



## Report of the Chair of the Audit Committee

Audit Committee – 14 August 2018

### Draft Audit Committee Annual Report 2017/18

<b>Purpose:</b>	This report provides the draft Audit Committee Annual Report 2017/18 municipal year.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that the Audit Committee review and discuss the Audit Committee Annual Report 2017/18 so that any suggested amendments can be made prior to the final version returning to Committee and later being presented to Council.
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#### 1. Foreword by Mrs Paula O'Connor, Chair of the Audit Committee

- 1.1 This report provides an overview of the Audit Committee's work in the municipal year 2017/18. The previous Lay Member and Chair of the Committee resigned with effect from the 31st January 2018 and I became elected as Lay Member and Chair for the remainder of the Municipal year on 10th April 2018.
- 1.2 I am pleased to present this report prepared by the Chief Auditor that reflects on the work of the Audit Committee under the previous Lay Member and Chair, it also contains the outcome of the review of the Committee's performance against the best practice CIPFA framework with

recommendations to enhance the Committee's effectiveness as the 2018/19 year progresses.

- 1.3 As the newly appointed Lay Member and elected Chair I have considered the information received at the Audit Committee meetings during 2017/18 and it is evident that the Committee received professional support from Finance, External Audit (Wales Audit Office), Internal Audit, and Risk Management. Additionally, the previous Chair actively met with Heads of Service where the internal audit work resulted in a moderate or limited level of assurance in order to drive improvement.
- 1.4 I also note that in February 2017 the Wales Audit Office annual performance review of the Audit Committee confirmed that the Audit Committee felt that it was performing well against the Core Principles but noted some areas for improvement particularly with regard to the Committee's involvement and awareness of Risk Management. In November 2017 the Committee were provided with an update report that outlined progress against the recommendations from the February 2017 performance review; this report confirmed progress but some recommendations will continue to be progressed in 2018/19.
- 1.5 Since my appointment as Chair, and the appointment of Deputy Chair Paxton Hood-Williams, we have been supported by Officers of the Council for which we are very grateful. I would also wish to record my thanks to all Elected Members who serves on the Committee that have welcomed me into this role.
- 1.6 The Committee has a broad and important role and therefore it has reflected on the effectiveness of governance, risk management and control that supports and informs the Council's Annual Governance Statement in 2017/18.
- 1.7 Recently, enhancements to the Audit Committee's work plan were actioned to ensure that the work plan directly links to the Committee's Terms of Reference and the Committee has requested clarity on the Council's assurance framework and detail behind the corporate risk register.
- 1.8 The Wales Audit Office annual performance review undertaken in June 2018 is attached to this report and progress against action to the recommendations made will be monitored on a regular basis throughout 2018/19. Looking forward to 2018/19, the financial challenges facing the Council along with increasing demand for services and improving performance, within this context the importance of an effective Audit Committee remains critical.

## **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 one 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 This draft report describes the assurance that has been gained by the Audit Committee from various sources during 2017/18 and also outlines a number of other areas where briefings have been provided to the Committee.
- 2.5 The draft Audit Committee Annual Report 2017/18 is reported to the Committee to provide members with the opportunity to give their views on the assurances received and to identify the key messages arising from the work of the Committee during the year which should be reported to Council.
- 2.6 The draft report will be amended for any comments made at this meeting with the final report being presented to the Audit Committee in September for formal approval. The Chair will then present the Annual Report to Council later in the year.

### **3. Committee Membership**

- 3.1 The membership of the Audit Committee during 2017/18 is shown in the following table:

Mr AM Thomas – Lay Member and Chair (to 31/01/18)	Mrs Paula O'Connor – Lay Member and Chair (from 10/04/18)
Cllr L James – Vice Chair	Cllr TJ Hennegan
Cllr S Pritchard	Cllr LV Walton
Cllr TM White	Cllr OG James
Cllr PR Hood-Williams	Cllr MB Lewis
Cllr C Anderson	Cllr WG Thomas
Cllr JW Jones	Cllr B Hopkins
Cllr PK Jones	

- 3.2 There were a number of changes to the membership of the Audit Committee during 2017/18. Of the current committee members, 7 were also members in 2016/17. The previous Lay Member and Chair of the committee resigned with effect from the 31/01/18 and was replaced Mrs Paula O'Connor as Lay Member on 08/03/18 who was also elected as chair for the remainder of the Municipal year on 10/04/18.

- 3.3 The Committee moved to a schedule of 2-monthly meetings in 2015/16 however it was recognised that the agenda for the 2-monthly meetings were becoming excessively long so a number of special meetings were arranged to help smooth out the Committee's work programme.
- 3.4 The Committee met on 8 occasions during 2017/18. Over the course of the year, attendance at the meetings was 66%

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

- 4.1 The Audit Committee approved the Internal Audit Charter 2018/19 as required by the Public Sector Internal Audit Standards.
- 4.2 The Audit Committee also approved the Internal Audit Annual Plan 2018/19 and has received quarterly monitoring reports from the Chief Auditor showing progress against the 2017/18 Audit 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 previous 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 previous 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.
- 4.6 Following the appointment of the new Chair and as a result of further discussions with committee members, it was decided that from April 2018 the relevant Head of Service and Service Manager would be required to attend Audit Committee following a moderate or limited audit report being issued in order to provide an update to members as to what action is being taken to address the issues that have been highlighted by the audit.
- 4.7 The Internal Audit Annual Report 2016/17 was reported to the Audit Committee which included a review of actual work completed compared to the Annual Plan.
- 4.8 The Internal Audit Annual Report also included the Chief Auditor's opinion on the internal control environment for 2016/17 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.

- 4.9 The Internal Audit Annual Report 2017/18 is due to be presented to the Audit Committee on the 14<sup>th</sup> August 2018 which includes a review of actual work completed compared to the Annual Plan for 2017/18.
- 4.10 The Internal Audit Annual Report for 2017/18 also includes the Chief Auditor's opinion on the internal control environment for 2017/18 which also states 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.
- 4.11 The Internal Audit Annual Report of School Audits 2016/17 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 2016/17**

- 5.1 The draft Annual Governance Statement 2016/17 was presented to the Audit Committee prior to being reported to Council 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 2016/17**

- 6.1 The Strategic Finance Manager (Corporate) presented the draft Statement of Accounts 2016/17 for the Council and the Pension Fund to the Committee and answered a number of queries raised by members of the Committee.
- 6.2 Following completion of the audit of the Statement of Accounts 2016/17, the Wales Audit Office presented its ISA 260 reports on the audit of financial statements of the Council and Pension Fund to the Audit Committee prior to the reports going to Council. The reports presented the detailed findings of the audit and stated that the Wales Audit Office view was that the accounts gave a true and fair view of the financial position of the Council and Pension Fund.

## **7. External Audit Assurance**

- 7.1 As well as the Audit of the Statement of Accounts reports mentioned above, the Wales Audit Office also provided an update report to the majority of scheduled meetings. The report outlined the progress being made in financial and performance audit work to the Committee.
- 7.2 The Wales Audit Office also provided assurance to the Audit Committee by presenting the following reports:

- Certification of Grants and Returns 2016/17
- Savings Planning Report
- Good Governance When Determining Significant Service Changes
- Annual Audit Letter 2016/17
- Wales Audit Office Audit Plan 2017/18 including performance and financial audit work

## **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 2016/17, the results of the tracker exercise showed that 86% of agreed recommendations had been implemented by 30 November 2017.
- 8.3 The implementation of any high or medium risk recommendations arising from non-fundamental audits that received a moderate or limited level of assurance are subject to follow up visits 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 2017/18 and in some cases it was found that substantial progress had been made by management in implementing the agreed recommendations within the agreed timescale.
- 8.5 However, it was disappointing that a number of audits were identified where substantial progress had not been made in implementing the agreed recommendations and in some cases a 2<sup>nd</sup> follow up visit had to be scheduled.
- 8.6 It should be noted that from April 2018 onwards, a new approach was agreed by Committee in relation to those audits receiving a limited or moderate level of assurance. In such circumstances, the Head of Service and Service Manager are now required to attend Audit Committee shortly after the report has been issued to provide Members with an explanation as to what action is being taken to address the issues that were identified as part of the audit. It is envisaged that this will assist in ensuring recommendations are implemented promptly following the issue of the report and prior to the standard follow up visit.
- 8.7 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 A training presentation was made to the Committee on Risk Management during the year. In addition, the Committee received an additional presentation from the Strategic Delivery & Performance Manager in relation to the updated Risk Management Policy & Framework that was introduced in year.
- 9.3 The Strategic Delivery & Performance Manager also provided regular updates to the Committee in relation to Risk Management throughout the year.
- 9.4 The Committee was also granted access to the Corporate Risk Register. However, at the time of compiling this report some Members were experiencing difficulties accessing the electronic registers. The Strategic Delivery and Performance Manager is working to address this issue to ensure all members have access.

## **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.

## **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 of the Scrutiny Programme Committee has attended the Audit Committee to provide an update on the work of Scrutiny.
- 11.3 In previous years the Chair of the Audit Committee has attended the Scrutiny Programme Committee to provide an update on the work of the Audit Committee. Due to the resignation of the previous chair this did not take place in 2017/18. However, the Audit Committee Workplan for 2017/18 was shared with the Scrutiny Programme Committee and it is envisaged that the newly appointed Chair will attend a Scrutiny Programme Committee meeting in 2018/19.

## **12. Anti-Fraud**

- 12.1 A Corporate Fraud Function was established during 2015/16 within the Internal Audit Section and the Corporate Fraud Annual Plan 2017/18 and Corporate Fraud Team Annual Report 2016/17 were presented to the Audit Committee.
- 12.2 An update on the work of the Corporate Fraud Team in 2017/18 and the Corporate Fraud Annual Plan 2018/19 were also presented to the Committee.

## **13. Briefings**

- 13.1 The Audit Committee received a number of briefings during 2017/18 as noted below:
- Work of Policy Development & Delivery Committees
  - Internal Audit Plan Methodology
  - Risk Management Policy & Framework
  - Review of Revenue Reserves Report 2016/17
  - Treasury Management Annual Report 2016/17

## **14. Audit Committee Training**

- 14.1 Training was provided in the follow areas which are included in the terms of reference of the Audit Committee
- Internal Audit
  - Governance
  - Standards in Public Life
  - External Audit
  - Financial Statements
  - Risk Management
  - Counter Fraud
- 14.2 The training in 2017/18 was delivered in short sessions with, for example, one topic being covered at the start of each meeting and limited to 30 minutes where possible.

## **15. Action Tracker Report**

- 15.1 An Action Tracker Report was added to the agenda of each meeting in 2017/18 to allow the Committee to monitor the action taken in response to any decisions made by the Committee. The report was well received as it provided a way for members to monitor progress in implementing the actions decided by the Committee.



## **16. Audit Committee – Performance Review 2017/18**

- 16.1 The Audit Committee's annual performance review for 2017/18 was facilitated by the Wales Audit Office. The format of the Performance Review was for the members of the Committee to review the Committee's performance against the 7 Core Functions of an Audit Committee which had been established by CIPFA.
- 16.2 The members of the Audit Committee were individually asked to score the Committee's performance against each of the Core Functions using a scoring range of 1 to 10. Committee members were also asked to individually identify what they thought the Committee was doing well in relation to each Core Function and what the Committee could do better.
- 16.3 The Wales Audit Office captured the views of the Audit Committee in relation to each Core Function and has produced the summary shown in Appendix 1.
- 16.4 The Wales Audit Office has also identified the key findings of the Performance Review based on the views of the Audit Committee members. The key findings are shown below:
- Assurance Framework – The Audit Committee needs clarity on the Council's Assurance Framework.
  - Risk Register – The Audit Committee needs to see the detail behind the Corporate Risk Register.
  - Annual Governance Statement (AGS) – The Audit Committee would like to see the AGS separated from the Annual Accounts and a draft copy sent to them for comment prior to approval.
  - Benchmarking – The Chair has provided benchmarking detail to Internal Audit (from other Councils) but there are no plans to visit and meet with other Audit Committees:
    - Consider how to best use this benchmarking information.
    - Consider visits to other audit committees to search for good practice.
  - Council Objectives – The Audit Committee would like to see the amount of over-run and deferred audits to be included in the AGS.
  - Partnerships – Review the mechanisms for assessing and scrutinising the risk associated with partnerships.
  - Reporting – produce a programme of expected external reports for Audit Committee to receive.
  - Recommendations – produce a tracker for the recommendations that arise from the work of internal and external audit so that Audit Committee can effectively monitor progress.
  - Wales Audit Office (WAO) escalation process – clarify the process the WAO uses to escalate actions when recommendations have not been completed.
  - Meeting with WAO – consider who should attend meetings with the WAO as external auditor (just the Chair or the whole committee).

- 16.5 The key findings of the Performance Review identified above will be turned into an Action Plan which will be reported to the Audit Committee at the September 2018 meeting and periodically throughout the year so that the Committee can monitor the progress made in addressing the issues arising from the Performance Review.
- 16.6 Overall, the outcome of the Performance Review is that the Audit Committee judged the Committee positively with a range of 5.5-7.5 out of a score of 10 for six of the seven (CIPFA) Core Functions. The Core Function 1 relating to understanding of the Council's assurance framework and risk scored at 3.6. Eleven key findings were raised by the Wales Audit Office for taking forward in 2018/19 that would further strengthen the effectiveness of the Audit Committee.

## **17. Performance Review 2016/17 – Review of Actions**

- 17.1 The Audit Committee's annual performance review for 2016/17 was facilitated by the Wales Audit Office in February 2017.
- 17.2 Overall, the outcome of the Performance Review was that the Audit Committee felt that it is performing well against the Core Principles. However, some areas for improvement were noted in relation to Committee involvement and awareness of Risk Management. It was also felt that there were a number of issues which could be addressed during the year which would allow the Committee to provide a greater level of assurance to the Council.
- 17.3 Committee were provided with an update report in November 2017 outlining the progress that had been made to date against the key findings of the 2016/17 performance review. The update included a number of proposals aimed at further developing the Committee in line with the findings of the review. Unfortunately, as a result of the then Chair of the Committee giving notice of his intention to resign from post, the proposals and key findings were not progressed any further as the Chair wasn't in attendance at any further meetings.
- 17.4 A new Chair was appointed in March 2018 and an update report was presented to Audit Committee in June 2018 so that any relevant key findings outstanding could be considered as part of the 2017/18 performance review.
- 17.5 A summary of the key findings arising from the 2016/17 performance review can be found in Appendix 1, together with a brief update as to the actions that have been taken as presented to the Committee in the update report in June 2018.

## **18. Future Audit Committee Meetings**

- 18.1 The Council Diary for the new municipal year continues to include Audit Committee meetings on a 2 monthly basis.
- 18.2 However, based on the experience in previous years, it is clear that special meetings may need to be held at certain times of the year to ensure the smooth delivery of the Committee's work programme. The Committee also has the ability to call further additional meetings when required.

## **19. Equality and Engagement Implications**

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

## **20. Financial Implications**

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

## **21. Legal Implications**

- 21.1 Part of the role of the Audit Committee as set out by the Local Government (Wales) Measure 2011 is to make reports and recommendations in relation to the authority's financial affairs, including an assessment of the risk management and corporate government arrangements and the adequacy and effectiveness of those arrangements.

