total borrowing at the end of the quarter was £15,000,000
- Borrowing costs in the quarter were £58,589 against a budget of £58,750

2.   RECOMMENDATIONS
2.1   Members are asked to note the position as set out in the report.

3.   SUMMARY IMPACT ASSESSMENT

<table>
<tr><td rowspan="4">POLICY/COMMUNITY IMPACT</td><td colspan="2">Do these proposals contribute to specific Council Plan objectives?</td></tr>
<tr><td>Yes</td><td>The reporting of financial information on a regular basis contributes to providing value for money and quality services.</td></tr>
<tr><td colspan="2">Has an Equality Impact Assessment (EqIA) been completed?</td></tr>
<tr><td>No</td><td>This proposed decision does not give rise to any change in policy nor does it give rise to any new expenditure and it is not considered to have any adverse implications.</td></tr>
<tr><td>SCRUTINY POWERS APPLICABLE</td><td colspan="2">No</td></tr>
<tr><td>KEY DECISION</td><td colspan="2">No</td></tr>
<tr><td>TARGET COMPLETION/ DELIVERY DATE</td><td colspan="2">Not applicable</td></tr>
</table>

1

FINANCIAL IMPACT	Yes	The Council makes assumptions about the level of investment income over the financial year based on the Council's expected cash position and interest rates forecasts provided by its treasury advisors. Delays in the delivery of the capital programme will have an impact on the council's cash position and therefore interest earned, and interest paid. Likewise increases or decreases in interest rates will affect interest earned and paid on investments and borrowings. During the 4th quarter rates have continued at a higher rate than what we had budgeted for, with the UK base rate sitting at 5.25% for the quarter. In addition to this cash balances remain higher than anticipated due to slippage within the capital programme. As a result, at the end of Q4 year-to-date interest earned was £1,180,164 against a year-to-date budgetary target of £562,000. The Council has a borrowing portfolio of £15m, all sourced through the PWLB. Year to date interest paid is £235,000 against a year-to-date budget of £235,000 up to the end of Q4. For monitoring purposes, assumptions are made based on the strategies agreed by Council. The Capital Programme for 2023/24 and future years was approved by Council 21 February 2023.
LEGAL ISSUES	Yes	The proposed actions are in accordance with the Council's Constitution and Financial Procedure Rules.
OTHER IMPACTS, RISKS & OPPORTUNITIES	None	
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1   CIPFA (the Chartered Institute of Public Finance and Accountancy) in its Code of Practice for Treasury Management recommends that members should be updated on treasury management activities at least twice a year. This report therefore ensures this council is implementing best practice in accordance with the Code.

The following items are set out in the report below:

2

- annual investment strategy/the Council's current treasury position;
- interest earned for Quarter 4;
- the borrowing outturn for Quarter 4;
- compliance with treasury limits;

4.2 Annual Investment Strategy/Current Treasury Position

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, is approved by the Council. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

Whilst Security, then liquidity of any investment decision retains the highest priority for the Council, we also aim to achieve the optimum return (yield) on investments whilst considering these principles. In the current economic climate, it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in higher rates in periods up to 12 months or in some circumstances beyond, with highly credit rated financial institutions.

The Council's position at the beginning and end of quarter dates was as follows:

Investments	31 Dec 2023 £	31 Mar 2024 £
Money Market Funds:		
Federated Investors LLP	7,100,000	400,000
CCLA	11,000,000	5,000,000
Total	**18,100,000**	**5,400,000**
Internal Investments:		
Lloyds Bank (ATS)	1,000,000	0
National Bank of Kuwait (ATS)	1,000,000	0
Standard Chartered Bank (ATS)	1,000,000	0
Lanbesbank Hessem Frankfurt (ATS)	2,000,000	2,000,000
Total	**5,000,000**	**2,000,000**
Grand Total	**23,100,000**	**7,400,000**

*ATS is a service provided by our treasury advisors. By using this facility, it allows us to access investments at higher interest rates and a wider list of counterparties than we would be able to get by going directly to the market.

Investments in Money Market Funds are held to manage the daily cash flows. Surplus funds are placed on short term deposit to meet predicted outflows of funds for example the precept payments to the County, Fire and Police authorities.

3

Internally managed funds are used to generate a higher return on investments when funds are not required in the very short term. In most cases these investments are kept relatively short term up to a maximum of 1 year.

Due to the timings of these cashflows, balances generally build up during the first three quarters of the year and then fall significantly in quarter 4 due to the profiled collection of taxation revenues for council tax and business rates.

4.3   Details of Investments and Interest during Quarter 4

Due to inflationary pressures over the last 2-3 years the Bank of England has continued to raise interest rates to combat this, as a result interest rates have risen throughout the year and currently stand at 5.25%.

This has had a positive impact on the interest earning potential of our investments. Interest earned during Quarter 4 2023/24 was £288,327, £147,827 above budget (£140,500).

A breakdown of interest earnings is detailed in the table below:

Interest Earned	Quarterly Budget £	Quarterly Actual £
Investment Income Budget	140,500	
Money Market Funds:		
Federated Investors LLP		103,572
CCLA		121,612
Internal Investments		50,508
Bank Accounts		12,635
Grand Total	**140,500**	**288,327**

4.4   Borrowing Outturn for Quarter 4 2023/24

During Q3 of 2021/22 the council made the decision to take out some longer term borrowing to fund the capital programme. Due to the impending rate raise that was expected it was felt that this was the right time to take out a portion of borrowing to take advantage of the historically low rates on offer and reduce the risk of the council undertaking borrowing at much higher rates in the future. As a result, the council took the option to borrow £15,000,000 over 40-50 years at fixed rates ranging from 1.51%-1.62%.

4

Loan Amount	Interest Rate	Loan Length	Annual Interest	Repayment Date
5,000,000.00	1.62%	40 years	81,000.00	14/11/2061
5,000,000.00	1.57%	45 years	78,500.00	12/11/2066
5,000,000.00	1.51%	50 years	75,500.00	13/11/2071
			235,000.00	

Additional borrowing will be required in the future to fund further aspects of the capital programme however some of this borrowing may not be required for some time and so whilst rates are still volatile it was felt prudent to leave a portion of the borrowing requirement until a time where we feel it would be most beneficial to the council's long-term finances. With that in mind the council will continue to monitor the markets and take advice from our professional advisors to take advantage of any changes in market conditions. It is likely that once further spend on the capital programme is undertaken further long-term borrowing will be taken in accordance with the approved treasury management strategy.

Details of the Councils borrowing position at the beginning and end of the quarter are detailed as follows:

	31 Dec 23 £	31 Mar 24 £
PWLB	15,000,000	15,000,000
Grand Total	**15,000,000**	**15,000,000**

4.5 Compliance with Treasury Limits

Compliance with the Council's Treasury Management Limits as set out in the Treasury Management Strategy, underpins all investment and borrowing decisions made at all times.

The Table below details the applicable lending limits for investments made during the 4th quarter of 2023/24.

Investments	Institute Rating (at time of investment)	Highest value During Quarter	Monetary Limit (As per TMSS)	Period of Investment	Time Limit as per TMSS
Federated	AAA+	15,000,000	15,000,000	Liquid	Liquid
CCLA	AAA+	11,000,000	15,000,000	Liquid	Liquid
Lloyds Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
National Bank of Kuwait (ATS)	A+	1,000,000	1,000,000	6 months	6 months
Standard Chartered Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
Lanbesbank Hessem Frankfurt (ATS)	A+	2,000,000	3,000,000	1 year	1 year

5

The Table below details the applicable limits between fixed and variable rate borrowing during the 4th quarter of 2023/24.

Borrowing	Borrowing in Quarter	Monetary Limit (As per TMSS)
Fixed	15,000,000	44,000,000
Variable	0	15,000,000

5.   IMPACT ASSESSMENT – ADDITIONAL INFORMATION

None

6.   PREVIOUS MINUTES

None

7.   BACKGROUND PAPERS

Appendix A – Link Asset Services Q4 2023/24 Report

Report by: Rebecca Maher, Director of Finance (S151 Officer)
              John Mayhew, Finance Team Manager (Deputy s151 Officer)

6

QUARTERLY TREASURY MANAGEMENT REPORT

QUARTER FOUR – 1 JANUARY 2024 TO 31 MARCH 2024

Detailed economic commentary on developments up to 31st March 2024

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

7

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA Economy.

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025...but how many and when?

EZ Economy.

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

8

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10
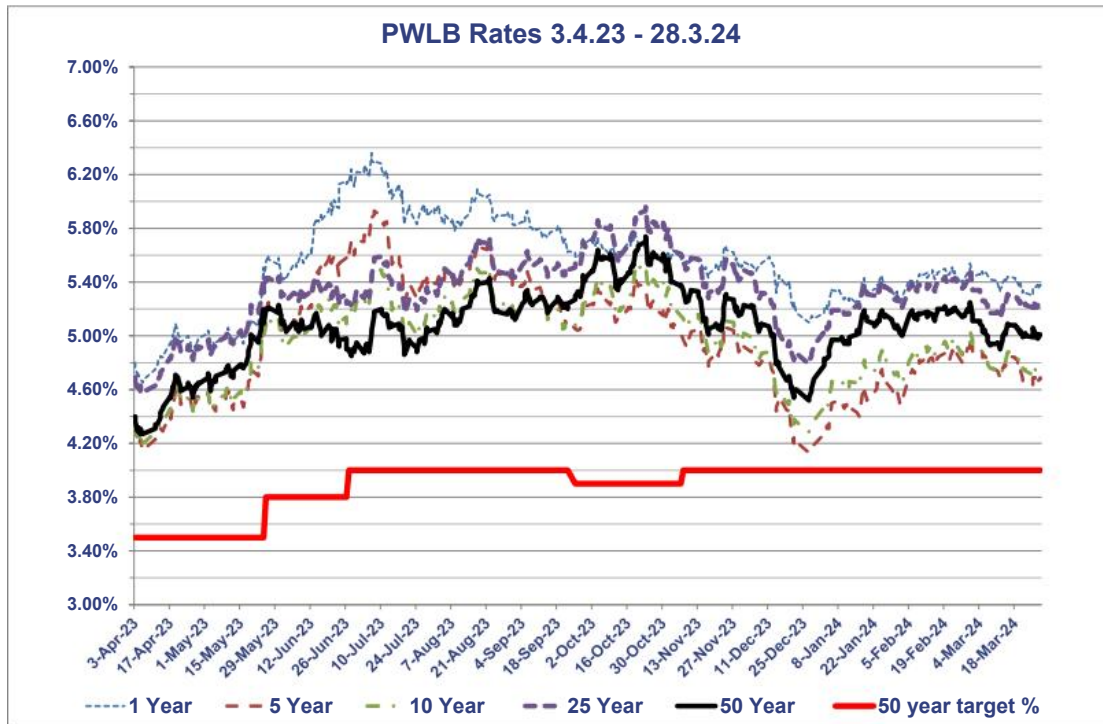
PWLB RATES 2023/24
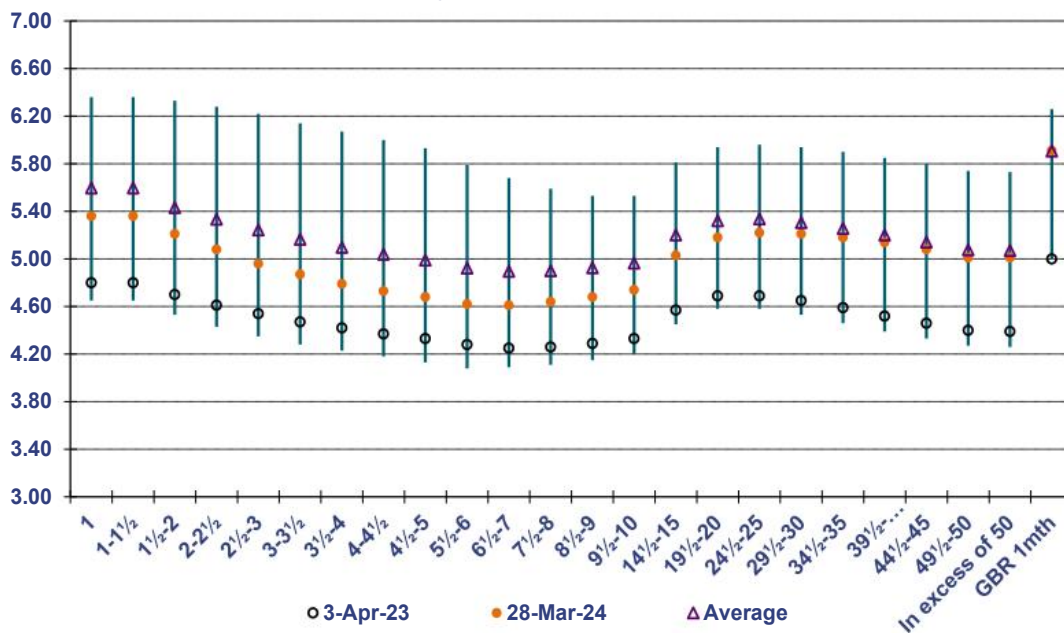
HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)
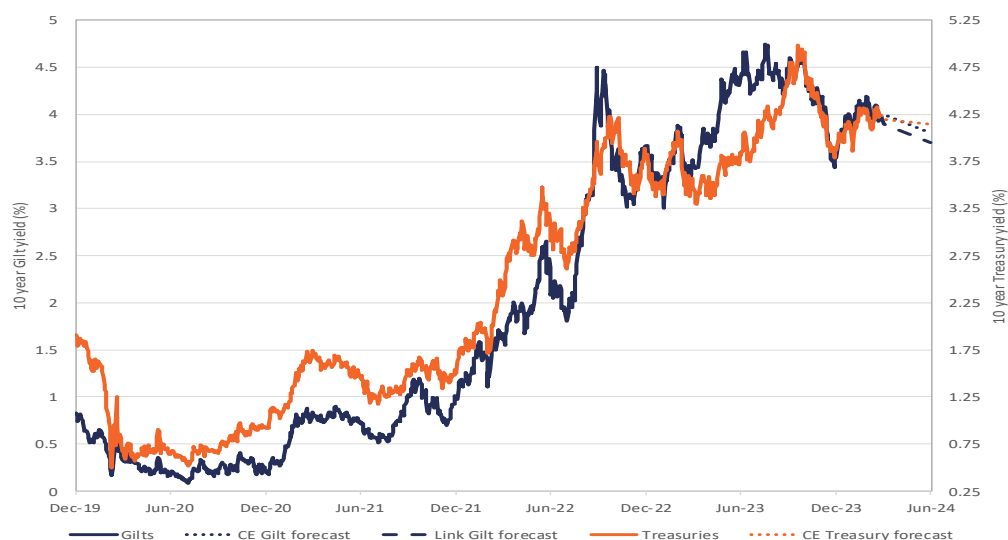
Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

10

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 40bps (G+40bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

11

	SOUTH STAFFORDSHIRE COUNCIL AUDIT & RISK COMMITTEE – 27 JUNE 2024 INTERNAL AUDIT ANNUAL OUTTURN REPORT REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 This report presents the Internal Audit Annual Outturn report for 2023/24.

2. SUMMARY IMPACT ASSESSMENT

<table>
<tr>
<td rowspan="4">POLICY/COMMUNITY IMPACT</td>
<td colspan="2">Do these proposals contribute to specific Council Plan objectives?</td>
</tr>
<tr>
<td>Yes</td>
<td>The work of the audit committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements.

The delivery of the Annual Internal Audit Plan and Counter Fraud Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved.

The work of Internal Audit covers those priorities contained with the Council's Delivery Plan.</td>
</tr>
<tr>
<td colspan="2">Has an Equality Impact Assessment (EqIA) been completed?</td>
</tr>
<tr>
<td>No</td>
<td>The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies.</td>
</tr>
<tr>
<td>SCRUTINY POWERS APPLICABLE</td>
<td colspan="2">No</td>
</tr>
<tr>
<td>KEY DECISION</td>
<td colspan="2">No</td>
</tr>
<tr>
<td>TARGET COMPLETION/ DELIVERY DATE</td>
<td colspan="2">27th June 2024 – Presentation of the Internal Audit Annual Outturn 2023/24.</td>
</tr>
<tr>
<td>FINANCIAL IMPACT</td>
<td>No</td>
<td>There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy.</td>
</tr>
</table>

1

LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feeds into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers. The plan may be changed to respond to revised priorities of the Council within the year.
IMPACT ON SPECIFIC WARDS	No	No impact

PART B – ADDITIONAL INFORMATION

3. **INFORMATION**

3.1   This report outlines the work undertaken by Internal Audit in respect of the 2023/24 annual audit plan.

3.2   Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment of the organisation. Internal audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes[1].

3.3   Internal Audit is required by professional standards i.e. the Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements, the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the

---

[1] Public Sector Internal Audit Standards definition of Internal Auditing.

2

organisation's framework of governance, risk management and control. The annual report must incorporate: -

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.

3.4   The underlying principles to the 2023/24 audit plan were outlined in the Internal Audit Strategy and Plan 2023/24 paper presented to and approved by Members of the Audit & Risk Committee on 20th June 2023. Since the original plan was approved, there have been some additional exercises undertaken and amendments to planned audit work. The net effect, however, is that the key performance target of 90% for delivery against the audit plan 2023/24 has been exceeded.

3.5   Work is scheduled to meet the requirements of the service areas to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. The Internal Audit Team are proactively seeking to finalise the remaining reports as soon as possible.

3.6   Audit opinions are awarded for individual systems and compliance audits within one of the following categories: -

- Substantial Assurance (positive opinion);
- Adequate Assurance (positive opinion); and
- Limited Assurance (negative opinion).

3.7   Detailed below is a high level summary of the work undertaken by the Internal Audit Service analysed over the following categories: -

- Core Financial Systems;
- Assurance Reviews (Other Systems Audits); and
- Counter Fraud and Corruption Work, including Special Investigations.

3.8   For those areas awarded 'limited assurance', in addition to Members of the Audit & Risk Committee receiving a full copy of the report, the relevant officers attend the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations.

3.9   Internal audit will continue to track and report on the implementation of high level recommendations made in the previous and current year. A summary of the status of high level recommendations is outlined in the table below. An update on the high level recommendations and further details are attached as **Appendix 1** to this report.

Year	Recommendations Made			
	Total	Implemented No.%	Superseded	In Progress / No Due No.%

3

High Level Recommendations b/fwd. from previous Year	9	2 (22%)	1 (11%)	6 (66%)
2023/24	2	2 (100%)	0	0

2023/24 Audit Plan Outcomes

<u>Core Financial Systems</u>

3.10 The following core financial system reviews were carried out during 2023/24:-

Core Financial Systems Description	Opinion			
	Substantial	**Adequate**	**Limited**	**N/A Advisory***
Debtors & Debt Management				✓
Treasury Management	✓			
Budgetary Control	✓			
Payroll	✓			
Housing Benefits – Compliance with Legislation	✓			
Energy Bill Support Scheme	✓			
Total Audits Delivered (6)	**5**	**0**	**0**	**1**

*Consultancy / Advisory work undertaken therefore no assurance opinion required.

<u>Assurance Reviews (Other Systems Audits)</u>

3.11 The following other assurance systems reviews were carried out during 2023/24:-

Core Financial System Description	Opinion			
	Substantial	**Adequate**	**Limited**	**N/A Advisory***
Corporate Health & Safety	✓			
Operation & Management of Leisure Centres		✓		
Workforce Strategy	✓			
Equality, Diversity & Inclusion (EDI)	✓			
Viv Up Employee Benefits				✓
Disability Facilities Grant		✓		
Disability Facilities Grant – Shared Service	✓			
Digital Transformation – Customer Experience Improvement Programme	✓			
IT Asset Management – End User Devices	✓			

4

	Substantial	Adequate	Limited	N/A Advisory*
Cyber Security – Incident Reporting	✓			
UK Shared Prosperity Fund	✓			
Elections	✓			
Management & Review of Council Policies		Draft		
Total Audits Delivered (13)	**9**	**3**	**0**	**1**

Counter fraud and corruption work

3.12 The following counter fraud and corruption audit work was carried out during 2023/24:-

Counter Fraud and Corruption Work	Opinion			
	Substantial	**Adequate**	**Limited**	**N/A Advisory***
Continuous Controls Monitoring		✓		
National Fraud Initiative		✓		
Total Audits Delivered (2)	**0**	**2**	**0**	**0**

In addition to the specific pieces of counter fraud and corruption work undertaken, fraud risks are considered and reviewed as part of our planned system audits undertaken.

Special Investigations (Internal)

3.13 The table below summarises those special investigations conducted during the financial year and confirmed financial losses associated with each:-

Special Investigation	Financial Value	Control Area
Cash Bag Thefts	£2,162.29	Cash/Asset Management arrangements
Total	**£2,162.29**	

3.14 Further details of the counter fraud and corruption work carried out in-year are provided in **Appendix 2** of this report, including the outcomes from our Continuous Controls Monitoring programme of work.

Other in Year Activities

3.15 The Internal Audit Manager continues to meet with the Corporate Director of Governance (Monitoring Officer) and Director of Finance (S151 Officer) on a regular basis. In addition, pre-agenda setting meetings are held with the Chair of

5

the Audit & Risk Committee, as required. Liaison is also undertaken with External Audit as required.

Overall Opinion of the Control Environment

3.16   The UK PSIAS requires that the Head of Internal Audit (HIA) must deliver an annual internal audit opinion on the overall internal control environment of the Authority. The methodology for formulating this opinion is set out within the Internal Audit Strategy which was approved by the Audit & Risk Committee on 20th June 2023. This methodology has been applied in formulating the annual audit opinion for 2023/24.

3.17   Each separate category of audit work is assessed against a benchmark of achieving a score of at least 80% of the total number of audits performed being awarded an opinion of "adequate or above" within each category. For reasons of simplicity, each category attracts equal weighting and a simple pass/fail assessment is used to differentiate the underline overall opinion between "Substantial, Adequate and Limited" as illustrated below:

Overall Opinion Level	No. of categories achieving the 80% benchmark
Substantial Assurance	3 out of the 3 categories
Adequate Assurance	2 out of the 3 categories
Limited Assurance	1 and below out of the 3 categories

Calculation of the 2023/24 Overall Assessment

3.18   The following table details the calculation of the 2023/24 overall assessment:-

Audit Category	% Awarded an Opinion of at Least "Adequate"	2022/23 Pass/Fail	2023/24 Pass/Fail
Core Financial Systems	100%	Pass	Pass
Assurance Reviews (Other System Reviews)	100%	Pass	Pass
Counter Fraud & Corruption Work, including Special Investigations	90%	Pass	Pass
Overall Total		**3 out of 3 categories**	**3 out of 3 categories**

3.19   **Based on the above, a "substantial" assurance opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) can be given for the 2023/24 financial year. This is consistent with the opinion awarded in 2022/23.**

Performance Measures

6

3.20   Key performance measures for Service as detailed below:-

Description	Target	2023/24
% of Audit Plan Completed (issued to draft stage)	90%	**100%**
Average scores achieved on customer satisfaction questionnaires	4	**5**

Performance against the UK Public Sector Internal Audit Standard

3.21   The UK PSIAS include a number of requirements including a specific requirement to maintain a quality assurance and improvement programme (QAIP), which is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. There are three key elements to the QAIP:

- **On-Going and Periodic Internal Assessment** – Ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. Periodic assessments should be undertaken by other officers of the organisation who have sufficient knowledge of internal audit practices.
- **Five-yearly External Quality Assessment** – External assessments of internal audit should be undertaken every five years. The assessment should be performed by qualified and independent assessors or assessment teams that are external to the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation.
- **Improvement programme** - If the assessments' results indicate areas for improvement, the HIA will implement the improvements through the QAIP.

3.22   The Internal Audit Service works to a Charter approved by the Audit & Risk Committee (for 2023/24, this document was approved at the Audit & Risk Committee meeting held on 23rd March 2023). This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the section meets the specific requirements of the PSIAS & LGAN was presented for the first time to the Audit & Risk Committee in April 2015. In 2022/23, the HIA commissioned CIPFA to undertake a full External Quality Assessment of the Internal Audit Service. The full assessment results were reported to the Audit & Risk Committee at the meeting held on the 23rd March 2023. Following the review the highest standard of 'Generally Conforms' was awarded and no recommendations requiring further action were made.

3.23   In 2023/24, a self-assessment has been completed against the current PSIAS & LGAN standards via the completion of the published checklist. Results are summarised below and show that 97% of the standards are complied with. An action plan has been developed to address the area of partial compliance identified and is presented at **Appendix 3** of this report.

Process/Control			
In Place	Partially In Place	Not In Place	Not Applicable
131 (97%)	1 (1%)	3 (2%)	0 (0%)

3.24 The work undertaken by the Internal Audit Service during 2023/24 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the HIA or the Service from delivering the annual internal audit opinion for 2023/24.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified.

5. PREVIOUS MINUTES

5.1 Not applicable.

6. BACKGROUND PAPERS

6.1 Not applicable.

7. APPENDICES

Appendix 1 – Update on High Level Recommendations
Appendix 2 – Counter Fraud & Corruption Work 2023/24
Appendix 3 – PSIAS Self-Assessment Action Plan for 2024/25

8. RECOMMENDATIONS

8.1 To receive the annual outturn report containing the annual internal audit opinion for 2023/24.

Report prepared by: Susan Bluck, Internal Audit Manager

8

PREVIOUS YEARS' HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATE 27 June 2024

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Mileage & Subsistence	12.12.17	The Travel & Subsistence Policy is reviewed and approved as a priority task.	Revised 30.11.2024	The Finance Manager confirmed that a formal review of the Travel and Subsistence Policy to be undertaken with the intention of a revised policy to be proposed for agreement by the Corporate Leadership Team in Autumn 2024. **In Progress**	N/A	N/A
2	Leisure Centre – Vending Machine Income	04.06.2020	The Council's Legal Team and the Financial Services Team should be consulted on the proposed new contract amendments. This is to ensure that the proposed amendments are Legally binding and arrear balances and monthly payment figures are correct to	31.07.2023	The Finance Manager has confirmed that further investigations undertaken in 2023/24, determined that actions to pursue the outstanding debt would not be cost effective and it would be unlikely that the amounts owed would be recovered. In accordance with the Corporate	N/A	27.06.2024

9

			ensure recovery of the outstanding debt by end of the financial year.		Debt Write Off Policy, the outstanding amounts were written off as part of the 2023/24 year-end process and were including in the debt write off figures previously reported to the Audit & Risk Committee. The recommendation has there been superseded. **Superseded**		
3	Debtors & Debt Management	31.05.2022	The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process. The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.	Revised Date 30.09.2024 (Provisional)	A Follow Up audit undertaken in June 2023 confirmed that the reviewed Debt Management Policy was approved by Cabinet on the 06/06/2023. Communication of the Policy is yet to be undertaken as a review of supporting processes remains ongoing, communication will be completed when the revised processes are in place. **In Progress**	N/A	N/A

10

4	Debtors & Debt Management	31.05.2022	The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process. The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.	Revised date 30.09.2024 (Provisional)	As stated at Recommendation 3 above, the Debt Management Policy was reviewed and approved in June 2023. Issue and communication of the new policy to be aligned to the implementation of revised working practices, currently under review. **In Progress**	N/A	N/A
5	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that consistent and processes compliant with the revised policy for issuing reminder letters are implemented and recovery actions taken are recorded clearly.	Revised Date 30.09.2024 (Provisional)	This will be addressed by the ongoing review of Accounts Receivable processes and operations. **In progress**	N/A	N/A
6	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that options for resourcing administrative support of debt recovery processes are further reviewed.	Revised Date 30.09.2024 (Provisional)	This is being progressed as part of the ongoing review and is dependent on the availability of resources through restructuring. **In progress**	N/A	N/A

11

| 7 | Commercial Units | 11/07/2023 | Management should ensure that a review of the insurance in place across tenants in both the Commercial Units and Business Hub is conducted. It should be ensured that insurance documentation is requested from all tenants where documents have not been retained, to confirm that insurance is adequate. Furthermore, a tenant insurance review process should be implemented to periodically update tenant insurance details and request renewal documentation.

The Customer Relations Team Manager should ensure that all Business Hub tenants are contacted immediately to ensure tenants premises are insured against loss or damage and to request documentation. | 30.09.2023 | Annual check of documentation process now in place, for Commercial Units and the Business Hub, to ensure tenants have adequate insurance provision.

Implemented | 20.11.2023 | 27.06.2024 |
| 8 | IT Systems Resilience | 11/07/2023 | Disaster Recovery as a Service (DRaaS) to be implemented as planned. | 31.03.2024 Revised 31.12.2024 | Initial response within the report confirmed - The initial phase of the Disaster Recovery as a Service (DRaaS) implementation will test out the principles of Cloud recovery using the | N/A | N/A |

12

					Council's established and regularly tested Cloud storage backup and recovery processes to the council's existing physical and virtual server estate. A successful proof-of-concept recovery test to Cloud servers will be completed to inform the fuller approach and plan for the DRaaS solution, as well as providing a blueprint and assurance for the recovery of critical IT systems to Microsoft Azure in the interim whilst the fuller DRaaS solution is implemented. The Assistant Director Business Transformation & Digital Technology has confirmed that the initial phase outlined above has been completed and work to implement the DRaaS is ongoing. As part of the work undertaken, a decision has been made to move to a different hosting environment and a revised target implementation date of December 2024 has been confirmed. **In progress**		

13

| 9 | Cyber Security – Incident Preparedness & Response Effectiveness | 08/03/2023 | A cyber incident response plan should be documented and formally approved. | 30.09.2023 | Cyber Incident Response Plan has been produced and refined following testing of the plan using cyber incident response playbooks and reflection of opportunities to improve the plan, as confirmed by the update to Audit & Risk Committee Members by the Assistant Director for Business Transformation & Digital Technology at the June 2023 Committee meeting.

Implemented | 08.08.2023 | 27.06.2024 |

14

NEW 2023/24 HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATED 27 June 2024

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Disability Funding Grant (DFG)	27.06.2024	Management should liaise with Millbrook to clarify the final financial position, including correction of the errors identified; and ensure that any overpayments to Millbrook are repaid in full. Also appropriate adjustments should be made in the return to the County Council, to ensure that carry forward funding is correctly stated, with these adjustments reflected in the 2023/24 financial accounts. Furthermore, a review of the allocation of funding and verification of expenditure process should be undertaken by Management to ensure that there are robust and completed accurately, so that anomalies are detected and addressed in a timely manner.	31.10.2023	Subsequent to liaison with the provider it was confirmed that the initial payment by the Council had been misallocated and therefore was not deducted from the final balance figures provided, resulting in the overpayment. This error has now been addressed resulting in the refund of the overpayment. This service is now provided via a shared service agreement with Stafford Borough Council, and financial controls have been revised. **Implemented**	30.04.2024	27.06.2024

| 2 | Management and Operation of Leisure Centres | 27.6.2024 | Leisure Services Management should ensure that a process is introduced to proactively check the CCTV systems in place across leisure Centres, to ensure they are operating effectively. Regular checks of the CCTV system should be undertaken at each site with this process documented. Any errors or downtime of the systems should be noted and communicated to the IT department for resolution. | 31.05.2024 | Operating procedures to be changed so that CCTV is actively logged and documented. Change documentation and inform all staff via internal communication channels. Also Inform ICT/ Digital services for any support they can provide on system checks.

This action has been confirmed as completed by the Leisure & Health Team Manager.

Implemented | 31.05.2024 | 27.06.2024 |

16

Appendix 2 Fraud and corruption Outturn Report

2023/24

Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Chief Internal Auditor
Deborah Harris

Lead Auditor
David Fletcher

Report Status
Issued – 27th June 2024

1 Internal Audit Outturn Report 2023/24– Corporate Counter Fraud and Corruption Activity

1.1 Introduction and Context

1.1.1 During the 2023/24 financial year, Internal Audit has continued to develop its fraud strategy, response and testing programme based upon a fraud risk assessment. The overarching objective of the Corporate Counter Fraud Work Plan is to minimise the cost of fraud, bribery and theft at the Council. The Counter Fraud Work Plan can be revised in year to take into account emerging risks and developing systems at the Council.

1.1.2 This report details our counter fraud work completed in 2023/24 and looks forward to anticipated developments in 2024/25.

1.2 Strategic

1.2.1 As part of the annual audit planning process, past fraud experience and inherent fraud risks are discussed with management and risk assessed.

1.2.2 The top fraud risks identified in the latest fraud risk assessment are:

- Council Tax including discounts, exemptions and empty properties;
- Housing Benefits & Council Tax Support (aka Council Tax Reduction scheme);
- Leisure Centres;
- NNDR including discounts, exemptions and empty properties;
- Payroll Claims
- Housing Advice and Homelessness Prevention; and,
- Cyber Security.

1.2.3 Each of these areas have been included in the Internal Audit workplan either in the last three years or in 2023/24. The risk assessment remains a 'live' document that can be updated throughout the year in the event of emerging risks.

1.2.4 The Internal Audit Manager – Fraud is an Accredited Counter Fraud Specialist with 15 years of experience working in Public Sector Fraud.

1.2.5 To keep abreast of emerging fraud risks and opportunities, the Internal Audit Manager – Fraud, is a regular attendee of the West Midlands Fraud Forum and the Midland Counties Fraud Group. The Staffordshire Counter Fraud Partnership forum ceased in 2022/23, however interested parties

met in October 2023 and agreed to reform the group which is expected to meet in 2024/25.

1.2.6 Over the course of the year, Internal Audit have reviewed the Council's Counter Fraud and Corruption Policy to ensure opportunities to deter fraud and hold individuals to account are maximised. Comments were fed back to the Corporate Director of Governance.

1.2.7 Internal Audit welcomes the opportunity to consider policies as they are being revised and updated, to ensure clarity over the current and correct processes required to be followed, which also aids the application of successful sanctions (criminal, civil recovery, or disciplinary) in the event of fraud or error.

1.2.8 Draft content has been prepared for the Council's Intranet set. It is expected this will be published in Q1 2024/25.

1.2.9 A programme of Continuous Controls Monitoring (CCM) is in place, with an associated strategy document being shared with key members of staff. Full details of the CCM programme to date can be found at paragraph 1.5 below. Efforts are being made to expand testing carried out as part of our CCM programme. In 2023/24, additional analysis has been provided to the Revenues and Benefits Service highlighting discrepancies between households receiving single person discounts for Council Tax when more than one individual was registered for the purposes of the electoral role, and empty property exemptions for Council Tax where the electoral role recorded residents at the property. The results of this exercise are awaited.

1.3 Counter Fraud Outcomes 2023/24

1.3.1 The risk of fraud is considered during the process of designing Internal Audit briefing documents, and by auditors whilst an audit is being conducted. As a result, several recommendations are raised throughout the year which contribute to the prevention, detection and deterrence of fraud.

1.3.2 For reference, the table below summarises the volume of recommendations related to fraud risks arising from our 2023/24 internal audit reviews.

Audit	High Priority	Medium Priority	Low Priority
Disability Facilities Grant	0	1	1
ICT – Cyber Security	0	2	3
ICT Asset Management	0	2	1
Leisure Centres	1	1	1
Total	**1**	**6**	**6**

1.3.3 It is noted that of the 13 fraud related recommendations raised, four have been implemented to date. Members of the Audit & Risk Committee receive a copy of all audit reports once finalised.

1.3.4 All recommendations are subject to follow up to ensure appropriate steps are taken to mitigate and manage identified risks. This is carried out using our on-line recommendation portal, pentana.

1.4 Fighting Fraud and Corruption Locally ('FFCL')

1.4.1 In March 2020, CIPFA refreshed it's FFCL strategy 2016-2019 with the new Fighting Fraud and Corruption Locally – A Strategy for the 2020's. The Strategy is now hosted by CIFAS[2].

1.4.2 A self-assessment of the Council's work to counter fraud against the latest Fighting Fraud and Corruption Locally Checklist has been undertaken, the full findings of which are detailed at the end of this appendix (Section 2). Our assessment has been focussed on Corporate Fraud to date.

1.4.3 The FFCL self-assessment found the Council to be fully compliant with 33 of the 37 standards, as of March 2024. The Council is partially compliant with three standards. A standard relating to the analysis of referrals has been assessed to be not applicable, due to the low volume of referrals received.

1.4.4 Available best practice will continue to be monitored and used to identify areas for development in the Council's counter fraud work in-year.

---

[2] Credit Industry Fraud Avoidance System, founded in 1998. Its scope has been extended beyond the credit industry in subsequent years.

1.5 Continuous Controls Monitoring

1.5.1 Continuous Controls Monitoring (CCM) is a programme of testing designed to use data analytics tools efficiently to test large volumes of transaction data in order to identify "high risk" transactions for further review.

1.5.2 The purpose of continuous controls monitoring is to:

- Detect fraud;
- Detect error;
- Deter fraud and error through use of publicity highlighting the existence of CCM; and
- Provide reassurance where appropriate that controls are operating correctly, or otherwise.

1.5.3 The key benefit of CCM over random sample testing is that 100% sample sizes can be used to test for specific anomalies. It is anticipated that following the introduction of a test, algorithms used can be refined to improve the results, limiting 'false positive' matches and learning from positive findings to best target adverse findings.

1.5.4 As CCM findings are identified and verified, key findings will be reported to management. Where appropriate, issues identified will be considered as part of the Internal Audit plan for current or future years. Opportunities to expand CCM will also consider those control weaknesses identified in Internal Audit reports.

1.5.5 A CCM Strategy has been prepared and agreed with management. This outlines initial areas of testing, and potential areas for expansion going forward. The strategy will be revisited on a periodic basis.

1.5.6 CCM testing in 2023/24 continued to focus on the following data sets:

- Invoice Payments;
- Absence Records;
- Purchase Card Statements; and
- Expenses Claims.

1.5.7 In addition, the matching of Council Tax data to electoral role data has been carried out as a pilot exercise in 2023/24 with reports identifying potential discrepancies provided to the Revenues Team Manager in October 2023 for review and consideration.

1.5.8 A test by test summary of findings to date are detailed below:

Test	Findings to date	Risk Rating
Duplicate Invoices	Invoice data for the period April 2023 to March 2024 has been analysed to identify duplicate payments. In total, 2,280 invoices were subject to analysis, identifying groups of payments that were potentially duplicate. Where concerns remain after manual review of data, these are shared finance for detailed review. No adverse findings were made in 2023/24.	🟢
Purchase Cards vs Absence	In 2023/24 absence records have been matched against Purchase Card transactions in order to identify transactions that appear to have taken place whilst a card holder is recorded as being absent from work. In the first instance cardholders are contacted to obtain confirmation that they are aware of the transaction, and requested to provide a brief explanation of the circumstances. No adverse findings have been identified to date, although at the time of writing, one enquiry is outstanding.	🟢
Duplicate Expenses	Expenses data for April 2023 to March 2024 has been reviewed looking for duplicate payments. One potential overclaim has been identified, totalling 24 miles. If confirmed as a duplicate claim (rather than a repeat journey) the claimant will be requested to make a repayment through the expenses system.	🟠

1.6   National Fraud Initiative 2022

1.6.1 The Council's National Fraud Initiative (NFI) matches for 2023/24 are subject to ongoing review. Work on Creditors, Housing Benefit and Payroll data sets is complete with no adverse findings noted to date. Review of Council Tax and Housing Waiting List data is ongoing at the time of writing.

1.6.2 The table below summarises the review of matches completed to date.

Name	Number of Matches	Reviewed	Adverse Findings	Notes
Housing Benefit Claimants	9	9 [completed]	0	Matches identifying potential duplicate payments by phone number and Deceased Claimants have been reviewed with no adverse findings found. In each case, deceased persons had been notified to the Council prior to the release of matches.
Payroll	12	12 [completed]	0	Data sets include identification of individuals being paid by more than one organisation (4) or also appearing as a Creditor of the Council (7). Review of matches identified that individuals on multiple payrolls were not full time employees. Employees who were also creditors were discussed with management, and in each case the circumstances were known. The remaining match related to an individual working but in receipt of a pension, which is allocated to the Pension fund for review.
Housing Waiting List	79	19	0	These matches identify potential discrepancies between records involving the housing waiting list. For example: • Deceased persons • Individuals on more than one waiting list • Individuals on the waiting list and benefits systems/tenants with different details At the time this report was prepared, we are awaiting an update on further progress in processing matches.
Council Tax	226	tbc	tbc	These matches identify discrepancies between Count Taxpayers and other data sets such as: • Payroll and pensions data sets, to identify undeclared income • HMRC income, property ownership and household composition data • Other Authorities' Council tax data At the time of writing, we are awaiting an update on further progress in processing these matches.

Name	Number of Matches	Reviewed	Adverse Findings	Notes
Creditors	107	29 [completed]	0	Reports identify a potential area of concern in creditors standing data and invoice payments. • Finance have been advised of 10 duplicate creditors for review and potential 'cleansing' of standing data. • Matches related to potential incorrect VAT records (3) have been identified as being accurate. • Of 92 potential duplicate invoices the highest risk ones for which there were 14 (as identified by the Cabinet Office) have been reviewed, identifying no concerns. Finance have been made aware of the remainder for review. Where duplicate payments existed, they had been identified and rectified prior to receipt of the NFI datasets. • Two relationships between employees and creditor's companies house records have been cleared, with details already known to management. Based on work to date, no further review of the remaining 78 creditor matches are proposed due to them being considered low risk (quality of match and value).
Total	**433**	**69**	**0**	

1.7   Referrals and Investigations

1.7.1 Internal Audit received one allegation of fraud for investigation on 3 August 2023. Following an isolated cash theft of £345.30 in 2022 at Codsall Leisure Centre, further thefts were identified and reported to Internal Audit on 3 August 2023. Bank reconciliations identified a total of £2,162.29 missing relating to 14 different days takings. Review of staff shift patterns and financial records identified a single Subject who was on site at the time window for all the thefts. Evidence obtained was passed to the Police on 14 August 2023, who have subsequently interviewed the Subject and conducted further enquiries. The last update received from the Police on 18 April 2024 was that the investigation had been passed to the Crown Prosecution Service and was awaiting a charging decision. Further updates will be provided to the Council as they become available. Recommendations have been raised regarding improving processes to deter and allow early identification of similar thefts.

1.7.2 The findings of the investigation informed a subsequent Internal Audit of Operation and Management of Leisure Centres during 2023/24.

1.7.3 The Investigation final report was presented to the Audit and Risk Committee on 28 November 2023.

2 FFCL 2020 Self-Assessment – 2023/24

2.1.1 A self-assessment of the Council's work to counter fraud against CIPFA's Fighting Fraud and Corruption Locally Checklist 2020 has been undertaken, the findings of which are detailed below. The assessment is based on our experience of Corporate Fraud at the Council and does not take into account Revenues and Benefits Fraud activities undertaken.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	A Fraud Risk Assessment is completed as part of the annual internal audit planning process. The results from this process are reported to the Corporate Leadership Team and the Audit & Risk Committee as part of the formal approval process for the Internal Audit and Counter Fraud Plan each year. As part of the approval of the Internal Audit and Counter Fraud Plan, the Plan is presented to CLT and the Audit and Risk Committee. Both presentations include details of the top fraud risks for the year ahead.	🟢	No further action required.
2	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.	On an annual basis the Council's counter fraud activity is compared against the Fighting Fraud and Corruption Locally Strategy. Emerging and future risks are considered as part of the risk assessment. The Internal Audit Manager – Fraud is a member of peer group forums, where emerging risks and fraud identified are discussed.	🟢	No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.	This appendix details our assessment of South Staffordshire Council against the Fighting Fraud and Corruption Locally Strategy Document. This assessment is refreshed on an annual basis as part of the outturn report.	🟢	Further assessment to be performed on an annual basis.
4	The relevant portfolio holder has been briefed on the fraud risks and mitigation	Internal Audit meet with the S151 and Monitoring Officer on a monthly basis, and on a quarterly basis to the Audit and Risk Committee.	🟢	No further action required.
5	The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.	The Audit and Risk Committee receives a regular progress report on all Internal Audit activities including Counter Fraud Activity during the year which enables the Committee to scrutinise the Council's counter fraud work.	🟢	No further action required.
6	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	There is a Counter Fraud and Corruption Policy which was refreshed in 2023. The Policy contains definitions of key offences, principles of public life and details of how to report fraud. The Council's Intranet site is also used to receive fraud concerns.	🟢	No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
7	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	The following Policies and Procedures promoting probity across the Council are in place. • Counter Fraud and Corruption Policy • Financial Procedure Rules • Procurement Procedure Rules • Employee code of Conduct; • Members Code of Conduct; and • Whistleblowing.	🟢	No further action required.
8	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	Fraud risk is considered within the Internal Audit Risk assessment methodology used to produce the annual Internal Audit Plan Separately, a Fraud Risk Register is reviewed during the audit planning process for the Fraud Workplan, and this is subject to ad-hoc updates throughout the year.	🟢	No further action required.
9	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Council Policies and Procedures are typically subject to review as part of a typical proactive anti-fraud exercise. We have been consulted in 2023/24 with regard to the Council's Counter Fraud and Corruption Policy.	🟢	No further action required.
10	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Internal Audit will discuss with Management on how best to deter fraud by publicising successful convictions on a case by case basis.	🟢	To be considered on a case by case basis when appropriate.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
11	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	The fraud workplan is in place dedicating time to preventing, detecting and deterring fraud. The workplan is approved annually by the Audit and Risk Committee and progress against the plan is reported at year end as part of the Internal Audit Outturn Report.	🟢	No further action required.
12	The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering: • codes of conduct including behaviour for counter fraud, anti-bribery and corruption • register of interests • register of gifts and hospitality.	Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.	🟢	No further action required.
13	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.	The Council has implemented a recruitment module to automate recruitment processes. This was subject to an Internal Audit review in 2022/23, resulting in a Substantial Assurance opinion.	🟢	No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
14	Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.	Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.	🟢	No further action required.
15	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.	The Council has recently adopted a fraud E-Learning package provided by the Staffordshire Counter Fraud Partnership.	🟠	Adoption of the E-Learning package to be assessed in 2024/25.
16	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	The Council's Whistleblowing Policy was last updated in February 2022.	🟠	Awareness of the revised whistleblowing policy should be subject to assessment.
17	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	The Council's standard terms and conditions of contract place an obligation on suppliers to report concerns regarding fraud, bribery and corruption, and direct suppliers to the Council's whistleblowing policy.	🟢	No further action required.
18	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	Risk Based work planning means resources are targeted where most value can be obtained. A fraud risk assessment is maintained and this informs the annual Internal Audit and Counter Fraud Plan.	🟢	No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
19	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	The Counter Fraud Work Plan considers risks across the whole Council and is subject to annual formal approval by the Audit and Risk Committee.	🟢	No further action required.
20	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	In 2021/22 to 2023/24 period the limited volume of corporate fraud reports does not warrant statistical analysis.	n/a	Appropriateness of this standard to be monitored on an ongoing basis.
21	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	All members of staff within the Internal Audit Service have unfettered access to premises and documents for the purposes of counter fraud investigation.	🟢	No further action required.
22	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	As CCM becomes embedded, communications will be issued highlighting key findings. In the event of corporate fraud being identified, the use of communications to deter fraud will be considered on a case by case basis.	🟠	Requirement for case outcome communications to be monitored on an ongoing basis.

