

## Report of the Chair of the Audit Committee

Council – 22 September 2016

### AUDIT COMMITTEE – ANNUAL REPORT 2015/16

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| <b>Purpose:</b>                    | This report provides the Audit Committee's Annual Report 2015/16 municipal year |
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#### FOR INFORMATION

#### 1. Introduction

- 1.1 The Council is required, under Local Government (Wales) Measure 2011 to have an Audit Committee
- 1.2 The CIPFA publication '*Audit Committee - Practical Guidance for Local Authorities and Police Bodies*' states that Audit Committees should be independent and accountable and suggests that one of the ways of being accountable is to produce an annual assessment of performance in the form of an annual report.

#### 2. Audit Committee Annual Report 2015/16

- 2.1 The Audit Committee Annual Report 2015/16 is attached in Appendix 1

#### 3. Equality and Engagement Implications

- 3.1 There are no equality and engagement implications associated with this report

#### 4. Financial Implications

- 4.1 There are no financial implications associated with this report.

#### 5. Legal Implications

- 5.1 There are no legal implications associated with this report.

**Background Papers:** None

**Appendices:** Appendix 1 Audit Committee Annual Report 2015/16

## **AUDIT COMMITTEE ANNUAL REPORT 2015/16**

### **1. Foreword by Mr. Alan Thomas, Chair of the Audit Committee**

- 1.1 In order for the Audit Committee to function effectively, it must have the support and input of both Councillors and Council Officers when requested to attend specific Audit Committee meetings.
- 1.2 On behalf of the Committee, I can confirm that the necessary support has been achieved and sufficient assurance obtained so that there are no critical issues that need to be reported to the Council.
- 1.3 While the Committee planned to hold meetings every 2 months, it was necessary to arrange a number of special meetings to ensure sufficient quality time was made available to fully cover the essential workload.
- 1.4 The Committee continues to work closely with Internal Audit and the financial and performance audit staff at the Wales Audit Office who regularly provide input to Audit Committee meetings.
- 1.5 We also continue to evolve links with Scrutiny and other Committees as necessary in order to minimise the risk of duplication.
- 1.6 Where a moderate or limited level of assurance has arisen from a specific Internal Audit report, I have written to the respective Head of Service raising the concerns of the Audit Committee. I also followed up the letter with a subsequent meeting with the Head of Service and Chief Auditor to review ongoing progress prior to follow up by Internal Audit.
- 1.7 Looking forward, there have been a number of personnel changes on the Committee over the last 12 months, so a follow up training programme will be undertaken in the coming months
- 1.8 We will also incorporate regular reviews of the corporate governance processes in action following the review of the processes over the last year.

### **2. Introduction**

- 2.1 The Council is required, under the Local Government (Wales) Measure 2011 to have an Audit Committee which among other things must include at least 1 lay member.
- 2.2 The Measure requires the Audit Committee to review and scrutinise the Council's financial affairs, risk management, internal control and governance arrangements. It also requires the Committee to oversee the Council's internal and external audit arrangements and review its financial statements.

- 2.3 The work of the Audit Committee is structured so that the Committee can gain assurance over the areas identified above and to comply with its terms of reference.
- 2.4 The draft Audit Committee Annual Report 2015/16 was presented for discussion to the Audit Committee meeting held on 19 April 2016. No changes to the draft report were made at the April meeting although the Chair has added a foreword to the report since it was originally reported to Committee.
- 2.5 The Committee is now being asked to approve the Audit Committee Annual Report 2015/16 prior to the report being presented to Council.

### **3. Committee Membership**

- 3.1 The membership of the Audit Committee during 2015/16 is shown in the following table

|  |  |
|--|--|
| Mr AM Thomas – Lay Member and Chair                  | Cllr PM Meara                                      |
| Cllr JC Bayliss replaced by Cllr C Anderson 25/06/15 | Cllr G Owens replaced by Cllr TJ Hennegan 26/11/15 |
| Cllr RA Clay   | Cllr D Phillips                                    |
| Cllr AM Cook replaced by Cllr TM White 25/06/15      | Cllr RV Smith                                      |
| Cllr PR Hood-Williams                                | Cllr DWW Thomas replaced by Cllr C Thomas 10/03/16 |
| Cllr L James   | Cllr LV Walton                                     |
| Cllr JW Jones – Vice Chair                           |  |

