



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

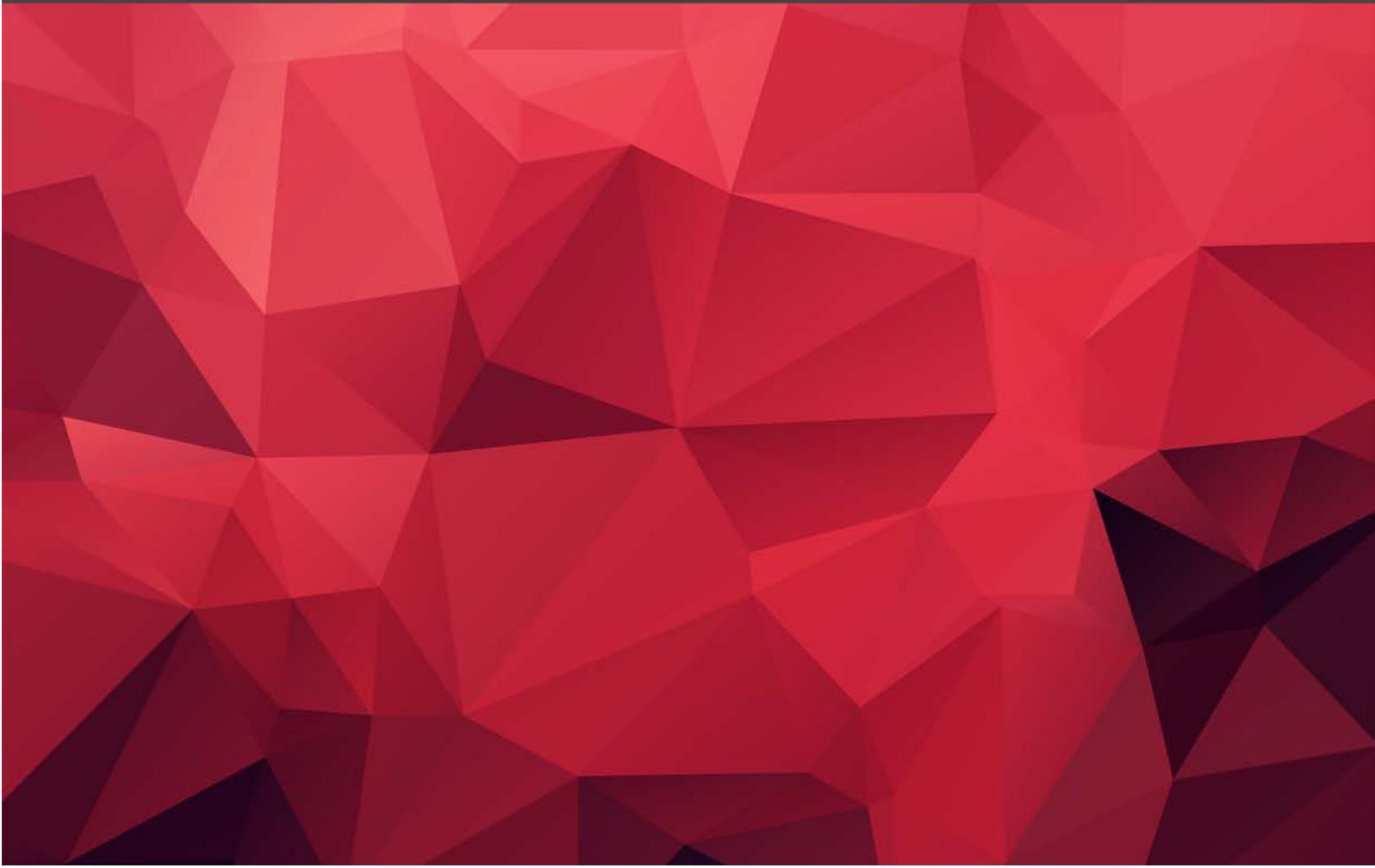
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit Committee Effectiveness – Carmarthenshire County Council

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Jeremy Evans, Jason Garcia and Alison Lewis directed by Huw Rees.

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Summary report

Summary

- 1 As part of the Wales Audit Office work programme 2017-18, we carried out a review of the Audit Committee in Carmarthenshire County Council (the Council). The review evaluated whether the Council's Audit Committee is effectively discharging its remit against the requirements laid down in relevant legislation, professional guidance and its own constitution. The review also looked at whether the actions agreed at the Audit Committee's remit review session in July 2016 have been progressed.
- 2 The remit of a Council's Audit Committee is governed by the Local Government (Wales) Measure 2011. The Chartered Institute of Public Finance Accountancy (CIPFA), in its 2013 guidance document, has set out model terms of reference and core principles for an Audit Committee¹.
- 3 The Local Government (Wales) Measure 2011 states that 'a local authority must appoint an Audit Committee to:
 - review and scrutinise the authority's financial affairs;
 - make reports and recommendations in relation to the authority's financial affairs;
 - review and assess the risk management, internal control and corporate governance arrangements of the authority;
 - make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements;
 - oversee the authority's internal and external audit arrangements; and
 - review the financial statements prepared by the authority.'
 - In addition, the Measure states, 'a local authority may confer on its Audit Committee such other functions as the authority considers suitable to be exercised by such a committee.'
- 4 The CIPFA guidance states that Audit Committees represent a key component of governance and their function is to provide an independent and high-level resource to support good governance and strong public financial management. The guidance states that, '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 annual governance processes. In this way, they are an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance'. For financial accounts approval purposes the

¹ CIPFA (2013) *Audit Committees – Practical Guidance for Local Authorities and Police* (2013 Edition). Since we completed the fieldwork CIPFA has updated the guidance document, there is now a 2018 edition.

Council has designated the Audit Committee as the body charged with governance for the Council.

- 5 During November 2017 and April 2018, we observed the Audit Committee. We also carried out document reviews, interviewed officers and councillors and ran a workshop with Audit Committee members to understand their views on the Council’s Audit Committee.
- 6 In this review, we asked ‘Is the Council’s Audit Committee effectively discharging its remit?’ We found that the Audit Committee is committed to improving the way it operates and now needs to take action to strengthen its effectiveness in key areas to more fully discharge its role. We came to this conclusion because:
 - a more comprehensive understanding of the Audit Committee’s remit by committee members could improve the committee’s effectiveness;
 - the Audit Committee needs to strengthen its role in risk management and the Annual Governance Statement; and
 - the Council needs to further develop its arrangements for reviewing the effectiveness of the Audit Committee.

Proposals for improvement

- 7 The table below contains our proposals for ways the Council could improve the effectiveness of its Audit Committee.

Exhibit 1: proposals for improvement

Proposals for improvement	
P1	Review the role of Audit Committee in the preparation of the Annual Governance Statement.
P2	Strengthen the role of Audit Committee by ensuring the risk register is presented to the committee regularly throughout the year, and where further assurance is required on specific risks that risk owners are invited to the committee to discuss risk mitigation measures.
P3	Ensure that all Audit Committee members have access to full versions of all internal audit and external regulatory and audit reports, and strengthen arrangements for tracking actions taken to address the recommendations they include.
P4	Improve the information provided to Audit Committee by: <ul style="list-style-type: none"> • ensuring that reports give enough context and background for committee members to understand the key risks and issues; and • ensuring that reports are more specific about what action the Audit Committee needs to take in order to discharge its core functions.

Proposals for improvement

P5 Complete the implementation of the revised management arrangements for the internal audit function to ensure that potential conflicts of interest are mitigated.

The Audit Committee is committed to improving the way it operates and now needs to take action to strengthen its effectiveness in key areas to more fully discharge its role

A more comprehensive understanding of the Audit Committee's remit by committee members could improve the committee's effectiveness

- 8 The remit of the Audit Committee is clearly defined in the Council's Constitution. There are eight councillors and one co-opted voting external lay member on the committee. The committee's membership changed following the Council elections in May 2017, so some members are new to their role on Audit Committee.
- 9 The Audit Committee meets quarterly. The committee has a forward work programme. The forward work programme is on the agenda of each Audit Committee meeting. However, committee members rarely make many changes to the forward work programme presented to them by officers.
- 10 Pre-meetings are held before Audit Committee. The pre-meetings involve the Chair, Vice Chair, Director of Corporate Services and Head of Revenues and Financial Compliance. The meetings provide a forum for officers to highlight key issues, and for the Chair to run through the agenda in preparation for the meeting. Those committee members attending the pre-meetings told us they were useful in supporting the committee meeting.
- 11 Reports provided to Audit Committee by officers need to give enough context and background for committee members to understand the key risks and issues they need to consider. Further clarity would be gained if the reports were more specific about the action the Audit Committee needs to take in order to discharge its core functions. For example, moving away from reports that simply ask the committee 'to receive the report' or 'approve progress'. The report should make it clear to the committee why they are considering it and what action they need to take in response to it, including whether further action is needed.
- 12 The Council provided specific training to members of the Audit Committee in July 2017. Committee members who attended this training told us it was useful. The Council continues to run development sessions at least every six months for the Audit Committee. Members that we asked reported finding these sessions useful. Members can suggest items for the development sessions. So far, the sessions have covered topics including the remit of the Audit Committee, understanding the Council's statement of accounts, and changes to procurement practices. Most committee members also reported that they thought the amount of training and development they had received to carry out their role on the Audit Committee was sufficient. However, from our observation of Audit Committee meetings, and our

workshop with committee members, we identified that further training for members on the remit of the Audit Committee, their role as committee members and the differences between the remit of Audit Committee and the scrutiny function would be useful.

The Audit Committee needs to strengthen its role in risk management and the Annual Governance Statement

- 13 Our review looked at whether the Council's Audit Committee was effectively carrying out the seven core functions of an Audit Committee identified by the Chartered Institute of Public Finance and Accountancy².
- 14 **Core function 1 – 'For the Audit Committee to be satisfied that the authority's assurance statements, including the Annual Governance Statement (AGS), properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.'**
- We found there was limited awareness among Audit Committee members about the content of the Annual Governance Statement or the committee's role in the development and oversight of it. The Council's Corporate Governance Group prepares the Annual Governance Statement. The Corporate Governance Group's membership includes the Executive Board Member (Resources), Executive Board Member (Business Manager) and key senior officers in the organisation. The Chair of the Audit Committee is invited as an observer to these meetings. However, the meetings have not been held quarterly this year and there was an oversight in that the Chair was not invited to the last meeting. Because of this, at the time of our review, the current Chair of the Audit Committee had not had the opportunity to attend any meetings of the group.
 - The minutes of the Corporate Governance Group go to the Audit Committee meetings. Appendices related to the Annual Governance Statement are now included as separate attachments to the minutes, with the aim of giving the Annual Governance Statement more visibility at Audit Committee. The Annual Governance Statement is included as part of the statement of accounts, which goes each year to the Audit Committee. The role of the Audit Committee in the preparation and oversight of the Annual Governance Statement, and their role on the Corporate Governance Group needs reviewing to ensure there is enough opportunity for the Audit Committee to input into this key governance process and discharge its responsibility effectively in this area.

² CIPFA (2013) *Audit Committees – Practical Guidance for Local Authorities and Police* (2013 Edition).

15 **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**
- **promote the effective use of internal audit within the assurance framework.’**
- We found there is a positive relationship with the internal audit function and the committee were supportive of the work of internal audit. Currently not all Audit Committee members are sent all internal audit reports. Internal audit reports do get circulated to the: Chair and Vice Chair of the Audit Committee, Leader of the Council, Executive Board Member for Resources and relevant Executive Board members (depending on the subject matter). Should the wider Audit Committee membership want to see reports they would need to request them. As a result, the wider committee membership does not routinely review all internal audit findings and assess the associated risks. Internal audit reports produced for Audit Committee could also be improved by providing greater context to the audit work. This would help Audit Committee members to see the bigger picture with issues highlighted. For example: reports should make it clear:
 - where similar issues have been identified before;
 - if there are patterns emerging;
 - whether lessons have been learnt from earlier audits; and
 - if lessons learnt are being applied effectively across services.
- We also found that, due to the Head of Internal Audit now undertaking a new wider role with responsibility as Head of Revenues and Financial Compliance, there is a potential conflict of interest. The Council has recently appointed a new Principal Auditor. It is intended that this individual manages all internal audit work undertaken on areas for which the Head of Revenues and Financial Compliance has operational management responsibilities. The Council and the Audit Committee need to satisfy themselves that these revised arrangements mitigate the conflict of interest and that they operate effectively.

