

Report of the Chief Auditor

Special Audit Committee – 28 March 2017

AUDIT COMMITTEE - CORPORATE GOVERNANCE ISSUES

Purpose:	This report highlights some issues relating to the Corporate Governance Review completed by the WLGA which come under the terms of reference of the Audit Committee
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to form a view on the recommendations made in the Corporate Governance Review on issues within its terms of reference.
Consultation:	Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that the Committee discusses the issues raised and formulates a response to the recommendations
Report Author:	Paul Beynon
Finance Officer:	Paul Beynon
Legal Officer:	Sandie Richards
Access to Services Officer:	Ann Williams

1. Introduction

- 1.1 In Autumn 2014, the Welsh Local Government Association (WLGA) facilitated a Peer Review of the City and County of Swansea and later in 2015 the Wales Audit Office completed its Corporate Assessment of the Council.
- 1.2 As part of the Council's response to the Peer Review and Corporate Assessment, the then Head of Legal and Democratic Services was tasked with completing a Corporate Governance Review and Rod Alcott of the WLGA was engaged to act as an external critical friend.
- 1.3 The report prepared by Rod Alcott was presented to the Audit Committee on 28 June 2016 and included a number of

recommendations which relate to issues which fall under the terms of reference of the Audit Committee

- 1.4 This report identifies the proposed action to be taken in response to those recommendations

2. Corporate Governance Review - Recommendations

- 2.1 The recommendations arising from the Corporate Governance Review which directly relate to issues which are the responsibility of the audit committee are shown below

- Develop criteria to measure the 'added value' being provided by Internal Audit as a means of demonstrating its corporate contribution
- Use the criteria to measure 'value added' to evaluate Internal Audit's contribution and inform future plans
- Expand the remit of the Audit Committee to include, for example, oversight of the Council's response to external regulator/peer review recommendations as a significant agenda item for the second six months of the municipal year
- Broaden the contribution to the Annual Governance Statement (AGS) by convening a representative group from across the organisation to meet quarterly to keep the AGS under review
- Produce a more succinct AGS document that contains hyperlinks to the relevant evidential documents.

- 2.2 The recommendations shown above cover 3 main issues i.e. added value provided by Internal Audit, remit of the Audit Committee and preparation of the Annual Governance Statement. Each issue is discussed in the following sections.

3. Internal Audit Added Value

- 3.1 Since the Corporate Governance report was received, attempts have been made to identify appropriate criteria to measure added value by Internal Audit but this has been largely unsuccessful.
- 3.2 A question was raised at the last meeting of the Welsh Chief Auditors Group but no Council in Wales measures added value by its Internal Audit Section.
- 3.3 Research has shown that there also appears to be no readily agreed definition of what added value means with publications adopting various and sometimes conflicting definitions.
- 3.4 However, it is proposed that the following definition of added value provided in the Glossary to the Public Sector Internal Auditing Standards should be adopted

***'Add Value** – the internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management and control processes'*

- 3.5 This means that in addition to providing assurance that risks are being adequately controlled, there is an expectation that Internal Audit will add value to an organisation by providing assurance that the processes in place will help the organisation to meet its strategic targets.
- 3.6 It is accepted that to add value, internal auditors have to go beyond the traditional methods of verifying compliance with policies and procedures and should identify and address risks which could prevent the Council achieving its objectives.
- 3.7 The types of questions that internal auditors should be asking in future are
- Is the Council doing the right things?
 - Is it doing things the right way?
 - Is it getting things done well?
 - Is it getting maximum benefit?
- 3.8 The Internal Audit Section is already attempting to raise the profile of the value it can add across the Council as the annual Consultation Exercise with all Heads of Service which is undertaken as part of the annual audit plan process includes a request for them to identify any pieces of work which would add value to their services. Some suggestions have been made by Heads of Service but this has been largely unsuccessful.
- 3.9 The overall conclusion of the research into criteria to measure the added value of Internal Audit is unsatisfactory as it has not been possible to identify a method to measure the value added by Internal Audit.
- 3.10 However, it is felt that some action can be taken by Internal Audit to raise the profile of the added value that it can provide across the Council and the following suggestions are put forward for discussion
- Raise the profile of what the Internal Audit Section can provide in terms of added value in the next Consultation Exercise in an attempt to generate suggestions for pieces of work from Heads of Service
 - Include an added value section in the Audit Brief document which is agreed with management prior to the commencement of each audit. This would allow management the opportunity to suggest pieces of work which would add value to their system or establishment

- Include a section on the added value provided in each audit report
- Include a section on added value provided in the quarterly monitoring report to the Audit Committee
- Include a section on added value provided in the Internal Audit Annual Report
- Continue to develop more cross-cutting audits which look at issues across the Council rather than routine compliance audits. This way of working has been developed in the Internal Audit Plan 2017/18 but can be developed further going forward.

4. Remit of Audit Committee

4.1 The remit of the Audit Committee is largely governed by the Local Government (Wales) Measure 2011 and the model terms of reference and core principles for an Audit Committee put forward by CIPFA

4.2 As demonstrated by the recent annual performance review of the Audit Committee facilitated by the Wales Audit Office, the Committee is providing sufficient assurance to the Council within its current terms of reference.

4.3 The suggestion made in the Corporate Governance Review is that the current remit of the Audit Committee should be widened so that it monitors any recommendations made by other external regulators or assurance providers. For example, this could include recommendations arising from the following

- WLGA Peer Review
- ESTYN
- CSSIW
- Public Service Ombudsman for Wales
- Welsh Language Commissioner
- Future Generations Commissioner for Wales
- The Older People's Commissioner for Wales
- The Children's Commissioner for Wales
- The Equality and Human Rights Commission

4.4 The Audit Committee are requested to provide their views on expanding the remit of the Audit Committee as recommended in the Corporate Governance Review report.

5. Annual Governance Statement

5.1 A representative group has been established to broaden the contribution to the Annual Governance Statement. The following staff have been nominated for the group

- Chief Finance and Deputy Section 151 Officer
- Interim Head of Legal and Democratic Services

- Head of Democratic Service
- Business Performance Manager
- Chief Auditor

5.2 The group will meet in the near future to discuss the draft Annual Governance Statement 2016/17 including the format of the Statement.

6 Equality and Engagement Implications

6.1 There are no equality and engagement implications associated with this report

7. Financial Implications

7.1 There are no financial implications associated with this report.

8. Legal Implications

8.1 There are no legal implications associated with this report.

Background Papers: None

Appendices: None