



**Dinas a Sir Abertawe**

**Hysbysiad o Gyfarfod**

Fe'ch gwahoddir i gyfarfod

## **Pwyllgor Archwilio**

**Lleoliad:** Ystafell Bwyllgor 5 - Neuadd y Ddinas, Abertawe

**Dyddiad:** Dydd Mawrth, 26 Mehefin 2018

**Amser:** 10.00 am

**Cadeirydd:** Paula O'Connor

**Aelodaeth:**

Cynghorwyr: C Anderson, P M Black, T J Hennegan, P R Hood-Williams, B Hopkins, O G James, P K Jones, J W Jones, M B Lewis, S Pritchard, W G Thomas, L V Walton a/ac T M White

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### **Agenda**

**Rhif y Dudalen.**

- 1 Ymddiheuriadau am absenoldeb.**
- 2 Datgeliadau o fuddiannau personol a rhagfarnol.**  
[www.abertawe.gov.uk/DatgeliadauBuddiannau](http://www.abertawe.gov.uk/DatgeliadauBuddiannau)
- 3 Swyddfa Archwilio Cymru - Adolygiad Perfformiad y Pwyllgor Archwilio 2017/18.** **1 - 10**

**Cyfarfod nesaf:** Dydd Mawrth, 17 Gorffennaf 2018 ar 2.00 pm

**Huw Evans**

**Pennaeth Gwasanaethau Democrataidd**

**Dydd Mawrth, 19 Mehefin 2018**

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**Cyswllt: Gwasanaethau Democrataidd: - 636923**



## Core Functions of an Audit Committee

The core functions of an audit committee are to:
Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
In relation to the authority's internal audit functions: <ul style="list-style-type: none"><li>• oversee its independence, objectivity, performance and professionalism</li><li>• support the effectiveness of the internal audit process</li><li>• promote the effective use of internal audit within the assurance framework.</li></ul>
Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

## ANNUAL GOVERNANCE STATEMENT

- 1 Audit committees provide essential support for the approval of the Annual Governance Statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.
- 2 The good practice governance standard for local government bodies in the UK is the framework for delivering good governance in local government produced by CIPFA and SOLACE in 2007.
- 3 Legislation requires local authorities to prepare an AGS and to report publicly on the effectiveness of governance and control. The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive, or equivalents. Typically, audit committees undertake the role of reviewing the AGS prior to approval.
- 4 Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. Under the 2011 Accounts and Audit Regulations the AGS must

be approved by 30 September. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it again in September.

- 5 To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:
  - Review the local code of governance and any changes to the arrangements in the year.
  - Note it is not the responsibility of the audit committee to establish any local code, but it should be consulted.
  - Ensure that the AGS is underpinned by a framework of assurance (see the detailed section on assurance planning).
  - Over the course of the year, receive reports and assurances over the application of the governance framework in practice.
  - Monitor implementation of action plans or recommendations to improve governance arrangements.
  - Consider how the organisation applies governance principles in practice during the committee's review of other agenda items.
- 6 Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees.

## INTERNAL AUDIT

- 7 The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, local authority internal auditors have had to follow the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN). They highlight the importance of effective internal audit to those in the organisation who are responsible for governance.
- 8 In its adoption of PSIAS and LGAN, each authority should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by PSIAS. It is for these reasons that in the LGAN CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. The terms of reference of the audit committee should reflect the functional reporting arrangements of internal

audit to the audit committee as set out in the internal audit charter, the formal document that defines the internal audit activity's purpose, authority and responsibility.

- 9 The roles of the audit committee in relation to internal audit are to:
- oversee its independence, objectivity, performance and professionalism
  - support the effectiveness of the internal audit process
  - promote the effective use of internal audit within the assurance framework.
- 10 The specific activities that these three objectives lead to are considered below.

### Oversee independence, objectivity, performance and professionalism

- 11 The following activities are the functional reporting arrangements set out in PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role:
- to review or approve the following:
    - the internal audit charter
    - the risk-based internal audit plan
    - the internal audit budget and resource plan
  - to consider the appointment and removal of the head of internal audit
  - to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
  - to receive the annual report, which includes:
    - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
    - a summary of the work on which internal audit has based the opinion
    - a statement on conformance with PSIAS and the LGAN
    - the results of the quality assurance and improvement programme.
  - To discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.
- 12 The head of internal audit or chief internal auditor (referred to in PSIAS and the LGAN as 'chief audit executive') should have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the Quality Assurance and Improvement Programme at least once every five years.

### Support the effectiveness of the internal audit process

- 13 The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities are core parts of this:
- Receiving updates on the work of internal audit including key findings, issues of concern, and action in hand as a result of internal audit work.
  - Receiving reports on instances where the internal audit function does not conform to PSIAS or the LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS.
  - Overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates.
  - Receiving regular reports on the results of the Quality Assurance and Improvement Programme.

### Promote the effective use of internal audit within the assurance framework

- 14 The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.
  - Receiving reports outlining the action taken where the chief audit executive has concluded that management has accepted a level of risk that may be unacceptable to the authority.
  - When considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.
- 15 Those audit committees that operate under the Accounts and Audit Regulations must conduct a review of the effectiveness of their internal audit annually. The audit committee should take into account internal audit's Quality Assurance and Improvement Programme when conducting such a review.
- 16 The CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.
- 17 Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

## RISK MANAGEMENT

- 18 In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Were a local authority to establish a separate risk committee, then its roles and responsibilities would need to be taken into account in determining the role of the audit committee.
- 19 Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.
- 20 The role of the audit committee in relation to risk management covers three major areas:
- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
- Overseeing the authority's risk management policy and strategy, and their implementation in practice.
  - Overseeing the integration of risk management into the governance and decision-making processes of the organisation.
  - Ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
- Reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine and challenge and support the risk assessment process to ensure consistency.
  - Reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately.
  - Seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored.
  - Following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
- Overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking.
  - Reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans.
  - Monitoring action plans and development work in the field of risk management practice.