16 **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.’**

- The Audit Committee’s oversight of the Council’s risk management arrangements is currently limited. The Audit Committee has been receiving the minutes of the risk management steering group. However, it did not receive the corporate risk register at Audit Committee between its March 2017 and March 2018 meetings. This was despite the Audit Committee on 24 March 2017 agreeing the risk register would go to Audit Committee at six monthly intervals.

- The risk register presented to Audit Committee on 23rd March 2018 had some gaps in information and committee members have asked for further information.
 - Positively, the Audit Committee has asked that officers responsible for risks on the register attend future Audit Committee meetings to discuss the risks.
- 17 **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.’**
- The Council works well with the external auditor in managing the exposure to the risk of fraud and corruption. The external auditor asks the Council to complete a questionnaire to support this work. The Director of Corporate Services and the Chair of the Audit Committee complete this questionnaire jointly.
 - The Audit Committee’s work around value for money is currently limited.
- 18 **Core function 5 – ‘Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.’**
- The Council has improved its arrangements for considering the reports and recommendations from external audit. The Audit Committee now considers all relevant reports from the Wales Audit Office. However, the Audit Committee is not routinely seeing reports from other external regulators and inspectors, and cannot consider the risks that these may pose to the Council. The committee needs to see these reports to assure itself that any risks in the reports are properly considered.
- 19 **Core function 6 – ‘Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.’**
- Members of Audit Committee reported a positive relationship with both internal and external audit. Committee members also reported positively on the informal meeting that had taken place jointly with internal and external audit. The committee has requested that this informal meeting arrangement continues to take place twice a year. The Audit Committee has not met with other external regulators and inspectors such as Estyn and Care Inspectorate Wales. This is something they may wish to consider.
- 20 **Core function 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.’**
- The Audit Committee effectively reviews the reports presented to them but the arrangements for tracking and monitoring management action in response to issues raised by both external and internal audit could be strengthened. Recommendations from internal and external audit reports are added to the Council’s Performance Information and Management System (PIMS). Actions are assigned to an officer, with a date for the action to be

completed. However, the Audit Committee are currently not getting reports to show where actions have or have not been taken within the set timescales.

21 As well as these core functions, CIPFA recognise some wider functions the Audit Committee can carry out to support the Council further. These are:

- consider governance, risk or control matters at the request of other committees or statutory officers;
- work with local standards committees to support ethical values and reviewing the arrangements to achieve those values;
- review and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice³; and
- provide oversight of other public reports, such as the annual report.

We found limited evidence of the committee undertaking these wider functions. However, Audit Committee members recognised there were opportunities to strengthen links with other Council committees, and for them to have a better understanding of when it might be appropriate to refer matters to overview and scrutiny committees.

The Council needs to further develop its arrangements for reviewing the effectiveness of the Audit Committee

22 In July 2016, members of the Audit Committee carried out a review session. The objective of the review was to discuss the remit of the Audit Committee and agree any changes needed to meet the committee's responsibilities. Several actions were identified, some have been implemented. For example, Annual Governance Statement appendices are now attached to the Corporate Governance Group minutes when they are reported to the Audit Committee. However, other actions have still not yet been implemented:

- the corporate risk register has not being considered by the Audit Committee twice yearly;
- there is no tracking of Wales Audit Office recommendations by the Audit Committee; and
- the committee have not looked at other Audit Committees to determine if there are good practice approaches that it could adopt.

The Audit Committee is now beginning to take action on these outstanding matters.

23 The Audit Committee carried out a self-assessment exercise at their development session on 15th November 2017. The self-assessment exercise was limited in its effectiveness as it took place after only two meetings of the new Audit Committee, which made it difficult for newer members to make an effective assessment. In addition, there was no written output of the exercise or action plan for improvement

³ CIPFA (2011) *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)*.

arising from the discussion. A more thorough self-assessment exercise, including a review the effectiveness and impact of the Audit Committee would help to support improvement.

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