**Background Papers:** None

**Appendices:** Appendix 1 – Performance Review 2016/17 Key Findings Update  
Appendix 2 - Audit Committee Performance Review 2017/18

## PERFORMANCE REVIEW 2016/17 - KEY FINDINGS UPDATE

Key Finding	Progress to Date
1. Risk Management - provide more detailed information (Risk Register) to Audit Committee	In order to provide more information to Committee, periodic updates from the Business Performance Manager have been added to the Committee Workplan. Committee has also received Risk Management Training as well as an overview of the updated Risk Management Policy and Framework. Committee members have also been granted access to the Corporate Risk Register.
2. Risk Management – develop ‘what if’ scenarios	
3. Other regulators – see the work of other regulators at the Council (CSSIW, Estyn, PSoW)	As reported to Committee in November 2017 it is envisaged that the periodic updates from the Business Performance Manager will include information covering these areas.
4. Tracking of recommendations – central place for all recommendations	Not progressed – to be discussed as part of the 2017/18 performance review if still considered to be relevant.
5. Tracking of recommendations – look at timescales – is 12 months too long?	
6. Meeting with the Audit Committee in private – should all members of Audit Committee meet with WAO rather than just the Chair?	
7. Good Practice – look at other bodies e.g. Police, NHS	
8. Good Practice – WAO to signpost good examples	The proposal for Wales Audit Office to suggest any best practice identified from work with other Audit Committees was included in the update report presented to Committee in November 2017. However, this was not progressed.
9. Development of Audit Committee – look at other Audit Committee’s to benchmark and for good practice	As per the update for key finding number 7.
10. Development of Audit Committee – train with members of other Audit Committee’s	As per the update for key finding number 7.
11. Attendance – improve attendance from Members and Officers	Not progressed – to be discussed as part of the 2017/18 performance review if still considered to be relevant.

*(As reported to Committee on 09/11/17)*

Focus Group	City and County of Swansea Audit Committee
Date	Tuesday 26 June 2018
Location	Swansea Guildhall – Committee Room 5
Facilitators	Gareth W Lewis and David Williams
Attendees	Eight members of the Audit Committee, including the Chair and Vice Chair. One member of the Internal Audit team

Key Findings
<ul style="list-style-type: none"> <li>• <b>Assurance framework</b> - The Audit Committee needs clarity on the Council’s assurance framework.</li> <li>• <b>Risk Register</b> - The Audit Committee needs to see the detail behind the corporate risk register.</li> <li>• <b>AGS</b> - The Audit Committee would like the AGS separated from the Annual Accounts and a draft copy sent to them for comment prior to approval.</li> <li>• <b>Benchmarking</b> - The Chair has provided benchmarking detail to Internal Audit (from other Councils) but there are no plans to visit and meet with other Audit Committees: <ul style="list-style-type: none"> <li>○ Consider how best to use this benchmarking information;</li> <li>○ Consider visits to other audit committees to search for good practice.</li> </ul> </li> <li>• <b>Council objectives</b> – the Audit Committee would like to see a clear link between the Council’s objectives and the Internal Audit work plan.</li> <li>• <b>AGS</b> – The Audit Committee would like to see the amount of over-run and deferred audits to be included in the AGS.</li> <li>• <b>Partnerships</b> – review the mechanisms for assessing and scrutinising the risks associated with partnerships.</li> <li>• <b>Reporting</b> – produce a programme of expected external reports for Audit Committee to receive.</li> <li>• <b>Recommendations</b> – produce a tracker for the recommendations that arise from the work of internal and external audit so that Audit Committee can effectively monitor progress.</li> <li>• <b>WAO escalation process</b> – clarify the process the WAO uses to escalate actions when recommendations have not been completed.</li> <li>• <b>Meeting with the WAO</b> – consider who should attend meetings with the WAO as external auditor (just the Chair or the whole committee).</li> </ul>