- 3.2 The Committee moved to a schedule of 2 monthly meetings for 2015/16 however it was noted quite early in the year that the agenda for the bi-monthly meetings were becoming excessively long so a number of special meetings were arranged to help smooth out the Committee's work programme.
- 3.3 The Committee met on 9 occasions during 2015/16, 6 scheduled meetings and 3 special meetings. Over the course of the year, attendance at the meetings was 71%

### **4. Internal Audit Assurance**

- 4.1 The Audit Committee approved the Internal Audit Charter 2015/16 as required by the Public Sector Internal Audit Standards
- 4.2 The Audit Committee also approved the Internal Audit Annual Plan 2015/16 and has received quarterly monitoring reports from the Chief Auditor showing progress against the Plan.
- 4.3 The quarterly monitoring reports identified any audits that received a moderate or limited level of assurance along with an outline of the issues which led to the audit receiving the negative assurance level.

- 4.4 The Chair has written to a number of Heads of Service where audits in their area of responsibility received a moderate or limited level of assurance to raise the concerns of the Committee and to highlight the need for improvement in controls.
- 4.5 The Chair has also met with the Head of Service where the audit received a moderate or limited level of assurance at the previous audit. The Committee's view is that this indicates that the service has failed to improve since the previous audit which therefore requires a firmer response from the Committee to support the findings of the Internal Audit Section. Face to face meetings are more proactive and are likely to lead to a positive response from the service area.
- 4.6 The Internal Audit Annual Report 2014/15 was reported to the Audit Committee which included a review of actual work completed compared to the Annual Plan.
- 4.7 The Internal Audit Annual Report also included the Chief Auditor's opinion on the internal control environment for 2014/15 which stated that based on the audit testing carried out reasonable assurance can be given that the systems of internal control are operating effectively and that no significant weaknesses were identified which would have a material impact on the Council's financial affairs.
- 4.8 The Internal Audit Annual Report of School Audits 2014/15 was presented to the Audit Committee. This report summarised the school audits undertaken during the year and identified some common themes identified across school audits.

## **5. Annual Governance Statement 2014/15**

- 5.1 The draft Annual Governance Statement 2014/15 was presented to the Audit Committee prior to being reported to Cabinet for approval.
- 5.2 This gave the Committee the opportunity to review and comment upon the Statement and to ensure that it properly reflected the assurances provided to the Committee over the course of the year.

## **6. Annual Statement of Accounts 2014/15**

- 6.1 The Head of Finance and Delivery presented the draft Statement of Accounts 2014/15 for the Council and the Pension Fund to the Committee and answered a number of questions raised by members of the Committee.
- 6.2 PwC, on behalf of the Wales Audit Office, presented a progress report to the Audit Committee outlining the progress made in completing the annual audit of the accounts.
- 6.3 Following the completion of the audit of the Statement of Accounts 2014/15, the Chair requested that a special meeting be arranged for PwC to present its Audit of Financial Statements reports to the Audit Committee prior to the reports going to Cabinet. The reports presented the detailed findings of the audit and stated that the

intention was to issue an unqualified audit report on the financial statements

## **7. External Audit Assurance**

7.1 As well as the Audit of Financial Statements reports mentioned above, the external auditors also provided assurance to the Audit Committee by presenting the following reports

- Wales Audit Office – 2015 Audit Plan including performance and financial audit work
- Internal Controls Report 2014/15
- Annual Audit Letter 2014/15

## **8. Implementation of Audit Recommendations**

8.1 An important role undertaken by the Audit Committee is monitoring the implementation of agreed audit recommendations arising from both internal and external auditors.

8.2 The implementation of any Internal Audit recommendations arising from the fundamental audits is reported to the Audit Committee in the Recommendations Tracker report. For 2014/15, the results of the tracker exercise showed that 79% of agreed recommendations due for implementation by 31 December 2015 had been implemented. The implementation of the outstanding recommendations will be reviewed as part of the fundamental audits in 2015/16.

8.3 The implementation of any high or medium risk recommendations arising from non-fundamental audits is subject to follow up procedures by Internal Audit to confirm they have been implemented. The results of the follow ups are reported to the Audit Committee in the quarterly Internal Audit Monitoring Reports.

8.4 A number of follow up audits were reported to the Committee during 2015/16 and it was found that substantial progress had been made by management in implementing the agreed recommendations.

8.5 The Audit Committee also received a report from the Head of Economic Regeneration and Planning which included an action plan outlining the action being taken to implement the recommendations arising from the Section 106 Planning Agreements audit which had received a limited level of assurance

8.6 The Internal Controls Report presented to the Audit Committee by the external auditors includes any recommendations made as a result of their work and the action taken by management to implement the recommendations.

## **9. Risk Management**

9.1 The Local Government (Wales) Measure 2011 makes the overview of risk management a function of the Audit Committee

9.2 The Head of Finance and Delivery provided 2 update reports on Risk Management to the Committee and an annual review of Risk Management for 2015/16 is to be provided to the June 2016 meeting of the Committee.

## **10. Performance Audit**

10.1 The Audit Committee received regular briefings from the Wales Audit Office on the performance audit work being undertaken within the City and County of Swansea

10.2 The Wales Audit Office's Performance Audit Plan 2015 was reported to the Committee and regular updates on progress against the Plan were provided by the Wales Audit Office throughout the year.

10.3 The Annual Improvement Report incorporating the Corporate Assessment Report 2014 for the City and County of Swansea was reported to the Audit Committee.

## **11. Relationship with Scrutiny Function**

11.1 The Audit Committee has continued to develop a relationship with the Scrutiny function. The relationship is intended to ensure the following

- Mutual awareness and understanding of the work of Scrutiny and the Audit Committee
- Respective workplans are coordinated to avoid duplication / gaps
- Clear mechanism for referral of issues if necessary

11.2 The Chair attended the Scrutiny Work Planning Conference to provide an Audit Committee input into the areas of proposed work for Scrutiny during 2015/16.

11.3 The Chair has attended the Scrutiny Programme Committee to provide an update on the work of the Audit Committee and also shared the Audit Committee Annual Report 2014/15 and Workplan 2015/16 with the Scrutiny Programme Committee.

11.4 The Chair of the Scrutiny Programme Committee has attended the Audit Committee to provide an update on the work of Scrutiny. The Scrutiny Annual Report 2014/15 and Scrutiny Work Programme 2015/16 were also presented to the Audit Committee.

## **12. Anti-Fraud**

12.1 A Corporate Fraud Team was established during 2015/16 within the Internal Audit Section and a detailed presentation was made to the Audit Committee on the role of the new team.

12.2 A Corporate Fraud Annual Plan 2016/17 and Corporate Fraud Team Annual Report 2015/16 will be presented to the Audit Committee early in the new municipal year.

12.3 The new team has been involved in a number of investigations and the final report on one of the investigations was reported to the Committee. Further reports will be presented on the conclusion of live investigations.

### **13. Briefings**

13.1 The Audit Committee received a number of briefings during 2015/16 as noted below

- Cabinet Advisory Committees
- Corporate Governance Review
- Housing Benefits Investigation Team - Annual Report 2014/15
- Coastal Project
- Debt Write Offs
- ICT Contract Transfer
- Internal Audit Plan Methodology
- New Build for YGG Lon Las – referral from Cabinet
- Peer Review Update

13.2 The Wales Audit Office provided a detailed briefing on the Key Issues for Audit Committees including

- The statutory role of the Audit Committee
- The huge remit of the Committee
- The need to seek assurance not undertake substantive work
- Potential changes to the remit as a result of the Devolution, Democracy and Delivery White Paper

### **14. Audit Committee – Performance Review**

14.1 The Audit Committee undertook a review of its performance during 2015/16 using a Self-Assessment of Good Practice Questionnaire published by CIPFA in its *Audit Committees – Practical Guidance for Local Authorities and Police Bodies* publication.

14.2 The outcome of the performance review was that the Committee felt that it was generally performing well measured against the Questionnaire although the following issues were identified which will be addressed during 2016/17.

- The need for the Committee to review its approach to gaining assurance over corporate governance. The review will follow the publication of the ongoing Corporate Governance Review by the Head of Legal and Democratic Service.
- The provision of training to Committee members based on the CIPFA Knowledge and Skills Framework. A training meeting will be held on 14 June 2016.

### **15. Future Audit Committee Meetings**

15.1 The Council Diary for the new municipal year continues to include Audit Committee meetings on a 2 monthly basis. .

- 15.2 However, based on the experience during 2015/16, it is clear that special meetings will need to be held at certain times of the year to ensure the smooth delivery of the Committee's work programme. At this stage it is envisaged that special meetings will need to be arranged in July and September for the draft Annual Statement of Accounts and the Wales Audit Office audited Statement of Accounts report.
- 15.3 The Committee has the ability to call further additional meetings if necessary.