- 21 Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

## ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

- 22 Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management.
- 23 Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference.  
The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:
- clarity of what assurance is required
  - clear allocation of responsibility for providing assurance
  - avoiding duplication, bearing in mind the differing objectives of assurance activities
  - improving the efficiency and cost effectiveness of assurance
  - obtaining assurance of appropriate rigour and independence across a range of assurance providers.
- 24 Having a clear assurance framework in place will support the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements.
- 25 In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

## VALUE FOR MONEY AND BEST VALUE

- 26 Making best use of resources is a key objective for all local authorities and it is part of the CIPFA/SOLACE Good Governance Framework. One of the supporting principles of Principle 1 of this framework is 'ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money'.
- 27 Assurance over value for money should focus on both the arrangements to ensure value for money and the progress in achieving value for money. An authority should have in place arrangements to obtain assurance over its performance against value for money objectives and strategies. The role for the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against value for money objectives.

- 28 The role of the audit committee is most likely to focus on whether the authority's overall approach to value for money is in line with governance objectives and to receive assurances on this to underpin the AGS. CIPFA issued an Addendum to the CIPFA/SOLACE Good Governance Framework to update the requirements for the AGS. The Addendum emphasises that the AGS should be focused on outcomes and value for money.
- 29 One specific area of activity for the committee should be consideration of the external audit opinion on value for money as set out in the codes of audit practice adopted by national audit bodies. In addition, the audit committee should consider what other assurances are available in relation to identified value for money risks and highlight areas for improvement.

## COUNTERING FRAUD AND CORRUPTION

- 30 Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter-fraud arrangements also link to the ethical standards for members and officers that the public expects.
- 31 The audit committee role should be to have oversight of the authority's strategy to counter fraud – assessing whether it meets recommended practice and governance standards and complies with legislation such as the Bribery Act 2010. Managing the Risk of Fraud sets out the counter-fraud standards for public sector organisations; sector-specific strategies such as Fighting Fraud Locally should also be considered. The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment. Oversight of counter-fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:
- reviewing the counter-fraud strategy and considering whether it meets recommended practices
  - championing good counter-fraud practice to the wider organisation
  - reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community
  - reviewing the annual counter-fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
  - monitoring the performance of the counter-fraud function
  - overseeing any major areas of fraud identified and monitoring actions plans to address control weaknesses.
- 32 The Addendum to the CIPFA/SOLACE Good Governance Framework recommends that the adequacy of counter-fraud arrangements are evaluated and reported on in the AGS. The audit committee should have sight of the assurances underpinning this assessment.



## EXTERNAL AUDIT

- 33 The audit committee's role should include receiving and considering the work of the external auditor. The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work in order to monitor the action to be taken. The committee should contribute to the authority's response to the annual audit letter.
- 34 The audit committee should support the quality and effectiveness of the external audit process through:
- Expressing an opinion on the selection and rotation of the external auditor.
  - Reviewing how external audit plans fit with the agreed engagement and being satisfied that the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
  - Assessing the effectiveness of the external audit process, including whether the external auditor has a good understanding of the authority, how the external auditor has met the audit plan, and feedback from key people such as the responsible financial officer and the head of internal audit.
  - Reporting to full council or other body as appropriate on the results of the review.
  - Supporting the implementation of recommendations from the external auditor.
  - Reviewing the authority's policy on non-audit work by external audit and details of any non-audit work actually undertaken.
- 35 In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit – for example, the quality reports from the Financial Reporting Council.
- 36 There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.
- 37 Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

## FINANCIAL REPORTING

- 38 Local authority financial statements should follow the professional practices set down in the Code of Practice on Local Authority Accounting issued by CIPFA. The responsible financial officer must sign the statements by 30 June to confirm that they have been properly prepared

and are ready for audit. The local authority will formally approve the financial statements after the completion of the external audit.

- 39 The date by which the statements must be published is set down by government regulations. Currently it is 30 September. CIPFA has recommended that it is good practice for the accounts to be reviewed prior to the commencement of the external audit, along with the AGS, rather than waiting until September. Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:
- reviewing the explanatory foreword to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
  - reviewing whether the foreword is readable and understandable by a lay person
  - identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
  - monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
  - reviewing the suitability of accounting policies and treatments
  - seeking explanations for changes in accounting policies and treatments
  - reviewing major judgemental areas, eg provisions
  - seeking assurances that preparations are in place to facilitate the external audit.
- 40 Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.
- 41 In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

## PARTNERSHIP GOVERNANCE

- 42 Authorities commonly have a wide range of partnership arrangements including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises. Ensuring the adequacy of governance and risk management over such arrangements can be complicated but is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons the role of the audit committee should be clearly defined.
- 43 The audit committee's role can be to consider the assurance available on whether the partnership arrangements are satisfactorily established and are operating effectively. For example, the audit committee should seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place

to maintain accountability to stakeholders, to ensure transparency of decision making and to ensure standards of probity are maintained.

- 44 Where an authority is developing new partnership arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.
- 45 The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered.
- 46 In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee.