

**AUDIT COMMITTEE: 21 January 2020**

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**AUDIT COMMITTEE ANNUAL REPORT DISCUSSION 2019/20**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 7.2**

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1. In accordance with its terms of reference, the Audit Committee is required:
  - To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
  - To report to Council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

**Background**

2. The Audit Committee prepares an Annual Report, in which it discloses the outcomes of a Self-Assessment of the effective delivery of its role, and it provides an account of its activities, findings and opinion in respect of its terms of reference. The Audit Committee Chairperson presents the Audit Committee Annual Report to Council in the autumn, following the end of the municipal year.
3. To support the Audit Committee to consider its indicative observations and findings from its programme of work in the municipal year 2019/20 to date, the following information follows a desktop review of the Audit Committee Agenda, Work Programme and Minutes for the year to date. Audit Committee consideration and discussion of this indicative analysis will support the development of its Draft Annual Report 2019/20, for consideration on 23 June 2020.

**Issues**

4. The following paragraphs outline the standard and one-off Audit Committee items and reports received and planned for the municipal year 2019/20, together with the indicative key observations to date, and the primary initiatives taken forward to further progress the delivery and impact of its work. This information is considered to represent the key summary information for Audit Committee to consider, for development within its Annual Report 2019/20 as the year progresses.

**a. Standard Items**

5. The Corporate Director Resources (Section 151 Officer) has provided financial updates at each meeting outlining the budget strategy, financial resilience and the Council's overall financial position. The Audit Committee has continued to seek assurance on controls in place to mitigate overspends, and unrealised savings targets, and has

requested and received an account of the overspends and their reasons in the Social Services for the last three years.

6. The Audit Committee has considered the contents of the Corporate Risk Register quarterly and the Senior Management Assurance Statements (SMAS) biannually. The Audit Committee has continued to invite senior officers to account for how they have discharged effective governance, risk management and control. In particular, assurance has continued to be sought in respect of Brexit, Health and Safety, and Coastal Risk Management, through a combination of risk updates and briefings from senior officers and risk owners, and consideration of the work of colleagues in scrutiny.
7. The Audit Committee has continued to receive the Treasury Management Annual Report, Mid-Year Report, Treasury Management Strategy and the Treasury Performance and Practices Reports. Audit Committee areas of challenge and requests for assurance have related to the levels and nature of investments and borrowing, for which some benchmarking has been considered by Committee. The Audit Committee has also received a briefing on the roles of internal and external audit treasury management assurance, and has received an independent report on Compliance, Evidence, Delivery and Review (CEDR) of the treasury management function.
8. External Audit letters, financial audit reports and updates in national and regional studies have been reported to, and considered by, Audit Committee. This work has been relied upon by the Audit Committee, in seeking assurance in relation to its terms of reference.
9. Audit Committee has continued to place reliance on the work of the Council's Internal Audit Team. The Committee has approved the Audit Charter and Audit Plan for 2019/20, and has received and considered key progress reports which have included regular updates on conformance with the Public Sector Internal Audit Standards, and critical findings and emerging trends from the work undertaken and the audit tracker of recommendations issued and progress in delivery. Particular assurance has continued to be sought in respect of schools, school traded services, and the control environment in respect of the waste management function, for which lower levels of internal audit assurance have been provided.

#### **b. One-off Items**

10. The Audit Committee has invited senior officers to provide first-hand assurance in relation to the internal control environment for their respective areas of responsibility. A number of Directors have attended Audit Committee to provide an overview of their governance, risk management and control assurance.
11. The Audit Committee has also invited senior officers to provide assurance in specific areas, following Audit Committee review of standard item information and outputs. In particular, senior responsible officers have attended, or are arranged to attend Audit Committee this year in respect of the following areas.
  - Schools Governance, Balances and Deficits
  - Risk Based Verification – Housing and Council Tax Benefit Assessments
  - Coastal Risk Management (January 2020)
  - Health and Safety Governance (January 2020)

### c. Key Observations

12. The Key observations of the Audit Committee in the 2019/20 municipal year to date have been documented as follows:
- **Budget Management / Control**
    - Management of overspends in particular directorates
    - Achievement / Control of budget savings proposals
  - **Financial / Internal Control**
    - Continued invitations for Directors to attend and provide assurance on their internal control environments in Audit Committee Meetings
    - Specific areas of governance and risk management have been explored in Committee meetings –Risk Based Verification (November 2019), Coastal Risk Management (January 2020) and Health and Safety Governance (January 2020)
    - Ongoing monitoring of Brexit risk management, through corporate risk register reviews, considering corporate communications and the work of scrutiny, and receiving Wales Audit Office and WLGA publications and guidance
    - Particular attention given to waste management assurance, with the attendance of the Corporate Director - People and Communities brought to an earlier Committee meeting, when they were allocated interim oversight responsibilities in this area.
  - **Financial Resilience (including treasury management)**
    - Updates provided in each Committee meeting
    - Focus on use of reserves, investments, borrowing and risks
  - **Schools Governance and Compliance**
    - Report received on School Governance, Balances and Deficits (September 2019),
    - Ongoing concerns that certain schools have not achieved a satisfactory level of stewardship, internal control and management of school balances.

### d. Initiatives

13. The Council's Audit Committee Chairperson hosted the all Wales Audit Committee Chairs' Network. The network has been established across all local authorities in Wales, to bring together Chairs in an environment where there is the opportunity to network, share ideas and problem solve with peers performing similar roles. The WLGA sponsored the event, and agenda items were delivered by the Wales Audit Office and CIPFA, with contributions from Heads of Audit and Chairs.
14. Through the Chairs' Network we focused on governance, risk and assurance and how to develop the influence of our respective Audit Committees. Within the governance item we received a particularly informative overview of the proposed changes to the role of the Audit Committee through the Draft Local Government and Elections (Wales) Bill. The Bill proposes to expand the remit of the Committee, through a renaming of the Committee as Governance and Audit Committee, and expanding its responsibilities into areas of performance management. The Bill also proposes changes to the composition of the Committee, with minimum proportions of lay members (1/3 of Committee) and the requirement for a lay chairperson.
15. The Committee is keen to understand how its responsibilities may increase through the Bill, and to ensure it effectively responds and continues to discharge its role

comprehensively. The Wales Audit Office will be asked to deliver a session of practical guidance and support to our next Chairs' Network, scheduled for July 2020.

16. Important outputs from the Chairs' Network will be utilised as part of the Audit Committee Self Assessment Workshop, including risk management benchmarking information, and the outputs of a peer to peer consideration of areas to develop areas of Audit Committee influence.
17. This year, targeted training has been delivered in the areas in which Committee Members scored themselves as lower in their individual assessments against the CIPFA core knowledge and skills framework. To date, training has been delivered in areas of financial management and accounting and internal audit, and arrangements are underway to arrange treasury management training as the next topic. The final area for targeted training based on the 2018/19 self assessment is counter-fraud, for which arrangements will be made for delivery prior to the end of the 2019/20 municipal year.

### **Reason for recommendation**

18. To enable the Audit Committee to consider its indicative observations and findings for development within its draft Audit Committee Annual Report.

### **Legal Implications**

19. There are no direct legal implications arising from this report.

### **Financial Implications**

20. There are no direct financial implications arising from this report.

### **Recommendation**

21. Audit Committee to consider the contents of this report and to discuss the development of the Audit Committee Annual Report.

**CHRIS PYKE**  
**AUDIT MANAGER**