

## **Audit Committee – 18 June 2018**

### **Chair's Annual Report of the Audit Committee to Council**

#### **Summary of report**

This report presents the proposed Annual Report 2017/18 of the Audit Committee and seeks approval for the Vice Chair of Audit Committee during 2017/18 to present this report to Council.

#### **Recommendation**

That the proposed Annual Report of the Audit Committee be approved and presented by the Vice Chair of the Audit Committee during 2017/18 to the next meeting of the Council.

#### **Resource and legal considerations**

The Council is not obliged by law to appoint an Audit Committee but this has been done in line with good governance practice and guidance from the Chartered Institute of Public Finance & Accountancy (Audit Committees: Practical Guidance for Local Authorities and Police 2013 Edition).

#### **Governance issues / Citizen impact**

The production of an annual report strengthens assurance reporting and governance. This is further strengthened by the Vice-Chair of the Audit Committee reporting to Council on the activities of the Committee.

#### **Performance and risk management issues**

Highlighting key risk and performance issues helps ensure that appropriate improvement action is taken.

#### **Equality implications**

Assurance reporting encompasses key equality and diversity implications.

#### **Consultation**

This annual report is produced in accordance with the work programme for the Audit Committee as agreed at its meeting on 26<sup>th</sup> June 2017.

#### **Background papers**

- Chartered Institute of Public Finance & Accountancy (Audit Committees: Practical Guidance for Local Authorities and Police 2013 Edition).
- Audit Committee agendas, minutes and reports for the municipal year 2017/18.



**Vicky Buckley – Head of Finance**  
**6 June 2018**

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# **Walsall Council Annual Report of the Audit Committee 2017/18**

## **1. Introduction from the Vice-Chair of the Audit Committee**

I am pleased to present the fourth Annual Report of the Audit Committee for the 2017/18 municipal year.

Firstly, I would like to thank Fred Bell, Independent Chairman of the Committee since he was elected in September 2014, who unfortunately had to step down as Chair for 2017/18 due to health issues, for his support to me as Vice-Chair and the work of the Committee over the years.

It is important that the Council is able to demonstrate to the residents of the borough, our stakeholders and partners as well as other elected members, the significance of the Audit Committee's role and the positive contribution it makes to the Council's overall governance arrangements and the delivery of the council's objectives. Audit Committee meetings are open to members of the public and I would encourage all to come along and see our work in action.

This year was one of both stability and upcoming change, with the bedding in of Mazars LLP who won the contract for delivery of the Council's internal audit service in 2016/17, and the final year of Ernst Young as our external auditors. I would also like to welcome Grant Thornton as our external auditors from 1 April 2018.

Both providers have brought a fresh approach to the functions and have brought much added value to the work that they do. The Committee has appreciated the support and assurance they have given.

Looking ahead to 2018/19 there is an extensive programme of work planned. Over and above the normal activities, it is timely, in the context of the significant financial challenges facing the public

sector, increasing demands and shrinking resources, for the Committee to review the overall Governance Framework of the Council to ensure it remains fit for purpose ,

Finally, I would like to take this opportunity to thank all those members and officers who have contributed to the work of the Audit Committee over the last 12 months and to offer my support to Andy Green, the newly elected Independent Chair of the Audit Committee for the 2018/19 Municipal Year.

**Cllr Ian Robertson Vice-Chairman of the Audit Committee 2017/18**

**18 June 2018**

## **2. Terms of Reference**

The terms of reference, which the Committee operated to during the 2017/18 municipal year, is detailed at the following link: [Role of Audit Committee](#)

## **3. Member and Officer Attendance**

The Audit Committee met 7 times during 2017/18.

Membership of the Audit Committee during 2017/18 and their attendance is detailed at **Appendix A**.

A number of Audit Committee members also sat on various other committees and panels. There were no reports received during the year that necessitated members absenting themselves.

In reviewing, the effectiveness of the Audit Committee members considered whether there was a conflict of independence by sitting on both a scrutiny panel and the Audit Committee. Members felt that the simple matter of

exempting themselves from any item under discussion, which had or was, being considered by a scrutiny panel which they were a member of, was sufficient to maintain that independence.

Independence is further strengthened by the independent member on the Audit Committee. It was regrettable, however, that the Committee was unable to appoint a replacement to our 2 vacant independent member positions; further efforts will be made to remedy this in the year ahead.

Senior officers from the council also attend the Audit Committee as appropriate, including the Chief Executive, Chief Finance Officer and the Head of Internal Audit. The external auditor also attends.

#### **4. Training & Effectiveness**

Audit Committee receive appropriate and proportionate training. Further training updates on treasury management and risk management were delivered during the course of the year.

#### **5. Sources of Assurance During 2017/18**

In fulfilling its terms of reference, the business conducted by the Audit Committee during 2017/18 is detailed at **Appendix B** per the following themes:

- Internal Audit
- External Audit / Inspection
- Financial Management
- Risk Management
- Corporate Governance.

The Committee gained assurance in 2017/18 from these themes as follows:

##### **Internal Audit**

In respect of the 2016/17 financial year, a positive Internal Audit Opinion was given. Following the moving forward of statutory reporting timelines for the

annual statement of accounts and annual governance statement, I can also report on the Internal Audit Opinion in respect of 2017/18 as follows:

*“On the basis of our audit work, we consider that the Council’s governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, five of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.*

*In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.*

*In arriving at our opinion, we have taken the following matters into account:*

- *The results of all audits undertaken during the year ended 31 March 2018;*
- *Whether or not any Priority 1 or Priority 2 recommendations have not been accepted by management and the consequent risks;*
- *The effects of any material changes in the organisation’s objectives or activities;*
- *Matters arising from previous reports to the Audit Committee;*
- *Whether or not any limitations have been placed on the scope of internal audit;*
- *Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and*
- *What proportion of the organisation’s internal audit needs have been covered to date.*

All audit work is subject to agreed terms of reference, objectives and resources allocated by the Council for that purpose.”

During 2017/18, internal audit reports given a no or limited assurance were submitted to Audit Committee for consideration. Selected accountable senior managers and their directors were called before the Audit Committee to provide necessary assurances that actions were being taken to address the identified weaknesses in control.

Audit Committee received internal audit’s performance reporting during the year indicating that the service was performing well against most of its performance measures. All key financial systems audits were completed within the plan and all high priority audits. Council can be assured that no issues have been identified in the 2017/18 work completed which impacts materially on the overall system of internal control

The Audit Committee also endorsed internal audit’s work plan.

### **External audit / inspection**

The main responsibility of the external auditor is to report on the council’s accounts and whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Ernst & Young reported on the 2016/17 accounts.

In EY’s Annual Audit Report, they concluded that:

- the financial statements gave a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
- the financial information in the Financial Report 2016/17 was consistent with the financial statements
- the Council had put in place proper arrangements to secure

value for money in their use of resources.

In February 2017, the Committee received a report on the outcome of an Information Commissioner Audit (ICO) audit on data protection. The overall conclusion was “that there is a reasonable level of assurance that processes and procedures are in place and delivering data protection compliance. The audit has identified some scope for improvement in existing arrangements to reduce the risk of noncompliance with the DPA.”

Progress on the management action plan has been reported back to the committee during the 2017/18 municipal year and all actions now completed.

### **Financial Governance**

The Committee scrutinised the 2016/17 statement of accounts and also received reports on accounting policies. The Committee also received regular reports on 2017/18 corporate financial performance (financial health indicators) and treasury management. The pre-audit revenue performance is a small underspend against budget, with general reserves intact.

### **Risk management**

The corporate risk register was subject to routine examinations and a number of these risks were scrutinised by the Committee during the year. This involved presentations by relevant managers and questioning on action taken to mitigate these risks. The Risk Management Strategy was reviewed and amended in year and the Committee signed up to a risk management work programme which will report back over the next municipal year, seeking to embed risk management further into the organisation, including implementation of a revised Strategic Risk Register.

### **Corporate governance**

The annual governance statement (AGS) and review of effectiveness for the 2016/17 financial year concluded that the effectiveness of the system of internal control was adequate overall. The pre-audit AGS 2017/18 reported the same conclusion.

Reports were also considered on use of Regulation of Investigatory Powers Act, powers, amendments to the scheme of delegation to officers, and changes to finance rules, which were reviewed by the Committee.

## **6. Conclusion**

The Committee has been able to confirm that there were no areas of significant duplication or omission in the systems of governance in the authority that had come to the Committee's attention during 2017/18 that were not being adequately resolved.

## Appendix A

### Audit Committee Meetings and Member Attendance

	<b>Cllr Barker</b>	<b>Cllr Chambers</b>	<b>Cllr Craddock</b>	<b>Cllr Harris</b>	<b>Mr A Green Independent Member</b>	<b>Cllr A. Kudhail</b>	<b>Cllr Young</b>	<b>Cllr Robertson</b>
26.06.17	✓	✓	x	✓	x	x	x*	✓
04.09.17	✓	✓	✓	x	✓	✓	✓	✓
25.09.17	✓	✓	✓	x	✓	x	x	✓
20.11.17	✓	✓	✓	✓	x	x	✓	✓
15.01.18	✓	✓	✓	x	✓	x	x	✓
19.02.18	✓	✓	✓	x	✓	x	✓	✓
16.04.18	✓	✓	✓	x	✓	x	✓	✓
% Attendance	100	100	86%	29%	71%	14%	57%	100%

\* Councillor Phillips substituted for Councillor Young at this meeting.



**Summary of Audit Committee Work Plan 2017/18**

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit/Inspection	Financial Management	Risk Management	Corporate Governance
26 June 2017	Audit Committee Role and Remit and Work Plan 2017/18					✓
	Financial Health Indicators 2016/17			✓		
	Treasury Management Annual Report 2016/17			✓		
	Internal Audit Annual Report and Opinion 2016/17	✓				
	Internal Audit Progress Report Year Ending 31 March 2017	✓				
	Medium Term Financial Strategy 2017/18 onwards			✓	✓	
	Understanding how the Audit Committee gains Assurance from Management					✓
	Annual Review of Effectiveness of the System Internal Control and the Draft Annual Governance Statement 2016/17					✓
	Pre-Audit Draft Statement of Accounts 2016/17			✓		
	Annual Report of the Audit Committee 2016/17					✓
	Information Commissioner Office (ICO) Data Protection Audit					✓
	Internal Audit Progress Report 2017/18	✓				

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit/Inspection	Financial Management	Risk Management	Corporate Governance
<b>4 September 2017</b>	Financial Health Indicators 2017/18	✓		✓		
	Internal Audit Progress Report 2017/18	✓				
	Annual Regulatory Powers of Investigation (RIPA) Report					✓
	Risk Management Update - Corporate Risk Register				✓	
	National Scheme for Auditor Appointments with Public Sector Audit Appointments		✓			
<b>25 September 2017</b>	Post Audit Statement of Accounts 2016/17 Including Annual Governance Statement and Audit Findings		✓	✓		
	Internal Audit Progress Report 2017/18	✓				
	Draft Local Code of Governance					✓
<b>20 November 2017</b>	Annual Review of Treasury Management Policies and Mid-Year Position Statement 2017/18			✓		
	Financial Health Indicators 2017/18			✓		
	Annual Audit Letter		✓			
	Internal Audit Progress Report 2017/18	✓				
	Information Commissioner Office (ICO) Data Protection Audit (DPA)					✓

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit/Inspection	Financial Management	Risk Management	Corporate Governance
15 January 2018	Treasury Management and Investment Strategy 2018/19 Onwards			✓		
	Ernst Young Certification of Claims and Returns Annual Report 2016/17		✓			
	Internal Audit Progress Report 2017/18	✓				
	Risk Management Update – Revised Corporate Risk Management Strategy				✓	
19 February 2018	Financial Health Indicators 2017/18			✓		
	Internal Audit Progress Report 2017/18	✓				
	Internal Audit Charter 2018/19	✓				
	Ernst Young Audit Planning Report for the Year Ending 31 March 2018		✓			
	Internal Audit Work Plan 2018/19	✓				
16 April 2018	Amendments to Officer Delegations Under Part 3.5 of the Council's Constitution – Report of the Monitoring Officer					✓
	Independent Member to Audit Committee	✓				

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit/Inspection	Financial Management	Risk Management	Corporate Governance
16 April 2018	Accounting Policies			✓		
	Review of Constitution - Finance Rules					✓
	Internal Audit Progress Report 2017/18	✓				
	Internal Audit Charter	✓				

Additionally, Audit Committee received a number of private reports in respect of Internal Audits where a Limited or No assurance level was given.