One investigation from 2023/24 is potentially going to result in charges being brought, and dependent on the outcome of this there will be an opportunity to use a prosecution as a case study for fraud awareness purposes. |

Ref	FFCL Standard	Related Activity	Rating	Areas for development
23	All allegations of fraud and corruption are risk assessed.	All allegations are subject to a case assessment, this includes loss estimates, and prospects of sanctions being obtained.	🟢	No further action required.
24	The fraud and corruption response plan covers all areas of counter fraud work: • prevention • detection • investigation • sanctions, and • redress.	The Counter Fraud Work Plan covers these areas suggested by the Standard.	🟢	No further action required.
25	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	The Council has in place a Counter Fraud and Corruption Policy which details roles and responsibilities for managing fraud risks.	🟢	No further action required.
26	Asset recovery and civil recovery is considered in all cases.	In the event of fraud being identified, the opportunities for criminal sanctions, civil recovery and disciplinary action will be discussed with Management.	🟢	No further action required.
27	There is a zero-tolerance approach to fraud and corruption which is always reported to committee.	The Counter Fraud and Corruption Policy outlines a zero-tolerance stance against fraud. All allegations received have been investigated as appropriate. A summary of allegations is presented to the Audit and Risk Committee as part of the Internal Audit Annual Outturn Report.	🟢	No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
28	There is a programme of proactive counter fraud work which covers risks identified in assessment.	A Counter Fraud Work Plan is in place based on the risks identified in the fraud risk assessment and the annual internal audit planning process. This may evolve based on emerging risks and changing priorities of the Council in year.	🟢	No further action required.
29	The counter - fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	The Audit Manager - Fraud works with the Police, the Cabinet Office (for NFI) and networks with neighbouring County Councils and District Councils to share best practice via the MCCIAG Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and West Midlands Fraud Group.	🟢	No further action required.
30	The local authority shares data across its own departments and between other enforcement agencies.	The Internal Audit team has access to multiple data sources. Internally there is a developing programme of CCM. Also, the Council participates in the National Fraud Initiative. Where appropriate, Internal Audit would facilitate the sharing of information both internally and externally (e.g. Police and DWP).	🟢	No further action required.
31	Prevention measures and projects are undertaken using data analytics where possible.	Proactive fraud exercises have used data analytics for targeted sampling of transactions. Use of data is considered for all audits and counter fraud proactive and reactive work.	🟢	Opportunities to improve and expand CCM will remain under consideration as emerging risks are identified.
32	The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.	The Audit Manager – Fraud is in regular contact with the NAFN Data and Intelligence Service. The Audit Manager – Fraud is also a member of the Midlands County Councils' Internal Audit Group - Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and the West Midlands Fraud Group.	🟢	No further action needed.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
33	The counter fraud team has access to the FFCL regional network.	The Audit Manager - Fraud continues to network with other fraud professionals via the channels noted in response to Standards 29 & 32 (see above).	🟢	No further action required.
34	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.	The Audit Manager - Fraud is an Accredited Counter Fraud Specialist.	🟢	No further action required.
35	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	The Internal Audit Team has a wide range of experience across local Government with over 100 years of audit experience. South Staffordshire Council has access to this team as part of the contract arrangements in place.	🟢	No further action required.
36	The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for: • surveillance • computer forensics • asset recovery • financial investigations.	No formal arrangements are in place. Reliance would be placed on the engagement of the Police or specialist staff procured from existing framework contracts should the need arise. The need to create a formalised partnership or similar for these roles is subject to ongoing consideration, although it is not seen as necessary at this time. Suppliers on existing Internal Audit Framework Contracts can provide these services if needed.	🟢	No further action required.
37	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	All investigations and proactive exercises that identify system weaknesses would result in recommendations being raised, agreed with management and reported to the Audit and Risk Committee.	🟢	No further action required.

Ref	Standard Reference	Audit Standard	Gap Identified	Action Required	Officer Responsible	Timescale
1.	5.2 1110 (c)	Organisational Independence Is the organisational independence of internal audit realised by functional reporting by the CAE to the board? (c) approves the internal audit budget and resource plan	**Non-Compliance** - The Board does not approve the budget. This is a responsibility of Full Council.	This will be reported in the annual outturn report as an area of non-compliance with PSIAS. No further action will, however, be undertaken.	CIA	N/A – No further action to be taken
2.	5.2 1110(e)	Organisational Independence Is the organisational independence of internal audit realised by functional reporting by the CAE to the board? (e) approves decisions relating to the appointment and removal of the CAE.	**Non- Compliance** - This is the responsibility of the Assistant Director, Audit & Financial Services, in-conjunction with the Director of Finance at Staffordshire County Council (SCC) South Staffordshire would raise any issues concerning the CIA to the Assistant Director, Audit & Financial Services and then to the Director of Finance at SCC to be addressed.	This will be reported in the annual outturn report as an area of non-compliance with PSIAS, however, no further action is planned.	CIA	N/A – No further action to be taken
3.	5.2 1110(f)	Organisational Independence Is the organisational independence of internal audit realised by functional reporting by the CAE to the board? (f) approves the remuneration of the CAE.	**Non Compliance -** In response to this, pay of the CIA is in accordance with the SCC Pay structure, Grading and JE processes which are corporately owned.	This will be reported in the annual outturn report as an area of non-compliance with PSIAS, however, no further action is planned.	CIA	N/A – No further action to be taken
4.	5.3 1210	Proficiency and Due Professional Care Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques	**Partial -** This area is an ever improving area, however, it is recognised that the skills and knowledge is largely continually held with the ICT Audit Manager and Counter Fraud Audit Manager.	The CIA will continue to implement an integrated data driven approach to our audit process by promoting the use of IDEA in the work carried out and to facilitate and support	CIA in conjunction with ICT Audit Manager & Counter Fraud Audit Manager	On-going throughout 2024/25

Ref	Standard Reference	Audit Standard	Gap Identified	Action Required	Officer Responsible	Timescale
		that are available to them to perform their work, including data analysis techniques?	Internal team training has been undertaken relating to data analysis techniques and applications previously and the use of data is under review as part of the teams innovation programme. Additional training to be undertaken in 2024/25 to increase knowledge across the breath of the team. In addition to the above, a project is underway within the Team to identify ways in which data can be better utilised as part of our audit work and management team has been assigned to look at 'innovating audit' by assessing how the service can utilise technologies such as artificial intelligence to bring about increased efficiency to the service going forward.	members of the team through peer training,		

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 27th JUNE 2024

PROPOSED INTERNAL AUDIT & COUNTER FRAUD PLAN 2024/25

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1.   SUMMARY OF PROPOSALS

1.1   This report presents the proposed Annual Strategic Internal Audit Plan and Counter Fraud Plan 2024/25 for consideration.

2.   SUMMARY IMPACT ASSESSMENT

<table>
<tr><td rowspan="4">POLICY/COMMUNITY IMPACT</td><td colspan="2">Do these proposals contribute to specific Council Plan objectives?</td></tr>
<tr><td>Yes</td><td>The work of the audit committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements.

The delivery of the Annual Internal Audit Plan and Counter Fraud Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved.

The work of Internal Audit covers those priorities contained with the Council's Delivery Plan.</td></tr>
<tr><td colspan="2">Has an Equality Impact Assessment (EqIA) been completed?</td></tr>
<tr><td>No</td><td>The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies.</td></tr>
<tr><td>SCRUTINY POWERS APPLICABLE</td><td colspan="2">No</td></tr>
<tr><td>KEY DECISION</td><td colspan="2">No</td></tr>
<tr><td>TARGET COMPLETION/ DELIVERY DATE</td><td colspan="2">27th June 2024 – Presentation of the Internal Audit and Counter Fraud Plan 2024/25</td></tr>
<tr><td>FINANCIAL IMPACT</td><td>No</td><td>There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy.</td></tr>
</table>

1

LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feeds into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers. The plan may be changed to respond to revised priorities of the Council within the year.
IMPACT ON SPECIFIC WARDS	No	No impact

PART B – ADDITIONAL INFORMATION

3.1   As part of its responsibilities, the Internal Audit Service is responsible for conducting independent reviews of the Council's internal control systems as a contribution towards the proper, economic, efficient and effective use of the Council's resources. The Section's duties are laid out in legislation, the Accounts and Audit Regulations 2015 which requires every local authority to maintain an adequate and effective internal audit.

3.2   Internal Audit is also a key source of independent assurance for management, designed to add value and improve how the Council operates. The results of Internal Audit's work feeds into the Council's Annual Governance Statement.

The Internal Audit Strategy 2024/25

3.3   The Internal Audit Strategy confirms how the audit universe is determined, the risk assessment used and the key principles applied to determine how audit resources are to be utilised. An explanation covering how the overall annual audit opinion

2

given by the Head of Internal Audit (HIA) on the Authority's control environment will be determined is also provided.

3.4 The proposed Annual Audit Opinion Methodology was revised and agreed in 2022/23 to take account of the level and categories of audit work included in the Internal Audit and Counter Fraud Plans and to ensure that the methodology continued to be representative of the Council's control environment. No further amendments to the Methodology have been identified for 2024/25.

Proposed 2024/25 Internal Audit and Counter Fraud Plan

3.5 The proposed Internal Audit Plan and Counter Fraud Plan 2024/25 has been discussed with members of the Corporate Leadership Team (CLT) and are presented to Members for final endorsement.

3.6 The Internal Audit Plan and Counter Fraud Plan have been prepared in accordance with the Internal Audit Strategy.

3.7 It is recognised that the Internal Audit Plan needs to be reviewed continuously and remain sufficiently flexible to ensure that it is focused fully on the Council's principal risks (both current and emerging); hence it may change throughout the year. Any major revisions will be reported to future meetings of the Audit & Risk Committee.

3.8 The Internal Audit Strategy, Internal Audit Plan and Counter Fraud Plan 2024/25 are attached as **Appendix 1** to this report.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified.

5. PREVIOUS MINUTES

5.1 Not applicable.

6. BACKGROUND PAPERS

6.1 Not applicable.

7. APPENDICES

Appendix 1 – Draft Proposed Internal Audit Plan 2024/25

3

8.	**RECOMMENDATIONS**
8.1	To approve the Internal Audit Strategy for 2024/25.
8.2	To review the proposed coverage of the Internal Audit Plan and Counter Fraud Plan 2024/25.
8.3	To recommend approval of the Internal Audit Plan and Counter Fraud Plan for 2024/25 to the Corporate Director of Governance (Monitoring Officer)

Report prepared by: Susan Bluck, Internal Audit Manager

4

Internal Audit Charter

2024

Contents

The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards (2017) and CIPFA's Local Government Application Note (2019). Also, this document considers the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Public Sector Organisations (2019 Edition).

1. Introduction

This charter defines for the internal audit activity of South Staffordshire Council (the Council), its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board[1].

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Procedure Rules of the Council.

2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what it aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

In addition, a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

- Demonstrates integrity.

- Demonstrates competence and due professional care.

- Is objective and free from undue influence (independent).

- Aligns with the strategies, objectives and risks of the organisation.

- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.

- Communicates effectively.

---

[1] The Audit & Risk Committee is referenced in the PSIAS as the Board.

- Provides risk-based assurance.

- Is insightful, proactive and future-focused.

- Promotes organisational improvement.

3. Purpose, Authority and Responsibility

Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes *(UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note).*

Authority

The authority for the Internal Audit function is derived from legislation and the Council. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require 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'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The Director of Finance has been delegated with this requirement by the Council.

Responsibility

The CIA is required to provide an annual opinion to the Council and to the Director of Finance through the Audit & Risk Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. To achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.

- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.

- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

- To provide advice and support to management to enable an effective control environment to be maintained.

- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.

- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.

- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

4. Scope

The scope of the Internal Audit function includes the review of all activities (financial and operational) and the entire control environment of the Council. In addition to its Council internal audit work programme, the Internal Audit Section currently:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;

- Evaluating the systems established to ensure compliance with

those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

- Evaluating the effectiveness and efficiency with which resources are employed;

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;

- Evaluating the potential occurrence for fraud as part of the audit engagements;

- In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture, to detect fraud and to prevent fraud;

- Monitoring and evaluating governance processes;

- Monitoring and evaluating the effectiveness of the organisation's risk management processes;

- Monitoring the degree of coordination of Internal Audit and external audit;

- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;

- Reporting periodically on the Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan;

- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;

- Evaluating specific operations at the request of management, as appropriate;

- Supporting management upon the design of controls at appropriate points in the development of major change programmes.

- May provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.

- Furthermore, the CIA has overall responsibility for providing assurance over the adequacy and effectiveness of the organisation's framework of governance and risk management and the work of Internal Audit feeds into the Annual Governance Statement and Code of Corporate Governance, where appropriate.

In accordance with the PSIAS, most individual audits are undertaken using the risk-based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks, controls and tests;

- Establish the extent to which the objectives of the system are consistent with corporate priorities and to link audit work programmes to the Council's priorities and principles of the Council, where relevant;

- Evaluate the controls in principle to decide whether they are appropriate and can be reasonably relied upon;

- Identify any instance of over/under control;

- Determine an appropriate strategy to test the effectiveness of controls;

- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the Council's areas of responsibility as part of the planning process. In addition, Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as 'Advisory' and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming responsibility'. See section 5 regarding Audit Independence.

Internal Audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

Fraud and Corruption Related Work

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

Core Internal Audit role - The primary role of Internal Audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.

The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2). Fraud risks that are covered within standard audit work programmes are identified within the Pentana Audit System. Controls within audit work programmes are also categorised as either preventative type controls or detective type controls.

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary Procedure and upon conclusion; the matter may be referred to the Police. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

It is the responsibility of the Monitoring Officer (Corporate Director of Governance), Director of Finance and Chief Executive to decide, in consultation with the appropriate Corporate Leadership Team Member, whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Council's Counter Fraud & Corruption Policy.

A Counter Fraud Plan is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture.

In particular:

a) Creation of an Anti-Fraud Culture:

- Raising awareness of the e learning package.

- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

- Circulation of the Fraud-Watch Publication.

- Promotion of a Poster Campaign to raise awareness.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Council.

c) Prevention

- A programme of continuous controls monitoring (CCM) is carried out throughout the year to identify 'red flags' for further investigation using data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where CCM is utilised include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data

matching exercise. This exercise is managed by the Revenue and Benefits Team on behalf of the Council.

e) Investigation

- Hotline monitoring and intelligence gathering.

- Investigations of all areas of concern identified through routine audit, reported to management or via whistleblowing communication channels.

5.   Stakeholder Roles and Audit Independence

The Audit & Risk Committee will fulfil the role of the Board for the Council. For this purpose, the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions.'

Section 151 matters are reported by the CIA in all instances to the Director of Finance (S151 Officer) who reports to CLT.

The extent of non-Council related audit work undertaken by the Section shall be limited to that defined within the Audit Strategy unless approved otherwise by the Corporate Director of Governance.

Internal Audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Risk Committee for approval. The nature and scope of this type of work includes facilitation, process and/or control design, training, advisory services and risk assessment support.

As a Condition of Service, all audit staff are expected to maintain conduct of the highest standard such that public confidence in their integrity is maintained. This includes declarations of interest, as appropriate *(organisational level)*.   Furthermore, all audit staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are appropriately managed in

line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee's Standards on the Seven Principles of Public Life *(individual auditor level)*. In addition, all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed *(individual engagement level)*.

All Internal Audit Contractor staff are also required to declare any potential conflicts of interest at the start of any assignment to the CIA.

6. Audit Reporting

Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at **Appendix 1.**

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

Distribution	Audit Reviews (Substantial Assurance / Adequate Assurance)	Audit Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)
Operational Manager	✔	✔	✔
Section 151 (Director of Finance)	✔	✔	✔
Corporate Leadership Team	✔	✔	✔
Monitoring Officer (Corporate Director of Governance)	✔	✔	✔
Local Member (where applicable)			✔
Relevant Cabinet Member		✔	✔

Cabinet Member for Business Transformation		✔	✔
Audit & Risk Committee Members	✔	✔	✔

7.   Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the Council.

The CIA will have direct access to the Director of Finance (S151 Officer), Corporate Director of Governance (Monitoring Officer), Head of Paid Service, Audit & Risk Committee Chairman and Members as required.

The CIA will brief the Audit & Risk Committee Chairman regarding the content of Audit & Risk Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA will contribute to the review of the Audit & Risk Committee effectiveness, advising the Chair of any suggested improvement.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter; including any amendments to them are reported to the Audit & Risk Committee annually for formal approval.

- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of CLT and the Council's External Auditor. It is then presented to CLT and subsequently Audit & Risk Committee for endorsement prior to approval by the Corporate Director of Governance.

- The adequacy, or otherwise of the level of internal audit resources

(as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Risk Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.

- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Risk Committee.

- Annually to report the results of the quality assurance exercise to the Audit & Risk Committee.

- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Risk Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through liaison with senior management and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:
a. Financial Procedure Rules;

b. Contract Procedure Rules;

c. Counter Fraud & Corruption Policy;

d. Whistleblowing policy;

e. Officers' Code of Conduct; and

f. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to

the Audit & Risk Committee (where appropriate).

In instances where services are provided by third parties, the CIA will liaise with the Procurement Team to ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

8. Role of the Corporate Director of Governance (Monitoring Officer)

The Corporate Director of Governance has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Corporate Leadership Team and the Audit & Risk Committee, the Corporate Director of Governance will approve the annual Audit Plan.

The Corporate Director of Governance will ensure that they are periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan;

- Those audit areas where a "Limited Assurance" opinion has been given;

- Progress on the implementation of all "high" level audit recommendations; and

- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the Corporate Director of Governance will ensure that update reports are reported regularly to the Audit & Risk Committee, to include an annual outturn report.

9. Role of Corporate Leadership Team Members

For the purposes of the UK Public Sector Internal Audit Standards, the Council's Corporate Leadership Team performs the role of the 'senior management'.

Relevant extracts of those reports referred to above will receive prior consideration by the relevant CLT Member. This includes any fraud and corruption related exercises.

To assist the discharge of those responsibilities defined in Financial Procedure Rules, Appendix C – Risk Management & Control of Resources,

CLT Members may appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to CLT members for their consideration and endorsement. The annual outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to CLT, where appropriate.

CLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

10. Responsibilities of the Audit & Risk Committee

The Audit & Risk Committee is a key component of the Council's governance framework. Their role is to operate as 'those charged with governance' and provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards, the Audit & Risk Committee performs the role of the 'Board'.

Members of the Audit & Risk Committee receive the following documents:

- The annual Audit Strategy & Plan;

- The Internal Audit Charter;

- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards;

- The results of the external assessment of Internal Audit which must be performed every 5 years wef April 2013 (which was last completed January 2023);

- Regular updates on progress against High Level Recommendations;

- Periodic progress reports and the annual outturn report including results of anti-fraud and corruption work / special investigations;

- A copy of the audit report/ briefing note for all reviews irrespective of opinion.

- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000);

- A copy of the audit report for those reviews given an opinion of "Limited Assurance" to be formally presented to Audit & Risk Committee;

- The Annual Governance Statement (AGS) prior to approval to consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

- A copy of the audit report for those reviews relating to the governance and assurance arrangements for significant partnerships and/or collaborations.

- A copy of the Council's Assurance Framework relating to key risk areas.

Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Risk Committee (either individually or collectively) upon request.

Members of the Audit & Risk Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit.

The Audit & Risk Committee will publish an annual report on its work including performance in relation to the terms of reference and effectiveness in meeting its purpose.

11. Relationship with External Audit

Internal Audit will liaise with the external auditors of the Council to:

- Foster a co-operative and professional working relationship;

- Eliminate the incidence of duplication of effort;

- Ensure appropriate sharing of information; and

- Co-ordinate the overall audit effort.

12. Due Professional Care

Since April 2013, the Internal Audit Section (including its external providers) has operated in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to the Audit & Risk Committee.

To demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;

- Apply confidentiality as required by law and best practice;

- Obtain and record sufficient audit evidence to support their findings and recommendations;

- Show that audit work has been performed competently and in a way that is consistent with applicable audit standards; and

- Consider the use of technology-based audit and other data analysis techniques.

13. Quality Assurance

The CIA maintains a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. Results and any resultant improvement plans will be agreed with and reported to the Audit & Risk Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

14. Audit Processes

An Audit Manual is maintained detailing the procedures to be followed at each stage of the audit process including an instruction documents, guidance and video guides for the operation of the Audit Management System, Pentana Audit. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the

event of suspected irregularities. The CIA shall periodically ensure adherence to its content.

A Data Utilisation Strategy is in place which outlines a vision of how the Internal Audit Service will use available data sources and analytics to enhance efficiency, reduce key risks and facilitate the Council in effectively making best use of data sources available.

15. Use of and the Processing of Data

Internal Audit is entitled to conduct its duties in line with its Charter and will review, appraise and report on the governance risk management, internal control and counter fraud environment. The provision of internal audit services may involve the processing of personal data. In respect of this, new data protection legislation came into force from the 25th May 2018, which aims to protect the privacy of all UK and prevent data breaches.

The Internal Audit Service is aware of the requirements of the UK Data Protection Act 2018 and ensures that it complies with the requirements contained within the Act.

The Internal Audit Service shall be provided in accordance with the Data Sharing Agreement in place between Staffordshire County Council (SCC) and South Staffordshire District Council (SSDC) as specified within Schedule 2 of the Agreement for Provision of Internal Audit Services, which states:

"The parties agree that SSDC is a Controller and SCC is a Processor for the purposes of processing Protected Data pursuant to this Agreement. SCC shall, and shall ensure any Sub-Processors and each of their Personnel shall, at all times, comply with all Data Protection Laws in connection with the processing of Protected Data and the provision of the Services and shall not by any act or omission cause SSDC (or any other person) to be in breach of any of the Data Protection Laws. Nothing in this Agreement relieves SCC of any responsibilities or liabilities under Data Protection Laws."

South Staffordshire Council's core data protection obligations and commitments are set out in the Council's primary privacy notice. https://www.sstaffs.gov.uk/information/privacy-notice.cfm

Audit Opinions

Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a system with a total budget of £100,000, financial loss of £5,000 would be considered a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse effect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

18

Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

Priority Ratings Matrix

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
Limited	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
Adequate	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
Substantial	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations

19

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 27th JUNE 2024

REVIEW OF THE INTERNAL AUDIT CHARTER

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 This report presents the Internal Audit Charter 2024 which sets out the purpose, authority and responsibility of internal audit activity.

2. SUMMARY IMPACT ASSESSMENT

	Do these proposals contribute to specific Council Plan objectives?	
POLICY/COMMUNITY IMPACT	Yes	The work of the audit committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements. The delivery of the Annual Internal Audit Plan and Counter Fraud Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained with the Council's Delivery Plan.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	27th June 2024	
FINANCIAL IMPACT	No	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy.

1

LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feeds into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers. The plan may be changed to respond to revised priorities of the Council within the year.
IMPACT ON SPECIFIC WARDS	No	No impact

PART B – ADDITIONAL INFORMATION

3.1   This report presents the Internal Audit Charter 2024 to the Audit & Risk Committee and is attached as **Appendix 1.**

3.2   The Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) Standard 1000 require that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Audit Charter. The Internal Audit Charter is a formal document setting out:
- internal audit's position within the organisation;
- its reporting lines;
- access to personnel, information and records;
- the scope of internal audit activities; and
- what the term Board means (i.e. the Audit Committee).

3.3   The Internal Audit Charter was approved by the Audit & Risk Committee in April 2015. Since this date, any revisions to the document have been presented to this Committee for approval.

2

3.4   In 2023, there has been a change in accountability for the Internal Audit Service within the Council's Constitution, transferring overall delegated responsibility for the Internal Audit function to the Corporate Director of Governance. Responsibility was previously held by the role of Corporate Director of Finance & Resources, a role which no longer exists (replaced by the Director of Finance role) following approval at the full Council meeting held on the 27th June 2023. As such, Section 8 of the 2024 Charter has been amended to reflect the change in responsibilities.

3.5   The Internal Audit Charter 2024 continues to cover all the requirements of the latest PSIAS (last issued in March 2017)/LGAN (last issued in March 2019) and the CIPFA statement regarding the Role of the Head of Internal Audit in Local Government 2019, the document also reflects current best practice. This was confirmed as part of the External Quality Assessment of the Internal Audit Service undertaken in January 2023.

3.8   The Internal Audit Charter 2024 is attached as **Appendix 1** to this report.

4.   IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1   None identified.

5.   PREVIOUS MINUTES

5.1   Not applicable.

6.   BACKGROUND PAPERS

6.1   Not applicable.

7.   APPENDICES

       Appendix 1 – Internal Audit Charter 2024.

8.   RECOMMENDATIONS
8.1   To consider and approve the Internal Audit Charter for 2024.

Report prepared by: Susan Bluck, Internal Audit Manager

3

Internal Audit Charter

2024

Contents

The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards (2017) and CIPFA's Local Government Application Note (2019). Also, this document considers the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Public Sector Organisations (2019 Edition).

1.   Introduction

This charter defines for the internal audit activity of South Staffordshire Council (the Council), its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board[1].

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Procedure Rules of the Council.

2.   Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what it aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

In addition, a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

- Demonstrates integrity.

- Demonstrates competence and due professional care.

- Is objective and free from undue influence (independent).

- Aligns with the strategies, objectives and risks of the organisation.

- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.

- Communicates effectively.

---

[1] The Audit & Risk Committee is referenced in the PSIAS as the Board.

- Provides risk-based assurance.

- Is insightful, proactive and future-focused.

- Promotes organisational improvement.

3. Purpose, Authority and Responsibility

Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes *(UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note).*

Authority

The authority for the Internal Audit function is derived from legislation and the Council. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require 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'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The Director of Finance has been delegated with this requirement by the Council.

Responsibility

The CIA is required to provide an annual opinion to the Council and to the Director of Finance through the Audit & Risk Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. To achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.

- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.

- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

- To provide advice and support to management to enable an effective control environment to be maintained.

- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.

- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.

- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

4. Scope

The scope of the Internal Audit function includes the review of all activities (financial and operational) and the entire control environment of the Council. In addition to its Council internal audit work programme, the Internal Audit Section currently:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;

- Evaluating the systems established to ensure compliance with

those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

- Evaluating the effectiveness and efficiency with which resources are employed;

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;

- Evaluating the potential occurrence for fraud as part of the audit engagements;

- In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture, to detect fraud and to prevent fraud;

- Monitoring and evaluating governance processes;

- Monitoring and evaluating the effectiveness of the organisation's risk management processes;

- Monitoring the degree of coordination of Internal Audit and external audit;

- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;

- Reporting periodically on the Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan;

- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;

- Evaluating specific operations at the request of management, as appropriate;

- Supporting management upon the design of controls at appropriate points in the development of major change programmes.

- May provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.

- Furthermore, the CIA has overall responsibility for providing assurance over the adequacy and effectiveness of the organisation's framework of governance and risk management and the work of Internal Audit feeds into the Annual Governance Statement and Code of Corporate Governance, where appropriate.

In accordance with the PSIAS, most individual audits are undertaken using the risk-based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks, controls and tests;

- Establish the extent to which the objectives of the system are consistent with corporate priorities and to link audit work programmes to the Council's priorities and principles of the Council, where relevant;

- Evaluate the controls in principle to decide whether they are appropriate and can be reasonably relied upon;

- Identify any instance of over/under control;

- Determine an appropriate strategy to test the effectiveness of controls;

- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the Council's areas of responsibility as part of the planning process. In addition, Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as 'Advisory' and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming responsibility'. See section 5 regarding Audit Independence.

Internal Audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

Fraud and Corruption Related Work

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

Core Internal Audit role - The primary role of Internal Audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.

The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2). Fraud risks that are covered within standard audit work programmes are identified within the Pentana Audit System. Controls within audit work programmes are also categorised as either preventative type controls or detective type controls.

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary Procedure and upon conclusion; the matter may be referred to the Police. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

It is the responsibility of the Monitoring Officer (Corporate Director of Governance), Director of Finance and Chief Executive to decide, in consultation with the appropriate Corporate Leadership Team Member, whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Council's Counter Fraud & Corruption Policy.

A Counter Fraud Plan is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture.

 In particular:

a) Creation of an Anti-Fraud Culture:

- Raising awareness of the e learning package.

- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

- Circulation of the Fraud-Watch Publication.

- Promotion of a Poster Campaign to raise awareness.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Council.

c) Prevention

- A programme of continuous controls monitoring (CCM) is carried out throughout the year to identify 'red flags' for further investigation using data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where CCM is utilised include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data

matching exercise. This exercise is managed by the Revenue and Benefits Team on behalf of the Council.

e) Investigation

- Hotline monitoring and intelligence gathering.

- Investigations of all areas of concern identified through routine audit, reported to management or via whistleblowing communication channels.

5.   Stakeholder Roles and Audit Independence

The Audit & Risk Committee will fulfil the role of the Board for the Council. For this purpose, the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions.'

Section 151 matters are reported by the CIA in all instances to the Director of Finance (S151 Officer) who reports to CLT.

The extent of non-Council related audit work undertaken by the Section shall be limited to that defined within the Audit Strategy unless approved otherwise by the Corporate Director of Governance.

Internal Audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Risk Committee for approval. The nature and scope of this type of work includes facilitation, process and/or control design, training, advisory services and risk assessment support.

As a Condition of Service, all audit staff are expected to maintain conduct of the highest standard such that public confidence in their integrity is maintained. This includes declarations of interest, as appropriate *(organisational level)*.   Furthermore, all audit staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are appropriately managed in

line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee's Standards on the Seven Principles of Public Life *(individual auditor level)*. In addition, all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed *(individual engagement level)*.

All Internal Audit Contractor staff are also required to declare any potential conflicts of interest at the start of any assignment to the CIA.

6. Audit Reporting

Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at **Appendix 1.**

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

Distribution	Audit Reviews (Substantial Assurance / Adequate Assurance)	Audit Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)
Operational Manager	✔	✔	✔
Section 151 (Director of Finance)	✔	✔	✔
Corporate Leadership Team	✔	✔	✔
Monitoring Officer (Corporate Director of Governance)	✔	✔	✔
Local Member (where applicable)			✔
Relevant Cabinet Member		✔	✔

Cabinet Member for Business Transformation		✔	✔
Audit & Risk Committee Members	✔	✔	✔

7.   Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the Council.

The CIA will have direct access to the Director of Finance (S151 Officer), Corporate Director of Governance (Monitoring Officer), Head of Paid Service, Audit & Risk Committee Chairman and Members as required.

The CIA will brief the Audit & Risk Committee Chairman regarding the content of Audit & Risk Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA will contribute to the review of the Audit & Risk Committee effectiveness, advising the Chair of any suggested improvement.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter; including any amendments to them are reported to the Audit & Risk Committee annually for formal approval.

- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of CLT and the Council's External Auditor. It is then presented to CLT and subsequently Audit & Risk Committee for endorsement prior to approval by the Corporate Director of Governance.

- The adequacy, or otherwise of the level of internal audit resources

(as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Risk Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.

- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Risk Committee.

- Annually to report the results of the quality assurance exercise to the Audit & Risk Committee.

- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Risk Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through liaison with senior management and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:
   a. Financial Procedure Rules;

   b. Contract Procedure Rules;

   c. Counter Fraud & Corruption Policy;

   d. Whistleblowing policy;

   e. Officers' Code of Conduct; and

   f. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to

the Audit & Risk Committee (where appropriate).

In instances where services are provided by third parties, the CIA will liaise with the Procurement Team to ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

8.   Role of the Corporate Director of Governance (Monitoring Officer)

The Corporate Director of Governance has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Corporate Leadership Team and the Audit & Risk Committee, the Corporate Director of Governance will approve the annual Audit Plan.

The Corporate Director of Governance will ensure that they are periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan;

- Those audit areas where a "Limited Assurance" opinion has been given;

- Progress on the implementation of all "high" level audit recommendations; and

- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the Corporate Director of Governance will ensure that update reports are reported regularly to the Audit & Risk Committee, to include an annual outturn report.

9.   Role of Corporate Leadership Team Members

For the purposes of the UK Public Sector Internal Audit Standards, the Council's Corporate Leadership Team performs the role of the 'senior management'.

Relevant extracts of those reports referred to above will receive prior consideration by the relevant CLT Member. This includes any fraud and corruption related exercises.

To assist the discharge of those responsibilities defined in Financial Procedure Rules, Appendix C – Risk Management & Control of Resources,

CLT Members may appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to CLT members for their consideration and endorsement. The annual outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to CLT, where appropriate.

CLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

10.   Responsibilities of the Audit & Risk Committee

The Audit & Risk Committee is a key component of the Council's governance framework. Their role is to operate as 'those charged with governance' and provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards, the Audit & Risk Committee performs the role of the 'Board'.

Members of the Audit & Risk Committee receive the following documents:

- The annual Audit Strategy & Plan;

- The Internal Audit Charter;

- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards;

- The results of the external assessment of Internal Audit which must be performed every 5 years wef April 2013 (which was last completed January 2023);

- Regular updates on progress against High Level Recommendations;

- Periodic progress reports and the annual outturn report including results of anti-fraud and corruption work / special investigations;

- A copy of the audit report/ briefing note for all reviews irrespective of opinion.

- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000);

- A copy of the audit report for those reviews given an opinion of "Limited Assurance" to be formally presented to Audit & Risk Committee;

- The Annual Governance Statement (AGS) prior to approval to consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

- A copy of the audit report for those reviews relating to the governance and assurance arrangements for significant partnerships and/or collaborations.

- A copy of the Council's Assurance Framework relating to key risk areas.

Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Risk Committee (either individually or collectively) upon request.

Members of the Audit & Risk Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit.

The Audit & Risk Committee will publish an annual report on its work including performance in relation to the terms of reference and effectiveness in meeting its purpose.

11.   Relationship with External Audit

Internal Audit will liaise with the external auditors of the Council to:

- Foster a co-operative and professional working relationship;

- Eliminate the incidence of duplication of effort;

- Ensure appropriate sharing of information; and

- Co-ordinate the overall audit effort.

12. Due Professional Care

Since April 2013, the Internal Audit Section (including its external providers) has operated in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to the Audit & Risk Committee.

To demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;

- Apply confidentiality as required by law and best practice;

- Obtain and record sufficient audit evidence to support their findings and recommendations;

- Show that audit work has been performed competently and in a way that is consistent with applicable audit standards; and

- Consider the use of technology-based audit and other data analysis techniques.

13. Quality Assurance

The CIA maintains a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. Results and any resultant improvement plans will be agreed with and reported to the Audit & Risk Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

14. Audit Processes

An Audit Manual is maintained detailing the procedures to be followed at each stage of the audit process including an instruction documents, guidance and video guides for the operation of the Audit Management System, Pentana Audit. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the

event of suspected irregularities. The CIA shall periodically ensure adherence to its content.

A Data Utilisation Strategy is in place which outlines a vision of how the Internal Audit Service will use available data sources and analytics to enhance efficiency, reduce key risks and facilitate the Council in effectively making best use of data sources available.

15. Use of and the Processing of Data

Internal Audit is entitled to conduct its duties in line with its Charter and will review, appraise and report on the governance risk management, internal control and counter fraud environment. The provision of internal audit services may involve the processing of personal data. In respect of this, new data protection legislation came into force from the 25th May 2018, which aims to protect the privacy of all UK and prevent data breaches.

The Internal Audit Service is aware of the requirements of the UK Data Protection Act 2018 and ensures that it complies with the requirements contained within the Act.

The Internal Audit Service shall be provided in accordance with the Data Sharing Agreement in place between Staffordshire County Council (SCC) and South Staffordshire District Council (SSDC) as specified within Schedule 2 of the Agreement for Provision of Internal Audit Services, which states:

"The parties agree that SSDC is a Controller and SCC is a Processor for the purposes of processing Protected Data pursuant to this Agreement. SCC shall, and shall ensure any Sub-Processors and each of their Personnel shall, at all times, comply with all Data Protection Laws in connection with the processing of Protected Data and the provision of the Services and shall not by any act or omission cause SSDC (or any other person) to be in breach of any of the Data Protection Laws. Nothing in this Agreement relieves SCC of any responsibilities or liabilities under Data Protection Laws."

South Staffordshire Council's core data protection obligations and commitments are set out in the Council's primary privacy notice. https://www.sstaffs.gov.uk/information/privacy-notice.cfm

Audit Opinions

Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a system with a total budget of £100,000, financial loss of £5,000 would be considered a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse effect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

18

Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

Priority Ratings Matrix

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
Limited	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
Adequate	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
Substantial	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations

19

SOUTH STAFFORDSHIRE COUNCIL
AUDIT & RISK COMMITTEE 27 JUNE 2024
UPDATED RISK MANAGEMENT STRATEGY
REPORT OF THE DIRECTOR OF FINANCE AND SECTION 151 OFFICER
LEAD CABINET MEMBER – COUNCILLOR RITA HESELTINE, CABINET MEMBER FOR REGULATORY SERVICES

PART A – SUMMARY REPORT

1.   SUMMARY OF PROPOSALS

1.1   In January, C.Co were commissioned by the council to undertake a review of the Risk Management Strategy and processes across the authority. As a result of this, an updated Risk Management Strategy has been produced and this is attached in Appendix 1 for approval.

2.   SUMMARY IMPACT ASSESSMENT

<table>
<tr><td rowspan="6">POLICY/COMMUNITY IMPACT</td><td colspan="2">Do these proposals contribute to specific Council Plan objectives?</td></tr>
<tr><td>Yes</td><td>Financial Sustainability</td></tr>
<tr><td colspan="2">Has an Equality Impact Assessment (EqIA) been completed?</td></tr>
<tr><td>No</td><td>There is no requirement for an EqIA as there will be no different impacts on specific groups.</td></tr>
<tr><td colspan="2">Has a Data Protection Impact Assessment been completed?</td></tr>
<tr><td>No</td><td>No personal data is involved in the approval of this strategy.</td></tr>
<tr><td>SCRUTINY POWERS APPLICABLE</td><td>No</td><td>Decision of Audit and Risk Committee</td></tr>
<tr><td>KEY DECISION</td><td>No</td><td></td></tr>
<tr><td>TARGET COMPLETION/ DELIVERY DATE</td><td colspan="2">27th June 2024</td></tr>
<tr><td>FINANCIAL IMPACT</td><td>No</td><td>There are no financial impacts arising from the approval of this strategy. RM.</td></tr>
<tr><td>LEGAL ISSUES</td><td>No</td><td>Audit and Risk Committee has responsibility for approval of the risk management policy and strategy. LF</td></tr>
<tr><td>STRATEGIC RISK</td><td>Yes</td><td>The approval of an updated Risk Management Strategy will have a positive impact on all Strategic Risks across the council.</td></tr>
</table>

OTHER IMPACTS, RISKS & OPPORTUNITIES including climate impacts and health impacts if applicable	The approval of an updated Risk Management Strategy underpins the delivery of all council services and ensures that the council is considering risk and mitigations in all actions that it takes.	
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

3. INFORMATION

3.1 The updated draft Risk Management Strategy can be found in Appendix 1 of this report. The main updates are set out below.

3.2 The objectives and key benefits have been updated to reflect the latest risk reporting so that there is a consistent message about risk management:

3.3 Section 4 of the document increases the focus on risk appetite compared to the previous version. It is important that the council understands its risk appetite in order to decide how best to mitigate and manage risks.

3.4 C.Co have developed a risk hierarchy which sets out the relationship and positioning of the different types or risk – strategic, operational, service and project risks. This enables movement of the risks between registers where appropriate as it explains how to assess which level the risk should be reported at:

Projects may be undertaken across all parts and all levels of the organisation.

All project governance should be managed in the same way and include a risk assessment and appropriate capture of key risks, controls and actions. It will be for projects' Senior Responsible Officers (SRO) to determine the degree of capture and with the Project Board to determine if risks are to be escalated to service, operational or strategic risk registers.

Strategic Risks

Strategic risks threaten the ability of the Council to achieve the objectives and priorities that it has set out in its Council Plan.

Strategic risks generally cover multiple Council services; impact multiple stakeholders including residents and strategic partners; require significant resources to resolve; and threaten the reputation and/or credibility of the Council.

Operational Risks

Operational risks have the potential to threaten disruption to day-to-day business operations. These risks may have a financial impact, affect business continuity, reputation, and/or regulatory compliance.

Generally, these risks will impact at least two service areas (generally frontline and back office)

Service Risks

Service risks are the threats being managed on a daily basis in the routine delivery of discreet services. It is not necessary to maintain a register for these risks, but senior service leads should be alive to likelihood and potential impacts of those risks and escalate, when appropriate, to operational and strategic registers through the governance structure.

↔ Point of escalation/de-escalation

3.5 C.Co's review of the previous version of the Risk Management Strategy highlighted that there was a lack of documented roles and responsibilities which can create reduced accountability. The updated strategy includes stronger language along with clear governance routes with more responsibility given to risk owners and leads that are closer to the threat. A member and officer 'risk champion' has also been recommended. Extended Leadership Team have decided that the officer role should instead be named a 'risk co-ordinator' and this is currently being advertised internally as a development opportunity.

3.6 C.Co have recommended a 6-step process, increasing the steps from 5 per the latest risk reporting. The additional step is that of 'allocating accountability and responsibility'.

3.7 Both the risk matrix and likelihood/impact descriptors will remain the same as in the previous version. However, there is a recommended update to the monetary values included in the risk impact as set out below:

- Catastrophic Impact – Increase from £200k to £1m
- Major Impact – Increase from £100k to £500k
- Moderate Impact – Increase from £50k to £250k
- Minor Impact – Increase from £10k to £100k
- Insignificant Impact – Increase from £5k to £10k

3.8 New templates have been developed for risk registers and these will be used create new operational and strategic risk registers. Reporting templates (to be incorporated into the new Integrated Performance Management) have also been updated and will now include strategic risks together with the highest scoring operational risks. This will allow members to have visibility of all significant risks and prompt conversations about the escalation or de-escalation of any.

3.9 Lastly, the updated strategy makes clear the importance of training on risk management across the council and sets out the commitment to this.

4.   IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1   There are no further impacts to those set out in the summary above.

5.   PREVIOUS MINUTES

5.1   No previous minutes are relevant to this report.

6.   BACKGROUND PAPERS

No relevant background papers.

7.   APPENDICES

Updated Risk Management Strategy Report – Appendix 1 – Draft Risk Management Strategy

8.   RECOMMENDATIONS

8.1   It is recommended that members of Audit and Risk Committee approve the updated Risk Management Strategy.

Report prepared by: Rebecca Maher, Finance Director (Section 151 Officer)

South Staffordshire Council

(Draft)
Risk Management Strategy
February/March 2024

www.sstaffs.gov.uk

1. Introduction

2. Why risk management is important

3. Risk Management Strategy: objectives and principles

4. Risk Appetite

5. Strategic, operational and project risks

6. Roles and responsibilities

7. Arrangements for managing risks

8. Monitoring arrangements

9. Training

2

1. Introduction

Risk management underpins all parts of our daily lives and decision-making. From choosing to insure our homes and vehicles, taking an umbrella just in case right through to making decisions related to our work that requires resource management, political decision-making and compliance with policy and legislation.

Effective risk management is a key characteristic of a strong, high performing organisation. It allows us to identify and plan for known threats to the delivery of community, corporate and service delivery priorities.

This document supersedes the 2019 Risk Strategy and follows an extensive and independent review of the Council's risk management control processes, its application in day-to-day delivery and an understanding of wider organisational awareness.

Risk management and this Strategy provide a proactive, management tool to help and support the Council to achieve the ambitions set out in its Council Plan 2024.

Risk can be defined as **'the possibility of loss, damage or any other undesirable event'** or…

'the effect of uncertainty on objectives, whether positive or negative'.

Risk Management is the process by which we aim to reduce the **likelihood** of a risk happening and/or minimise the **impact** of such an event if it did.

Accepting that it is rare for risk to be entirely eliminated, Risk Appetite is defined as 'how much risk the organisation is willing to tolerate in pursuit of its strategic objectives' and therefore helps to determine the level of control and further mitigating actions that are required.

Risk, risk management and risk appetite are covered in more detail throughout this Strategy document.

3

2. Why Risk Management is important

2.1 The international Framework for Good Governance, first published in July 2014, identifies risk management as one of its seven pillars of good governance. Specifically, and in addition to acting in the public interest, "achieving good governance in the public sector requires":

Managing risks and performance through robust internal controls and strong public financial management.

2.2 Effective risk management can deliver a number of organisational benefits:

- **Improved strategic management and decision-making**
  - Greater ability to deliver against Plans, Priorities and Objectives
  - More informed decision-making
- **Improved operational management and customer service**
  - More informed, operational decision-making
  - Reduction in interruptions to service delivery
  - Minimised impact of the consequences of a risk event having occurred
  - Improved health and safety of those employed, and those affected, by the Council's delivery of services
  - Minimal service disruption to customers and a positive impact on the reputation of the Council overall.
- **Improved financial management**
  - Better informed financial decision-making
  - Enhanced financial control
  - Reduction in the financial costs associated with the impact of service interruption, litigation.

2.3 Risk management is also important because it helps the Council meet a number of legal requirements:

- The Accounts and Audit Regulations (2015) makes the Council "responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes effective arrangements for the management of risk."

- The Health and Safety at Work Act 1974 states that "Employers must, so far as reasonably practicable, conduct their activities so as to ensure that people other than their employees, for example, members of the public, are not exposed to risks to health and safety."

- The Civil Contingencies Act 2004 sets out that the Council has a duty that it has "an accurate and shared understanding of the risks they face so that planning has a sound foundation and is proportionate to the risks."

4

3. Risk Management Strategy: objectives and principles

3.1 The Council's Risk Management Strategy is designed to promote and apply best practice in identifying, evaluating, controlling and communicating risks to ensure that any residual risks are at an acceptable level.

3.2 Acknowledging that it is not possible to eliminate risk absolutely, the Council actively promotes and applies this best practice at all levels and to all its activities, including its work with external partners.

Objectives

3.3 South Staffordshire Council has six key objectives that guide our approach to Risk Management:

1. Adopt a strategic approach to risk management in order to make well-informed decisions.
2. Integrate risk management into how we run Council services and deliver key projects.
3. Support a culture of well measured risk taking throughout the Council including setting risk ownership and accountabilities.
4. Accept that even with good risk management and our best endeavours things can go wrong. We will learn lessons where this happens.
5. Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management.
6. Ensure that risk management continues to be a key and effective element of our corporate governance.

Benefits

3.4 By delivering against the objectives of our approach to Risk Management, the Council will deliver the following benefits:

- Integrate risk management into the day-to-day workings of the Council and project management.
- Integrate the management of risk into the management of finances, performance and throughout decision-making protocols.
- Balance risk and reward in relation to business cases, projects and commercial decision making and investment decisions.
- Manage risk in accordance with best practice and apply the Plan-Do-Check-Act cycle at a regular frequency.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of the need for risk management by all those involved with the delivery of council services.

3.5 These objectives and the associated benefits will support the following outcomes:

- Improved strategic management:
  - Greater ability to deliver against corporate objectives and targets
  - Improved decision making, planning and prioritisation
- Improved operational management:
  - Plans in place to respond to incidents when they occur
  - Better service delivery

5

- Improved financial management:
  - Better informed financial decision making
  - Greater financial control
  - Minimising waste and improving Value for Money
- Improved customer service:
  - Service disruption to customers, and other key stakeholders, minimised.

6

4. Risk Appetite

4.1 Accepting that it is rare for a risk to be entirely eliminated, risk appetite is defined as 'how much risk the organisation is willing to tolerate in pursuit of its strategic objectives'. Understanding appetite for the organisation or activity being undertaken is a critical consideration in determining the management and mitigation of any risks that are present.

4.2 South Staffordshire Council categorises its risk appetite across five distinct levels:

1. Zero/Minimal – avoiding risk altogether
2. Cautious – preferring ultra safe/low risk options
3. Balanced – preferring safe/relatively low risk options
4. Enquiring – willing to consider all potential options
5. Entrepreneurial – innovating, exploring options that carry greater risk but potentially higher reward.

4.3 Generally, as with most organisations, a balanced approach to risk taking would apply. However, it is normal, and perfectly acceptable, across different disciplines to have a variation in risk appetite. For example, Legal and Finance would be more likely to operate at the zero or cautious end of the scale, reflecting the need for legislative and regulatory compliance; whereas Economic Development may operate with a more enquiring or even entrepreneurial appetite, investing to achieve a greater reward or return, but accepting a higher degree of risk in doing so.
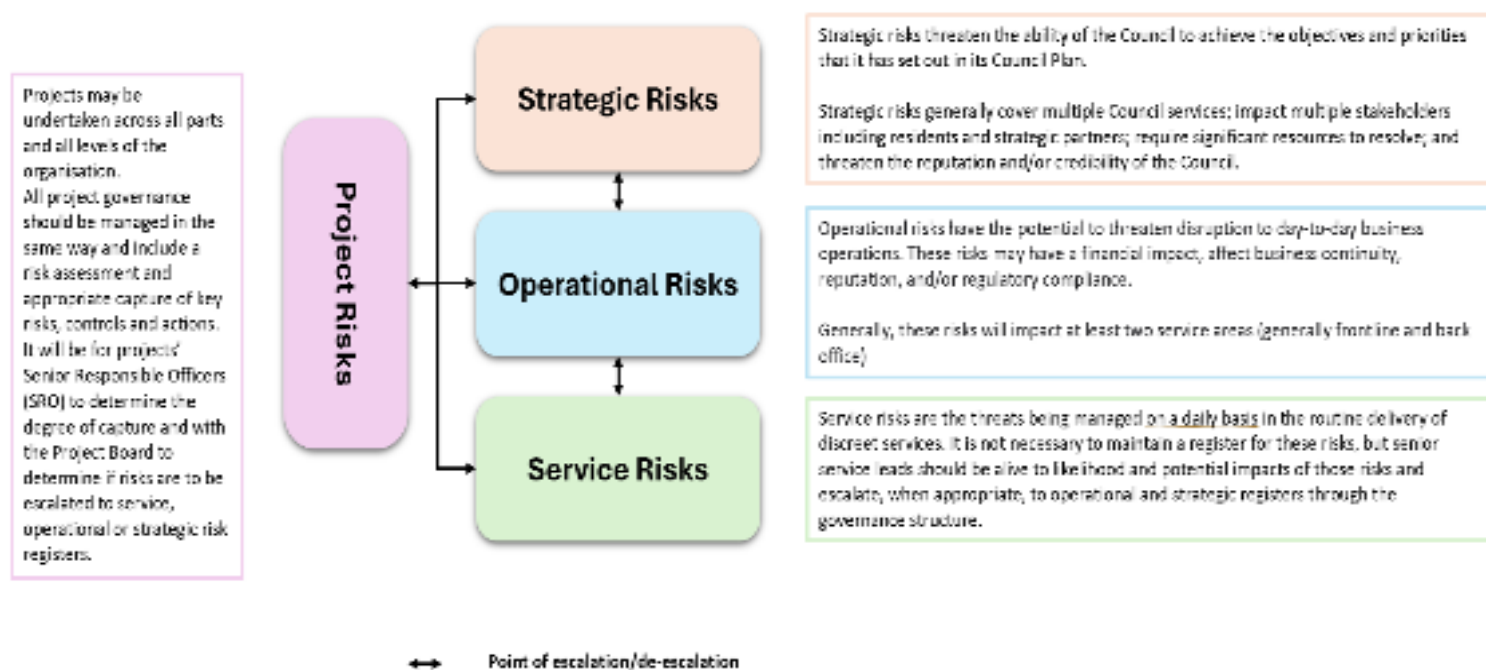
7

5. Strategic, Operational, Service & Project Risks

5.1 As outlined in the diagram below, the Council's risk management framework is split into strategic, operational, service and project risks. All four types of risk are linked, through the framework hierarchy, and individual risks can be escalated or de-escalated based on the likelihood of occurrence or potential impact should they become issues.

5.2 Generally, the following definitions apply:

- Strategic risks – are the those that threaten the delivery of the Council's strategic objectives as set out in the Council Plan
- Operational risks – are those that impact the delivery of operational/directorate plans
- Service risks – are those that impact day to day business as usual delivery. They may not require a risk register, but are controlled through rules, process and/or ICT system fail safes.
- Project risks – need to be considered on an individual basis and, depending on the size of that project, may impact strategic and/or operational objectives and plans. All projects should be managed through a consistent system of governance that includes risk identification and management.

5.3 Movement (up or down) between risks registers needs to be clearly governed and should form part of the regular risk reporting to the Corporate Leadership Team (CLT) and the Audit & Risk Committee.

Projects may be undertaken across all parts and all levels of the organisation. All project governance should be managed in the same way and include a risk assessment and appropriate capture of key risks, controls and actions. It will be for projects' Senior Responsible Officers (SRO) to determine the degree of capture and with the Project Board to determine if risks are to be escalated to service, operational or strategic risk registers.

Strategic Risks

Strategic risks threaten the ability of the Council to achieve the objectives and priorities that it has set out in its Council Plan.

Strategic risks generally cover multiple Council services; impact multiple stakeholders including residents and strategic partners; require significant resources to resolve; and threaten the reputation and/or credibility of the Council.

Operational Risks

Operational risks have the potential to threaten disruption to day-to-day business operations. These risks may have a financial impact, affect business continuity, reputation, and/or regulatory compliance.

Generally, these risks will impact at least two service areas (generally frontline and back office)

Service Risks

Service risks are the threats being managed on a daily basis in the routine delivery of discreet services. It is not necessary to maintain a register for these risks, but senior service leads should be alive to likelihood and potential impacts of those risks and escalate, when appropriate, to operational and strategic registers through the governance structure.

↔ Point of escalation/de-escalation

8

6. Roles & Responsibilities

Risk management is part of all stakeholders' roles and responsibilities. The definitions associated with each role within the process have been determined on the basis of:

- **Empowerment** – ensuring that individuals are equipped to manage risks based upon their professional knowledge and expertise, at the right level of the organisation and within the overall process
- **Responsibility** – risks are owned and led by the most appropriate person, with a clear understanding of the expectations placed upon them
- **Accountability** – that individual role holders are held accountable for the effective delivery/management of those risks within their control.

Group	Role	Responsibilities
Cabinet	Has overall ownership of the Council's Risk Management Strategy and effective oversight of risk registers and risk management.	• To monitor the Council's Strategic Risk Register and significant operational risks and gain appropriate assurances that risks are being effectively managed and that the organisation is safe.
Audit & Risk Committee	Under the terms of the Council's Constitution, the role of the Audit and Risk Committee is to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes	• To promote risk management and its benefits in the context of delivery of the Council Plan. • To receive regular reports on and challenge the operational approach to risk management. • Where relevant, to hold risk owners to account for their risks. • Where warranted, to commission deep dives into the management of individual risks. • To review and approve, for signature, the Annual Governance Statement. • To make recommendations on improvements to the Council's wider control environment and associated risks.
Corporate Leadership Team (CLT)	To determine overall risk appetite and be collectively accountable for the Council's comprehensive corporate Risk Management	• To determine the appropriate level of corporate risk appetite,

9

Group	Role	Responsibilities
	Strategy and ensuring that robust arrangements for the identification, management and mitigation of risk is in place.	for agreement with Audit & Risk Committee. • To challenge and review the effectiveness of the Risk Management Strategy and associated arrangements. • To hold risk owners and/or leads to account for the management of strategic and operational risks. • To receive regular monitoring reports on strategic and significant operational risks. • To decide when operational risks become strategic risks and vice versa • To agree the closure of redundant strategic and/or operational risks • To determine where further mitigating actions are required. • To ensure effective training is in place and delivered for officers and Members
Risk Owner (Accountable Person)	To be the accountable person, to those charged with governance, for those risks assigned to them.	• To challenge, review and monitor their risks in dialogue with the Risk Lead. • To be accountable to CLT, Audit & Risk Committee or other forum, as appropriate, for the identification, reporting and on-going management of assigned risks. • To identify when operational risks should be escalated, via CLT, to the strategic risks • To champion risk management as a positive, proactive tool within their area(s) of responsibility.

10

Group	Role	Responsibilities
Risk Lead	Reporting to the Risk Owner but with responsibility for the day-to-day management of the risk(s) associated with their area of responsibility. Further, ensuring that monitoring, controls reviews and the completion of further mitigating actions is completed within approve timescales.	• To undertake agreed actions in order to mitigate their assigned risks. • To commit to reporting progress to agreed standards and within appropriate timescales to the accountable officer. • To operate as risk owner in the absence of the designated risk owner.
Project Managers	To develop, review and update project risk registers in accordance with the Council's project management approach.	• To develop and maintain a Project Risk Register. • To escalate risks where necessary.
Team Managers		• To include risk management and relevant operational risk registers as a standing agenda item on all team meetings. • To facilitate the time, for officers under their supervision, to undertake appropriate training
All Staff	To understand the importance of risk management in the context of their role.	• To undertake risk awareness/management training as mandated by management. • To understand their individual contribution to mitigating the Council's exposure to relevant risks. • Participate in the identification, assessment and management of risk. • Report incidents, accidents, 'near misses' and other concerns.
Internal Audit	To provide independent assurance, through the delivery of a risk-based Plan, as to the effectiveness of risk management and the controls in place to mitigate key risk areas.	• To provide independent assurance on the Council's control environment including its management of risk. • To periodically provide assurance on the management of risk across the Council

11

Risk Champions/Coordinators

The Institute of Risk Management identifies risk champions as an officer and/or, in a Local Authority setting, an elected Member of the Council who do not have risk management as a primary responsibility. Champions are an extension of the risk management function and can communicate risk information and influence risk culture and behaviours.

The role of the risk champion/coordinator can vary but could include:

- Providing feedback on an employee's or Member's view of the risk management process

- Supporting identification and reporting of risk

- Ability to identify blockers

- Communicating the risk management vision to staff

- Acting as a subject matter expert in certain disciplines

- Acting as a "translator" between risk management and operational service delivery and/or political decision-making

- Building a risk-aware culture within the organisation including appropriate education

- Providing guidance on the best way to implement risk management in specific areas of the business and at what pace.

12

7. Arrangements for Managing Risk

7.1 Building upon our 2019 Risk Strategy, the Council has evolved its process for managing risk into a new six-step process that reinforces South Staffordshire as a learning organisation and increases individual and collective accountability for the management of risk.

1. Step 1 is the **identification and recording** of risks. An initial judgement on where in the risk hierarchy a new risk will sit will need to be taken based upon the broad definitions in section 4 and taken through the appropriate governance route as identified within the roles and responsibilities section.

    Risks should be captured in the agreed format and include an assessment of the cause and effect of the risk together with a consideration of the gross risk score. The gross risk score is an assessment of the probability and impact of a risk occurring with no controls in place.

2. Step 2 (New 2024) is the **allocation of accountability and responsibility**. Identifying risk ownership and using reporting and governance mechanisms to hold individuals to account is a positive way of raising risk profiles, empowering the development of controls or further mitigating actions and ultimately contributes to lowering the organisation's exposure to risk.

    To reinforce the importance of risk management, to provide clear accountability and to ensure risk is managed at the appropriate level it is proposed that a risk owner and a risk lead is identified for all strategic and operational risks.

3. Step 3 **analyse and assess the risk** should be undertaken using a standardised process and moderated at the appropriate level of the organisation. Analysing in this way provides a degree of consistency, a more meaningful picture of risk exposure and clear identification of wider dependencies/interdependencies. More details on the process of scoring and reporting risks is detailed within section 8.

4. Step 4 **responding to the risk** is about how the risk owner/risk lead identify current controls, develop/action further mitigation to reduce the risk to a level that is acceptable to the organisation.

    Responding to risk is not necessarily about removing the risk altogether but managing to an acceptable level. Sometimes the options to managing risk are referred to as the 4Ts:

    Transfer – move the management or impact of the risk, through insurance, as an example.
    Tolerate – accept the risk as is because further control may be too costly or difficult to achieve.
    Treat – devise strategies, controls and mitigations to reduce the risk to an acceptable level
    Terminate – cease the activity that is exposing the organisation to the risk.

5. Step 5 is **monitor and report**. The monitoring and reporting of risks is a critical step in keeping the organisation safe, informing effective decision-making and supporting the organisation to achieve its ambitions and objectives. Reporting should be standardised across all risks and should enable those charged with governance to understand the wider

13

risk landscape, not just one part of it. The Council has now enhanced its strategic risk reporting by including a summary of the highest scoring operational risks.

6. Step 6 **integrating learning** is about ensuring that we reflect, develop an understanding of what is working well, what can be improved and using challenge as a positive management tool to support wider, individual, risk strategies.

    It is also about identifying where specific training and/or support needs to be directed and providing commitment to make this happen.

14
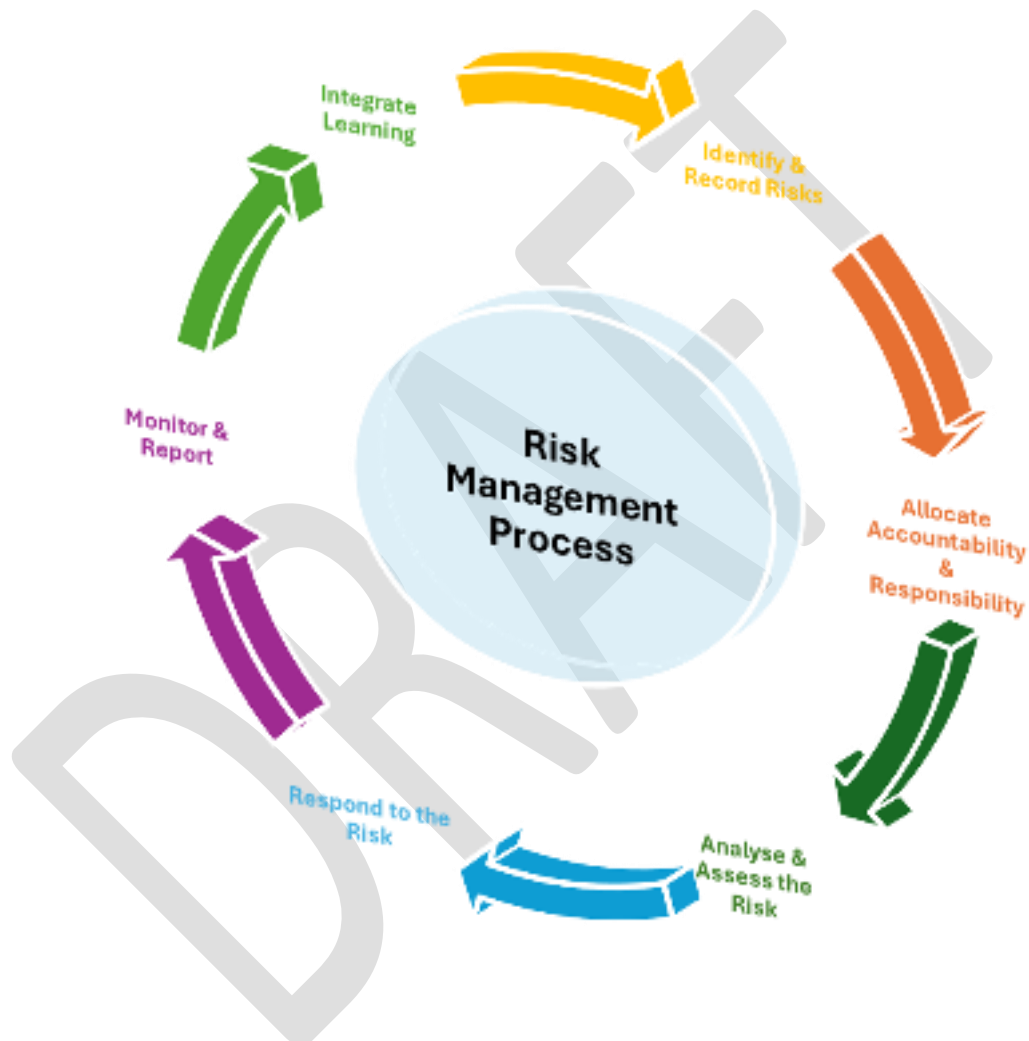
8. Risk Monitoring

8.1 Having identified the risk and those responsible for managing it (our risk owners and risk leads), it is then important to determine the level of risk that the Council is exposed to. Answers to this will determine if risks are strategic, operational, service and/or project. To do this we use a 5 x 5 matrix to assess the likelihood of a risk becoming an issue and the impact that it would have on the organisation. As part of this process, we identify three risk scores:

- **Gross Risk** – this is the level of risk exposure with no controls in place
- **Net Risk** – this is the level of risk taking into account the current associated controls/mitigations
- **Target Risk** – is the level of risk the Council would like to mitigate to and may consider the delivery of any further mitigating actions.

Risk Scoring Matrix

Risk	Impact				
Likelihood	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrohpic (5)
Almost Certain (5)	5	10	15	20	25
Probable (4)	4	8	12	16	20
Likely (3)	3	6	9	12	15
Possible (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

Key to risk management action level	Tolerable Risk/Low Priority	Medium Priority	High Priority

8.2 Risk analysis and scoring relies, to a certain extent, on a subjective assessment of that risk, drawing on knowledge, experience and professional judgement. However, to assist with this process a summary of key likelihood and impact considerations are provided below:

Likelihood

Score	Description	Characteristics
5	Almost Certain	• Is expected to occur in most circumstances • Will undoubtedly happen, possibly regularly such as annually • Is imminent
4	Probable	• Will probably occur in most circumstances • Will probably happen, but not on a regular basis • Has occurred previously
3	Likely	• Could occur in certain circumstances • May happen occasionally • Has happened in other locations, has impacted other local authorities and/or partners
2	Possible	• May occur only in exceptional circumstances • Not expected to happen, but is possible • Not known in this particular activity or scenario
1	Rare	• Is never likely to occur • Very unlikely this will ever happen

16

Impact

Score	Description	Characteristics
5	Catastrophic	Risks which can have a catastrophic effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public, for example: • Unable to function without aid of Government or other external Agency. • Inability to fulfil obligations. • Medium to long-term damage to service capability. • Severe financial loss - supplementary estimate needed which will have a catastrophic impact on the Council's financial plan and resources are unlikely to be available (>£1m uninsured loss). • Death. • Adverse national publicity - highly damaging, severe loss of public confidence. • Litigation certain and difficult to defend. • Breaches of law punishable by imprisonment.
4	Major	Risks which can have a severe effect on the operation of the Council or service. This may result in major financial loss, major service disruption or a significant impact on the public, for example: • Significant impact on service objectives. • Short to medium-term impairment to service capability. • Major financial loss - supplementary estimate needed which will have a major impact on the Council's financial plan (>£500k uninsured loss). • Extensive injuries, major permanent harm, long-term sick. Major adverse local publicity, major loss of confidence. • Litigation likely and may be difficult to defend. • Breaches of law punishable by fines or possible imprisonment
3	Moderate	Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget, for example: Service objectives partially achievable. Short-term disruption to service capability. Significant financial loss - supplementary estimate needed which will have an impact on the Council's financial plan (>£250k uninsured loss). Medical treatment required, semi-permanent harm up to one year. Some adverse publicity, needs careful public relations. High potential for complaint, litigation possible.

17

Score	Description	Characteristics
		Breaches of law punishable by fines only.
2	Minor	Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences, they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. For example: • Minor impact on service objectives. • No significant disruption to service capability. • Moderate financial loss - can be accommodated at service level (>£100k uninsured loss). • First aid treatment, non-permanent harm up to one month. • Some public embarrassment, no damage to reputation. • May result in complaints/litigation. • Breaches of regulations/standards.
1	Insignificant	Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences, they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. For example: • Minimal impact, no service disruption. • Negligible impact on service capability. • Minimal loss - can be accommodated at service level (<£10k uninsured loss). • No obvious harm/injury. • Unlikely to cause any adverse publicity, internal only. • Breaches of local procedures/standards.

8.3 To support the management of risk, and to provide a consistency of approach across all risks being managed, the Council has developed a standard template for all of its risk registers. The revised registers include a link to the Corporate Plan objectives being threatened by the risk and clearly identify risk accountability with the inclusion of both risk owners and risk leads. The layout is shown below:

18

Strategic Risk Register

Risk Register Completed:
Date of Revision:

Risk Title	Risk No.	Corp Plan Priority	Risk Owner	Risk Lead	Risk in Full	Cause	Effect	Gross score			Current Mitigating Controls	Current			Planned Risk Actions	Target score		
								Likelihood	Impact	Total Score = L*I		Likelihood	Impact	Total Score = L*I		Likelihood	Impact	Total Score = L*I
										0				0				0
										0				0				0
										0				0				0
										0				0				0
										0				0				0

Owner Key:

Lead Key:

8.4 At appropriate levels of the risk hierarchy, see section 4.3, the reporting of risk to those charged with governance needs to be clear, should be a call to action, not just for information, and any agreed actions should be tracked from meeting to meeting.

Particularly for the Leadership team and Audit & Risk Committee, it is important the highest scoring operational risks are also reported alongside strategic risks. This information may allow a wider understanding of those risks impacting operational delivery but contained within directorate or service areas.

Given that an escalation of an operational risk in likelihood and/or impact may result in an additional strategic risk, it is proposed that the highest scoring operational risks will be included within a revised reporting template. An example is shown below:

19

APPENDIX 1

Reporting Template

Strategic Risks

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	

Risk Description:	Risk Scoring	
	Likelihood	0
	Impact	0
	Overall	0
	Direction of Travel	

Interdependencies (Potential Impacts):

Key Mitigating Controls:

Further Mitigating Actions:	Milestone Dates:

DoT Key:	
Worsening	↑
Improving	↓
Neutral	↔

Highest Scoring Operational Risks

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	

Risk Description:	Risk Scoring	
	Likelihood	0
	Impact	0
	Overall	0
	Direction of Travel	

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	

Risk Description:	Risk Scoring	
	Likelihood	0
	Impact	0
	Overall	0
	Direction of Travel	

20

9. Training & Development

9.1 Risk management cuts across everything that the Council does. Organisational development and training should encompass risk awareness, as a minimum. More detailed risk management training should be carried out for those who are or likely to be risk owners and risk leaders.

21

PART A – SUMMARY REPORT

1.   SUMMARY OF PROPOSALS

The purpose of this report is to set out a proposed programme of work for the Audit & Risk Committee for the forthcoming year.

2.   SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	No	Not directly
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Not applicable
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	On-going	
FINANCIAL IMPACT	No	This work programme does not impact upon the revenue or capital budget of the Council.
LEGAL ISSUES	Yes	The setting of the work programme helps Members meet their responsibilities. For example, the Accounts and Audit Regulations 2015 require the Council to have their audited statement of accounts approved by a resolution of an authorised member meeting. Under the Council's Constitution this power has been delegated to the Audit & Risk Committee.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	The work programme will help the Audit and Risk Committee to plan and coordinate how it gets the assurance it needs.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

3.   2024/25 WORK PROGRAMME

3.1   The proposed work programme for the Audit and Risk Committee is included as Appendix A.

3.2   The work programme has been developed taking the following into account:

- The content of the Internal Audit Plan for 2024/25
- The External Audit Plan for 2024/25
- The requirements of the Council Constitution
- The requirements of the Accounts and Audit Regulations 2015
- The previous year's work programme

4.   IMPACT ASSESSMENT

4.1   None

5.   PREVIOUS MINUTES

5.1   Not applicable

6.   BACKGROUND PAPERS

6.1   Appendix A – Audit & Risk Committee – Work Programme 2024/25.

---

7.   RECOMMENDATIONS

7.1   It is recommended that members review and support the programme of work for the Audit and Risk Committee as set out in Appendix A.

Report prepared by:

Lorraine Fowkes – Corporate Director of Governance (Monitoring Officer) and Bec Maher - Director of Finance (Section 151 Officer)

Audit & Risk Committee Meetings – Work Programme 2024/25

Meeting Date	Planned Agenda Items
27 June 2024	• Annual Governance Statement 2023/24 • Quarter 4 – Treasury Management Update • Annual Internal Audit Outturn 2023/24 • Internal Audit Strategy & Plan 2024/25 • Review of the Internal Audit Charter • Risk Management Strategy 2024 • Audit & Risk Committee work plan for 2024/25
5 September 2024	• Annual Report of the Audit and Risk Committee • Quarter 1 - Treasury Management Update • Quarter 1 - Internal Audit Progress Report • Statement of Accounts 2024/25 • External Audit – Audit Findings Report
28 November 2024	• Quarter 2 – Treasury Management Update • Quarter 2 – Internal Audit Progress Report • Whistleblowing Policy • Anti-money Laundering Policy
6 February 2025	• Quarter 3 – Treasury Management Update • Quarter 3 – Internal Audit Progress Report • Risk Management Report • Accounting Judgements and Estimation Uncertainty • Treasury Management Strategy and Prudential Indicators 25/26 – 2026/27 • External Audit Plan 2025/26
24 April 2024	• Annual Report of the Audit & Risk Committee • Review of the Internal Audit Charter