Core Function 1
<p>Be satisfied that the authority’s <b>assurance statements</b>, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and <b>demonstrate how governance supports</b> the achievements of the authority’s objectives.</p>
<p>Scoring:</p> <ul style="list-style-type: none"> <li>• 0 (not seen the AGS); 0; 2; 3; 4 (haven’t seen it); 6; 7; 7</li> <li>• Total = 29</li> <li>• Average = 3.6</li> </ul>
<ul style="list-style-type: none"> <li>• New members on Audit Committee haven’t seen this year’s AGS.</li> <li>• There is no access to the risk register – all the Audit Committee gets is the number of risks. The Committee knows there are 31 high level corporate risks but does not see any of the detail behind that number. The committee sees some element of risk but does not get to see the detail or the significance of the risks. This has been an ongoing issue for some time and is an area of concern for the Audit Committee.</li> <li>• assurance framework – the Chair of the Audit Committee has asked to meet with the CE to discuss this issue. She will then feedback to the members of the committee.</li> <li>• Some members of the Audit Committee struggle with the term ‘assurance’ and what it means?</li> </ul>

They asked for training to be provided to new members.

- The Audit Committee does not see a draft version of the AGS to provide comment on.
- The Audit Committee felt the AGS was buried within the Annual Accounts – could it be separated and sent to Audit Committee separately?
- The Head of Internal Audit presents a risk-based audit plan to the Audit Committee – the committee has asked for more exposure to the pieces of work contained in that plan. The plan is a step in the right direction for the committee as it keeps them informed.
- The members of the Audit Committee are relying on the officers (who have a statutory responsibility) to provide assurance – and are happy with that at present.
- It was felt that members receive less information now than in the past. The resource for providing information to the Audit Committee is challenging – there is already a tight capacity and a restructure is going on now.

## Core Function 2

In relation to the authority's **internal audit** functions:

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

Scoring:

- 5; 7; 7; 7; 8; 8; 9; 9
- Total = 60
- Average = 7.5

- The Audit Committee believes it has excellent support from Internal Audit.
- The Audit Committee believes the previous head and current Head of Internal Audit performed well.
- Cardiff Council has performed an external assurance report on the Council's Internal Audit team which was largely positive:
  - There was one item on independence that needed resolving – the Head of Internal Audit was producing the AGS. That has since been actioned so that the Monitoring Officer now produces the AGS.
- The support from Internal Audit seems good but a lot of committee members are new so have only seen a small amount of work so far.
- The Chair of Audit Committee has asked for additional items to go into the Internal Audit Plan – for example, there is no link between the work the Internal Audit team plans to do and the Council's objectives. The Head of Internal Audit has stated that consideration will be given next year to the request that the audit plan be linked to the Council's objectives more closely next year.
- The Audit Committee does not see individual internal audit reports. The committee receives a brief summary of each audit within the Head of Internal Audit's progress report. Recently, these reports have contained the overall objectives of each audit. The brief summary provides the headline reasons for why the report has been given an assurance rating of 'moderate' or below. However, the committee does not see the actions for each audit.

- The Audit Committee believe Internal Audit operates with integrity and a clear focus.
- The Audit Committee has concern over the staffing levels in Internal Audit and the loss of some specialist skills (e.g. IT Auditor) and the subsequent impact on the delivery and depth of coverage of the annual internal audit plan.
- The Audit Committee would oppose any further proposed reductions in the staffing levels of Internal Audit.
- Some audits have taken a long time (e.g. school audits) and some have been deferred from last year.
- The Audit Committee need to keep an eye on audits which over-run or are deferred from the previous year. A lot of audits regarding governance, risk and IT were deferred from last year and the committee want to see that mentioned in the AGS.
- The Internal Audit team now programme in follow-up audits on all reports labelled as 'moderate' or below. All such reports go to Audit Committee and the HoS/Manager/Chair of Governors/ Head teacher will be required to attend an Audit Committee meeting to explain and update. Audit Committee members say this approach gives the HoS a good opportunity to provide a more detailed and/or updated picture of the situation. The HoS comes to Audit Committee to clarify and show progress. The Audit Committee asked for this approach and Internal Audit supported it to make it happen. The committee members believe this approach sends the right message out too – about being accountable.

### Core Function 3

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.

#### Scoring:

- 3; 3; 5; 6; 6; 7; 8; 8;
- Total = 46
- Average = 5.75

- The Audit Committee believe that partnership risk are not being looked at suitably – members feel they are not getting the answers to the questions they are asking. The committee believes that the scrutiny arrangements for partnerships are not in place.
- The City Deal is viewed as a high risk partnership arrangement.
- Certain partnership arrangements are not being scrutinised properly – members feel they are not getting to the heart of partnerships such as ERW and Western Bay. They were described as being 'off the scale'.
- The Audit Committee is getting regular updates on risk but it is not getting the required detail. Members of the committee have been given access to an on-line risk register but that has only happened recently.
- The Audit Committee has confidence in the capacity and integrity of officers.
- The Audit Committee want to discuss risk in more depth at their meetings to get the right level of assurance – at the moment all they talk about is the number of risks.
- The Audit Committee believe they are moving in the right direction with regard to risk – they talk

about it and now have on-line access to the register. But they need more detail.

- The Audit Committee believe the Risk Strategy is sound but they need more detail – they need access to the detail so they can scrutinise it properly.
- The Audit Committee do not know how risks are being mitigated or when risks are escalated to the CX. They are asking for guidance on these matters so they understand when and how risk is managed.

#### Core Function 4

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.

Scoring:

- 5; 5; 6; 7; 7; 8; 8; 9
- Total = 55
- Average = 6.9

- Audit Committee members are satisfied with the work of the Council's counter fraud team – they did a presentation to the committee which gave a level of assurance.
- They felt that the measures put in place provided assurance to the Audit Committee.
- However, all of that team's work is reactive at the moment. Concerns were expressed that due to the high work load, more pro-active work to deter fraud could not be undertaken.
- The counter fraud team has a lot of work on as they are getting a lot of requests from HoS and there are two officers in the team (which is a specific function team within Internal Audit).
- Audit Committee members have not seen a lot of VFM work coming before them – but is this because it is done in Pre-decision Scrutiny when they look at the outcomes of commissioning reviews?
- Audit Committee members believed that the control gives VFM. The work of Internal Audit and counter fraud is presented to Audit Committee so they see the value they add but perhaps that work is not so transparent outside of Audit Committee.
- The Audit Committee approved the counter fraud plan of work but added the remit that the resource (the team) must be kept by the Council.
- The Internal Audit team believe that the counter fraud function is well advertised so HoS know about it and can ask for work.
- The Internal audit team are aware that NPT CBC are looking at Swansea's counter fraud team and trying to put something similar in place.

#### Core Function 5

**Consider the reports and recommendations** of external audit and inspection agencies and their implications for governance, risk management or control

Scoring:

- 5; 6; 7; 8; 8; 8; 8; 9
- Total = 59



<ul style="list-style-type: none"> <li>• Average = 7.4</li> </ul>
<ul style="list-style-type: none"> <li>• Overview and Scrutiny recently saw a report on Mental Health inspection.</li> <li>• The Audit Committee believe that external audit is too cautious in their reporting – the reports appear too fair and too balanced. However, the reports are thorough and easy to read.</li> <li>• The Audit Committee does not see external inspection agency reports (the ‘new’ Chair has not seen any since her time on the Committee).</li> <li>• The Chair of Audit Committee suggested putting a programme of expected reports for Audit Committee in place. This would provide clarity to the committee on what reports were coming and when – it would also provide them with the opportunity to challenge why certain reports were not coming before them.</li> <li>• The Audit Committee believe that Overview and Scrutiny is aware of the audit work programme and vice versa.</li> <li>• The Audit Committee are aware that their Chair attends one meeting of Overview, and Scrutiny and the Chair of Overview and Scrutiny attends one meeting of the Audit Committee.</li> <li>• The Audit Committee sees the Annual Audit Letter as part of their work.</li> <li>• The Audit Committee believe they see the recommendations from the WAO reports and are aware of the follow up required. However, the Chair would like to see a more structured approach to the follow up of recommendations to enable the committee to track performance, as recent WAO updates indicated progress was still ongoing for reports originally issued in 2014.</li> </ul>

<b>Core Function 6</b>
<b>Support effective relationships</b> between external audit and internal audit, inspection agencies and <u>other relevant bodies</u> , and encourage the active promotion of the value of the audit process.
Scoring: <ul style="list-style-type: none"> <li>• 5; 6; 7; 7; 7; 8; 8; 8</li> <li>• Total = 56</li> <li>• Average = 7</li> </ul>
<ul style="list-style-type: none"> <li>• The Audit Committee believe that the Internal Audit has a good relationship with the WAO. In particular, there is good dialogue to make sure Internal Audit is not duplicating the work of the WAO. Committee members see the good relationship between Internal Audit and the WAO.</li> <li>• The WAO attend every meeting of the Audit Committee which the committee members value greatly.</li> <li>• The audit Committee members could not think of any bad experiences with external agencies which suggest to them that all is going well.</li> <li>• Committee members feel they could reach out to the WAO at any time to meet and discuss issues.</li> </ul>

<b>Core Function 7</b>
<b>Review</b> the financial statements, external auditor’s opinion and reports to members, and <b>monitor</b> management action in response to the issues raised by external audit.
Scoring:

- 0 (new member); 2 (new member); 5; 7; 7; 7; 8; 8
- Total = 44
- Average = 5.5

- The Audit Committee are happy for the Chair to meet the WAO alone. However, The Chair stated she thought it would be beneficial for all of the committee to meet with the WAO. The Committee stated that the NHS and the Assembly Commission meet as a whole committee with external and internal auditors.
- The Audit Committee are concerned about the time it is taking to close down actions from audit work – further work is required to track the actions/recommendations so the Committee can monitor completion. Internal Audit were unclear as to how external recommendations were tracked and monitored.
- The follow up and completion of Internal Audit recommendations seems to happen more quickly to the Committee. Internal Audit stated that they categorise their work under four levels of assurance – anything that is graded ‘moderate’ or below has a follow-up audit programmed in for three months and the HoS is called to update the Audit Committee.
- The Audit Committee is unclear on the WAO process for monitoring recommendation completion.
- The Audit Committee is not aware of the escalation process the WAO follows when actions/recommendations are not completed.
- The Audit Committee believed there are significant delays in actioning external audit recommendations and that there is work for the Audit Committee and WAO to do here – the Audit Committee would like to track recommendations in committee meetings and would like to develop a tracker with the Internal Audit team.

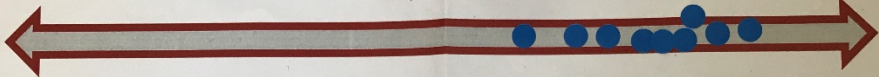
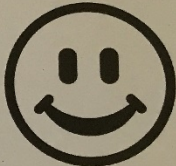
### Exit Questions

#### What one thing would you improve? (5 replies)

- Better understanding of risks and how to action.
- Get a grip on the risk register and associated risks.
- Improve reporting content to Audit Committee on governance, the assurance framework and risk.
- Separate Annual Governance Statement for Audit Committee to consider and approve (Separate to Annual Accounts).
- Greater freedom to choose different areas of the Council’s finances to look into.

How was today?

How **useful** was today for you as a committee?



How much did you **like** the format?

