

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2018/19**

<b>AUDIT COMMITTEE</b>  <b>25<sup>th</sup> March 2019</b>	<b>AGENDA ITEM NO. 9</b>
<b>REPORT OF DIRECTOR OF FINANCE AND DIGITAL SERVICES</b>	<b>AUDIT COMMITTEE ANNUAL REPORT, INCORPORATING A SELF ASSESSMENT AGAINST THE CIPFA 2018 PRACTICAL GUIDANCE NOTE</b>

Author: Marc Crumbie (Head of Internal Audit and Procurement Development Programmes) in consultation with the Chair of Audit Committee

**1. PURPOSE OF THE REPORT**

- 1.1 The purpose of this report is to present the Audit Committee Annual Report 2018/19 together with a self-assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA) publication 'Audit Committees - Practical Guidance for Local Authorities & Police 2018 Edition'.

**2. RECOMMENDATIONS**

It is recommended that Members:

- 2.1 Review the report and self-assessment (**Appendix 1** and **Appendix 1A** respectively) and determine whether:
- (a) the Annual Report forms a balanced summary of the work undertaken by Audit Committee during 2018/19; and
  - (b) the proposed areas for improvement will further support Audit Committee in delivering its Terms of Reference.
- 2.2 Subject to 2.1, endorse the Audit Committee's Annual Report 2018/19, its incorporation into the Council's Annual Governance Statement and presentation to full Council as appropriate.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 To ensure the Council's Audit Committee is held to account for its work during the year.

#### **4. BACKGROUND**

4.1 The CIPFA publication 'Audit Committees - Practical Guidance for Local Authorities & Police 2018 Edition' sets out the purpose of audit committees as:

- *Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.*
- *The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.*

4.2 The publication also sets out the importance for an audit committee to be held to account on the extent to which it has fulfilled its purpose, with an annual report being a helpful way to address this. As Members will recall, an overview of the CIPFA Guidance was presented to the 17<sup>th</sup> September 2018 Audit Committee.

#### **5. DRAFT ANNUAL REPORT**

5.1 In line with the CIPFA publication, the Head of Internal Audit and Procurement Development Programmes in consultation with the Chair of Audit Committee have completed a draft Audit Committee Annual Report setting out the work of Audit Committee during 2018/19 (**Appendix 1**).

5.2 As part of compiling the draft Annual Report, a self-assessment exercise against good practice was also undertaken using the checklist provided within the CIPFA Guidance. The outcome of the self-assessment process is included at **Appendix 1A** and has been used to inform proposed areas for improvement.

5.3 Audit Committee is requested to review the draft Annual Report and self-assessment and:

- determine whether it forms a balanced summary of the work undertaken by Audit Committee during 2018/19.
- consider whether the proposed areas for improvement will further support Audit Committee in delivering its Terms of Reference.

#### **6. EQUALITY AND DIVERSITY IMPLICATIONS**

6.1. There are no equality and diversity implications as a result of the recommendations set out in the report.

## **7. CONSULTATION**

- 7.1 There are no consultation implications as a result of the recommendations set out in the report.

## **8. FINANCIAL IMPLICATION(S)**

- 8.1 There are no financial implications as a result of the recommendations set out in the report.

## **9. LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 9.1 The production of an Audit Committee Annual Report 2018/19 supports the principles within The Local Government (Wales) Measure 2011 (Chapter 2 / section 81) and is in line with the CIPFA publication 'Audit Committees - Practical Guidance for Local Authorities & Police 2018 Edition'.

## **10. LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

### **THE COUNCIL'S CORPORATE PLAN PRIORITIES**

- 10.1 The work of the Council's Audit Committee aims to support the delivery of the priorities contained within the Council's Corporate Plan – *The Way Ahead*, in particular 'Living Within Our Means' through ensuring that appropriate governance arrangements are in place to effectively manage resources.

### **WELL-BEING OF FUTURE GENERATIONS ACT**

- 10.2 The Sustainable Development Principles, in particular Prevention, can be applied to the systematic reviews undertaken in order to provide assurance that risks to the achievement of objectives are being managed.

## **11. CONCLUSION**

- 11.1 The Audit Committee Annual Report 2018/19 is attached at Appendix 1. It provides a summary of the work that the Committee has undertaken during 2018/19, incorporates a self-assessment against the CIPFA 'best practice' checklist (Appendix 1A) along with proposed areas for improvement.

### **Other Information:-**

***Relevant Scrutiny Committee***  
**Not applicable.**

***Contact Officer*** – Marc Crumbie

**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**25<sup>th</sup> March 2019**

**AUDIT COMMITTEE ANNUAL REPORT 2018/19, INCORPORATING A SELF  
ASSESSMENT AGAINST THE CIPFA 2018 PRACTICAL GUIDANCE NOTE**

**REPORT OF DIRECTOR OF FINANCE AND DIGITAL SERVICES**

Author: Marc Crumbie (Head of Internal Audit and Procurement Delivery Programme) in consultation with the Chair of Audit Committee

**Item: 9**

**Background Papers**

None.

Officer to contact: Marc Crumbie

**APPENDIX 1 – ANNUAL REPORT 2018/19**

**Rhondda Cynon Taf County  
Borough Council**

**Audit Committee**

**Annual Report 2018/19**

## 1. Introduction

- 1.1 A key component of good governance for all organisations is to have in place an Audit Committee. The Council's Audit Committee is in place and its Terms of Reference incorporates the requirements of the Local Government Measure 2011, as follows:

### ***Chapter 2, section 81 of the Local Government (Wales) Measure 2011***

#### ***Local authorities to appoint audit committees***

1. *A local authority must appoint a committee (an "Audit Committee") to—
  - a) review and scrutinise the authority's financial affairs,
  - b) make reports and recommendations in relation to the authority's financial affairs,
  - c) review and assess the risk management, internal control and corporate governance arrangements of the authority,
  - d) make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
  - e) oversee the authority's internal and external audit arrangements, and
  - f) review the financial statements prepared by the authority.*
2. *A local authority may confer on its Audit Committee such other functions as the authority considers suitable to be exercised by such a committee.*
3. *It is for an Audit Committee to determine how to exercise its functions.*

- 1.2 The purpose of our Audit Committee is set out with its Terms of Reference as follows:

#### ***Statement of Purpose:***

*The purpose of the Audit Committee is to monitor the adequacy of the risk management framework and the associated control environment; provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.*

***Terms of Reference*** *As a key element of new arrangements for corporate governance, designed to ensure openness, integrity and accountability, the Committee will assist the Authority in discharging its responsibility for ensuring financial probity, without taking any action which might prejudice it.*

- 1.3 In order to discharge the responsibilities placed upon us, a detailed work-plan is compiled for each Municipal Year. For 2018/19, I worked with the Council's Head of Internal Audit to compile a work-plan that I felt could help us to discharge our responsibilities as members of the Audit Committee. Importantly I was keen to ensure that the work-plan for this year helped us to expand our knowledge and understanding of key areas that we, as members of the Committee, are required to possess in order to scrutinise the Council's governance, risk management and internal control environment.

1.4 Sections 2 and 3 of this report summarise the work that we have delivered during 2018/19 and Section 4 presents the outcome of the self-assessment against the CIPFA Practical Guidance for Local Authorities & Police 2018 Edition.

## 2. Work delivered during 2018/19

2.1 The CIPFA Practical Guidance for Local Authorities & Police 2018 Edition identifies 'Core Functions' of an Audit Committee along with what it refers to as possible 'wider functions' of an Audit Committee.

2.2 The Core Functions are set out below (in bold text), and the work that we have delivered in support of these core functions is summarised under the relevant section.

2.3 **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 achievement of the authority's objectives**

2.3.1 Legislation requires the Council to prepare an Annual Governance Statement (AGS). The Draft AGS 2017/18 was presented to Audit Committee at our meeting held on [30<sup>th</sup> April 2018](#). The document described the governance arrangements in place, challenged their effectiveness and where necessary provided recommendations for improvement. Following receipt of the report, we resolved to:

- *Recommend its certification by the Leader of the Council and the Chief Executive in readiness for inclusion within the Council's draft 2017/18 Statement of Accounts; and*
- *Authorise the Group Director, Corporate & Frontline Services to include reference within the Annual Governance Statement should any relevant reports from External Inspectors be received by the Council before the Statement of Accounts are certified.*

2.3.2 Furthermore, at our meeting held on [17<sup>th</sup> December 2018](#), Officers provided an update on the status of each recommendation. Details of each recommendation, along with a summary of the action taken to progress implementation was reported. Following consideration of that report, we resolved:

- *That the progress made to implement the recommendations was satisfactory.*

2.3.3 The Draft AGS for 2018/19 is due to be presented to Audit Committee at our meeting scheduled for 29<sup>th</sup> April 2019. I have requested that Officers provide a further update on the status of the recommendations noted in paragraph 2.3.2 within the Draft AGS for 2018/19.

## 2.4 In relation to the authority's internal audit functions:

- **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**

2.4.1. A key part of our role is to support the Council's Internal Audit Service to remain independent, assess whether it has adequate resources available to it and, to monitor the performance and quality of work delivered throughout the year.

2.4.2. We received the following key reports from Internal Audit during 2018/19:

2.4.3. **Internal Audit Charter** is a formal document that establishes the Internal Audit Service's position within the organisation, including the nature of the Head of Internal Audit & Procurement Development Programmes' functional reporting relationship with the Board (i.e. the Council's Audit Committee). This document provided us with the information we required in order to assess the independence of our Internal Audit Service. We approved the Internal Audit Charter at our meeting held on [30<sup>th</sup> April 2018](#).

2.4.4. The **Draft Annual Audit Plan 2018/19** was presented to us on the 30<sup>th</sup> April 2018. The Head of Internal Audit outlined the resources available to the Service, and illustrated how those resources had been targeted at the areas identified as being the highest risk/priority to the Council. We were able to see why each assignment has been included within the Draft Audit Plan, and were pleased to see the inclusion of thematic reviews within the schools sector, which was an area that we requested further assurance on during 2017/18. Following discussion, the draft plan was approved.

2.4.5. In addition to the reports noted above, Internal Audit also presented a standard item on the agenda for each Audit Committee in respect of **Performance**. This report provides Audit Committee with detailed information with which the performance of the Service was reviewed and scrutinised.

## 2.5 **Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.**

2.5.1 The regular provision of all **summarised audit assignments** to Audit Committee throughout the year is aimed at assisting us when evaluating the effectiveness of Internal Audit's work across all Council systems and services. It also enables us to form an opinion on the overall control environment of the Council at the end of the financial year.

- Over respective Municipal Years we have had the opportunity to refine the level of information that is reported to us in respect of finalised audit assignments.
- We are now able to fully utilise the information that is presented to us in order for it to be used to inform our view of the overall system of internal control which is in place across the Council.
- A relatively small number of Internal Audit reports caused us concern during 2018/19. On these occasions we debated the issues in detail, and collectively recommended outcomes that were appropriate and in accordance with our Terms of Reference.

2.5.2 The **Head of Internal Audit Annual Opinion** for 2017/18 was presented to us at our meeting held on [30<sup>th</sup> April 2018](#). The Annual Report for 2018/19 is scheduled to be presented to us at our meeting which is scheduled for 25<sup>th</sup> March 2019.

2.5.3 In addition to the reports presented to us by the Internal Audit Service, the following reports were also presented throughout the year all aimed at providing additional sources of assurance on the Council's internal control environment:

- An overview of the National Fraud Initiative, along with an update on the work delivered by the Corporate Fraud Team.
- An overview of the Public Services Network (PSN) audit, along with the reported outcomes.
- Received the outcomes of the staff survey, specifically in relation to awareness of the Council's Whistleblowing & Anti-Fraud Arrangements.

2.5.4 The wider information that was presented to us during 2018/19 in respect of the arrangements in place to tackle potential fraud and receiving assurance from an external assessment such as the PSN Accreditation process all helped our understanding of the arrangements in place.

**2.6 Consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.**

2.6.1. The work-plan for 2018/19 included a wider range of items in respect of risk management and internal control than previous years. When compiling the draft work-plan, we discussed the requirement for a wider range of Officers to attend Audit Committee, to present information and to respond to questions. As a result, the following items were included in the work-plan and presented to the Committee:

- An overview of the Council's Insurance Function, in particular how it supports the Council's Risk Management arrangements.
- An overview of Risk Management arrangements in place in respect of 'Projects'.
- An overview of the term 'Internal Control Environment' incorporating a case study – Agile Working.

2.6.2. Following the receipt of the three reports noted above, my opinion is that they were all well received by Members. Whilst helping to aide our broader understanding of the theory that sits behind the terms of risk management and internal control, the ability to ask specific questions to Officers from the relevant disciplines allowed us to dig deeper into the areas presented.

2.6.3. We also received and endorsed the Council's updated Risk Management Strategy during the year.

2.6.4. Receiving and scrutinising information in respect of the risk management arrangements in place when the Council enters into Partnerships and/or wider collaboration arrangements will be an area that will need to be part of the Committee's work-plan for 2019/20.

## **2.7 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.**

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

2.7.1 At our meeting held on 12<sup>th</sup> July 2018, we received the draft statements of account for the financial year ended 31<sup>st</sup> March 2018. Following consideration of the report, we endorsed the draft accounts.

2.7.2 On the 17<sup>th</sup> December 2018, we received the following reports in respect of the Wales Audit Office:

- Annual Audit Letter 2017/18.
  - We were pleased with the detailed report and noted the recommendations from the 2017/18 audit work together with the actions the Council planned to take in order to address the recommendations.
- A summary of all reports issued by the Wales Audit Office in respect of their Performance work.
  - We were pleased with the content of the report, and the Action Plan detailed at Appendix 1. We **RESOLVED** to acknowledge the steps taken by the Council to monitor the implementation of

‘proposals for improvement’ made within the Wales Audit Office  
‘Annual Improvement Report 2017/18’

### 3. Wider Functions of the Audit Committee

3.1 In addition to the core functions, the Guidance identifies the possible wider functions of an Audit Committee, as follows:

- *An Audit Committee can also support its authority by undertaking a wider role in other areas including:*
  - *considering governance, risk or control matters at the request of other committees or statutory officers*
  - *working with local standards and ethics committees to support ethical values; and*
  - *reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)*

3.2 At our meeting held on [5th November 2018](#), we received an overview of the governance arrangements in place in respect of the Council’s core financial system of Treasury Management.

### 4. Self-Assessment Against the CIPFA Practical Guidance for local Authorities & Police 2018 Edition

4.1 In consultation with the Vice Chair, I have completed the self-assessment checklist, the outcome of which is summarised in **Appendix 1A**. I believe that the Council’s Audit Committee addressed the majority of good practice questions that are included within the checklist.

4.2 The self-assessment has identified a small number of proposals for improvement and these have been summarised in the following Action plan:

Good practice questions		Yes	Partly	No	Response & Proposal for Improvement
<b>Functions of the committee</b>					
7	Does the Committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement? <ul style="list-style-type: none"> <li>• good governance</li> <li>• assurance framework, including partnerships and collaboration arrangements</li> <li>• internal audit</li> <li>• external audit</li> </ul>		✓		Overall, the responsibilities that are set out within our current Terms of Reference are consistent with the Position Statement issued by CIPFA. However, the level of detail between the two documents differs.  The suggested Terms of

Good practice questions		Yes	Partly	No	Response & Proposal for Improvement
	<ul style="list-style-type: none"> <li>financial reporting</li> <li>risk management</li> <li>value for money or best value</li> <li>counter fraud and corruption</li> <li>supporting the ethical framework</li> </ul>				<p>Reference provided at Appendix B of the Guidance document splits out specific areas into more detail.</p> <p><b>RECOMMENDATION:</b> Whilst the current Terms of Reference is compliant with the responsibilities placed upon the Committee, it is recommended that the level of detail as set out within the Guidance is replicated into the Terms of Reference for Audit Committee.</p>
<b>Membership and support</b>					
12b.	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>an appropriate mix of knowledge and skills among the membership</li> </ul>		✓		<p>The level of debate at Audit Committee broadly supports a conclusion that Members have a good understanding of their role on this Committee. However, a formal skills assessment has not been completed that supports this conclusion.</p> <p><b>RECOMMENDATION:</b> An assessment of the mix of skills for all Members will be undertaken. If required, the outcome of this will be utilised to put in place appropriate training and development opportunities for relevant Members.</p>
16	<p>Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>			✓	<p>A formal assessment against the skills framework contained within the CIPFA Practical Guidance document has not been completed.</p> <p><b>RECOMMENDATION</b> Undertake an assessment against the core knowledge and skills framework for each Member of the Audit Committee.</p>
<b>Effectiveness of the committee</b>					

Good practice questions		Yes	Partly	No	Response & Proposal for Improvement
19	Has the Committee obtained feedback on its performance from those interacting with the Committee or relying on its work?			✓	RECOMMENDATION: As part of incorporating the Audit Committee Annual Report into the Annual Governance Statement, opportunity will be available for feedback to be received from full Council and the Wales Audit Office.
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		Some of the Committee's work clearly demonstrates impact e.g. approving and monitoring 'follow-up reviews' that show improvement in the standards of internal control. Further work is however required to broaden this and explore other impacts / value added as a result of the Committee's work / involvement / influence.

4.3 Subject to Audit Committee agreeing its Annual Report for 2018/19, a progress update will be reported to Audit Committee during 2019/20.

## 5. Concluding Comments

5.1 Our work-plan for this financial year has been balanced and the change in approach in respect of widening the items on each agenda has enabled the scope of information that is reported to us to be broadened. In addition to this, a wider range of Officers have presented reports to us during the year and this has helped us to deliver our Terms of Reference in a more robust way through gaining a better understanding and assurance by asking more detailed questions to Officers with specific areas of expertise.

5.2 I believe that we have discharged the responsibilities placed upon us, the recommendations that have arisen from the self-assessment will help further improve our arrangements and effectiveness. If any skills gaps are identified, then we will need to consider how these can be addressed in a pragmatic way that best improves the overall work of the Committee.

5.3 Finally, I would like to thank all Members of the Audit Committee for their work and support during 2018/19.

## Appendix 1A - Self-assessment of good practice

Good practice questions		Yes	Partly	No
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	✓		
2	Does the audit committee report directly to Full Council?	✓		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓		
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? <ul style="list-style-type: none"> <li>• good governance</li> <li>• assurance framework, including partnerships and collaboration arrangements</li> <li>• internal audit</li> <li>• external audit</li> <li>• financial reporting</li> <li>• risk management</li> <li>• value for money or best value</li> <li>• counter fraud and corruption</li> <li>• supporting the ethical framework</li> </ul>		✓	
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓		
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	N/A		
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		
<b>Membership and support</b>				
12	Has an effective audit committee structure and composition of the committee been selected?  This should include:			
a.	separation from the executive	✓		
b.	an appropriate mix of knowledge and skills among the membership		✓	
c.	a size of committee that is not unwieldy	✓		
d.	consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)	✓		
13	Have independent members appointed to the committee been	✓		

<b>Good practice questions</b>		<b>Yes</b>	<b>Partly</b>	<b>No</b>
	recruited in an open and transparent way and approved by the Full Council?			
14	Does the chair of the committee have appropriate knowledge and skills?	✓		
15	Are arrangements in place to support the committee with briefings and training?	✓		
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the Chief Finance Officer?	✓		
18	Is adequate secretariat and administrative support to the committee provided?	✓		
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✓
20	Are meetings effective with a good level of discussion and engagement from all the members?	✓		
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	✓		
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓		
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓	
24	Does the committee have an action plan to improve any areas of weakness?	✓		
25	Does the committee publish an annual report to account for its performance and explain its work?	✓		