

To: Members of the Audit Committee

Notice of a Meeting of the Audit Committee

Wednesday, 2 March 2011 at 11.00 am

County Hall



Peter G. Clark
County Solicitor

February 2011

Contact Officer: **Geoff Malcolm,**
Tel: (01865) 815904; E-Mail: geoff.malcolm@oxfordshire.gov.uk

Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Ray Jelf

Councillors

Alan Armitage
Roy Darke
A.M. Lovatt

Charles Mathew
Larry Sanders
C.H. Shouler

Lawrie Stratford

Co-optee

Dr Geoff Jones

Notes:

- ***Date of next meeting: 20 April 2011***
- ***Members of the Audit Working Group are reminded that there will be a special meeting of the Group at 10:15 am before and immediately following the Committee***
- ***The Cabinet Member for Finance & Property has a standing invitation to attend and speak on agenda items within his portfolio***
- ***The Chairman (or Deputy Chairman) of the Strategy & Partnerships Scrutiny Committee has a standing invitation to attend and speak on agenda items***
- ***A working lunch will be available at 12:50 pm***

Declarations of Interest

This note briefly summarises the position on interests which you must declare at the meeting. Please refer to the Members' Code of Conduct in Part 9.1 of the Constitution for a fuller description.

The duty to declare ...

You must always declare any "personal interest" in a matter under consideration, ie where the matter affects (either positively or negatively):

- (i) any of the financial and other interests which you are required to notify for inclusion in the statutory Register of Members' Interests; or
- (ii) your own well-being or financial position or that of any member of your family or any person with whom you have a close association more than it would affect other people in the County.

Whose interests are included ...

"Member of your family" in (ii) above includes spouses and partners and other relatives' spouses and partners, and extends to the employment and investment interests of relatives and friends and their involvement in other bodies of various descriptions. For a full list of what "relative" covers, please see the Code of Conduct.

When and what to declare ...

The best time to make any declaration is under the agenda item "Declarations of Interest". Under the Code you must declare not later than at the start of the item concerned or (if different) as soon as the interest "becomes apparent".

In making a declaration you must state the nature of the interest.

Taking part if you have an interest ...

Having made a declaration you may still take part in the debate and vote on the matter unless your personal interest is also a "prejudicial" interest.

"Prejudicial" interests ...

A prejudicial interest is one which a member of the public knowing the relevant facts would think so significant as to be likely to affect your judgment of the public interest.

What to do if your interest is prejudicial ...

If you have a prejudicial interest in any matter under consideration, you may remain in the room but only for the purpose of making representations, answering questions or giving evidence relating to the matter under consideration, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

Exceptions ...

There are a few circumstances where you may regard yourself as not having a prejudicial interest or may participate even though you may have one. These, together with other rules about participation in the case of a prejudicial interest, are set out in paragraphs 10 – 12 of the Code.

Seeking Advice ...

It is your responsibility to decide whether any of these provisions apply to you in particular circumstances, but you may wish to seek the advice of the Monitoring Officer before the meeting.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. Apologies for Absence and Temporary Appointments

2. Declarations of Interest - see guidance note

3. Minutes (Pages 1 - 6)

To approve the minutes of the meeting held on 19 January 2011 (**AU3**) and to receive for information any matters arising from them.

4. Petitions and Public Address

5. Audit Commission - Progress Report

11:10

A representative of the Audit Commission will attend for this item.

6. Review of Audit Working Group Terms of Reference and Work Programme (Pages 7 - 10)

11:30

The Committee is RECOMMENDED to review the Audit Working Group terms of reference and work programme (AU6).

7. Internal Audit Services - Internal Audit Strategy 2011/12 (Pages 11 - 24)

11:50

The Internal Audit Services – Internal Audit Strategy 2011/12 (**AU7**).

The Committee is RECOMMENDED to:

a) note the Strategy;

b) agree that quarterly Internal Audit Plans and progress reports are received by the Audit Committee for consideration and approval;

and

c) agree that the Audit Working Group review with the relevant manager all Internal Audit reports where an opinion of "Unacceptable" is given to

ensure that management are taking appropriate and timely action; and, receive a monitoring report at each meeting on the status of all management actions arising from Internal Audit reports, where necessary asking managers to explain where actions are not completed on time.

8. Audit Committee Annual Report to Council 2011 (Pages 25 - 38)

12:20

On 29 November 2006 the Committee adopted a process for preparing the report to Council in respect of the Committee's performance on the implementation of its Work Programme, as follows: 'The Chairman & Deputy Chairman in consultation with the Assistant Head of Finance (Audit) to draft the report for comment by the Opposition Group Spokesman and the Chairman of the Audit Working Group and submission to the Committee.'

The Committee is invited to comment on the draft report and advise on any changes to be made prior to its submission to Council.

The Committee is RECOMMENDED to endorse the Annual Report to Council 202010 (AU8).

9. Work Programme 2011/12 (Pages 39 - 42)

12:40

To update/review the Committee's Work Programme (**AU9**).

12:50 Close of meeting

Pre-Meeting Briefing

There will be a pre-meeting briefing at County Hall on **Thursday 24 February 2011 at 4 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

Audit Committee

Explanation of Abbreviations and Acronyms

The following is a list of abbreviations and acronyms that have occurred in reports to the Audit Committee, or during discussions at their meetings. It is not intended to be an exhaustive list of those used throughout the Council, however it will be reviewed prior each Audit Committee Meeting and updated should new examples occur.

| | |
|-------------|---|
| AC | Audit Committee: Public Committee of Oxfordshire County Council whose purpose is to provide independent assurance on the adequacy of the Councils internal control framework, including risk management, and to oversee the financial reporting process |
| AES | Annual Efficiency Savings |
| ASB | Accounting Standards Board: UK body that sets accounting standards. A subsidiary body of the Financial Reporting Council. |
| AGS | Annual Governance Statement: Previously referred to as the SIC , the Annual Governance Statement is published annually by the Council with its Statement of Accounts |
| APA | Annual Performance Assessment. Managed by Ofsted, the APA focuses on the contribution that a council's services have made in the previous year towards improving outcomes for children and young people. |
| AWG | Audit Working Group: An informal Member / Officer working group of the Audit Committee enable the Committee to fulfil its responsibilities effectively and to receive private briefings on any matters of concern. |
| BCP | Business Continuity Plan: The Council plan for managing the impact of an emergency |
| BCSG | Business Continuity Strategic Group: Officer based group chaired by the Monitoring Officer, tasked with providing assurance that Government Standards for business continuity management are being met. |

| | |
|---------------|--|
| BVACOP | Best Value Accounting Code of Practice. This code is produced by CIPFA and is recognised as the 'proper practices' required under the Local Government Act 2003. The Code provides practical guidance on all formal financial disclosures required in relation to Best Value. |
| BVPI | Best Value Performance Indicator: A national measure of performance, set by central government |
| BVPP | Best Value Performance Plan: An annual report produced by local authorities detailing current performance levels, actions of the councils, and future performance standards expected |
| CAA | Comprehensive Area Assessment. This comes into effect in 2008/09 and replaces the CPA as the Audit Commissions process for reviewing the effectiveness of outcomes to local people across public sector bodies |
| CAAL | Comprehensive Area Assessment Lead. This person works for the Audit Commission and is the primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. |
| CCMT | County Council Management Team: Comprises of the Chief Executive, Assistant Chief Executive and all the Directors of Services |
| CGAG | Corporate Governance Assurance Group. Previously known as the SWG , An officer group tasked with compiling the AGS , including the development and promotion of the internal control framework, and the collation of evidence to support the Annual Governance Statement. |
| CGWG | Corporate Governance Working Group. This Group was originally created to assist the Monitoring Officer in raising awareness of the importance of corporate governance. The principal focus of the Group is to review and update Corporate Governance Policies and to monitor implementation of these. It also has responsibility for reviewing the Local Code of Corporate Governance and to hold Officers to account. |

| | |
|-------------------|---|
| CIPFA | Chartered Institute of Public Finance & Accounting: CIPFA has responsibility for setting accounting standards and providing professional guidance for local government. |
| Connexions | The Connexions Service came under the control of the County Council from April 2007; it provides information, advice and guidance for young people aged 13-19. |
| CPA | Comprehensive Performance Assessment: The method by which the Audit Commission assess, measure and compare the performance of Local Authorities. |
| CSCI | Commission for Social Care Inspectorate. |
| CYPF | Directorate for Children, Young People & Families |
| DCSF | Department for Children, Schools & Families |
| DSG | Dedicated Schools Grant |
| DoT | Direction of Travel |
| E & E | Directorate for Environment & Economy |
| ETMS | Electronic Time Management System: System used for home support activity. |
| FMIP | Financial Management Implementation Plan: The Financial Management Implementation Plan (FMIP) is a set of actions designed to improve financial management within Oxfordshire County Council, arising from the report by Robson Rhodes in 2004. An updated plan FMIP2 has been prepared following a follow up review by Robson Rhodes in 2005/06. |
| FMSiS | Financial Management Standard in Schools |
| FOI | Freedom of Information |
| FRS | Financial Reporting Standards. These are set by the Accounting Standards Board (ASB), and the Council is required to comply with these. |
| FSM6 | The financial management system used in schools. (Please note that between April 2008 and July 2009, all schools will be moving to SAP as their financial management system. |
| FWT | Food With Thought. A traded service run by the Council, providing catering services to schools and council establishments. |

| | |
|---------------|--|
| ICC | Internal Control Checklist |
| IFRS | International Financial Reporting Standards. This will be the new standard of accounting practice that all Local Authorities will be required to comply with. The estimated implementation date for Local Authority compliance is currently 2010/11. |
| ISA260 | International Standards on Auditing: The ISA 260 is the standard that requires the external auditors (KPMG LLP) to communicate audit matters of governance interest arising from their audit of the financial statements of the Council. They communicate any such matters through a formal report to the Audit Committee. |
| ITS | Integrated Transport Service |
| JAR | Joint Area Review. Managed by Ofsted, the joint area review judges the contribution that the council and its partners in the local area are making to improve outcomes for children and young people |
| KLoE | Key Lines of Enquiry: Defined and used by the Audit Commission to support the Comprehensive Performance Assessment (CPA) of Local Authorities |
| LA | Local Authority |
| LAA | Local Area Agreement: Local Area Agreements are made between central and local government in a local area. Their aim is to achieve local solutions that meet local needs, while also contributing to national priorities and the achievement of standards set by central government. There is an Oxfordshire LAA. Targets are set and specific funding streams are obtained through the LAA. |
| LIBID | London Interbank Bid Rate The rate at which UK banks are willing to borrow money from other UK banks |
| LIBOR | London Interbank Offer Rate The rate at which UK banks are willing to lend money other UK banks |
| LOBO | Lender's Option/Borrower's Option Long term debt instruments which include a re-pricing option for the bank at predetermined intervals |

| | |
|---------------------------|--|
| LSP | Local Strategic Partnerships: The bringing together of key local organisations from the public, private, voluntary and community sectors to focus efforts on the issues that matter most to local people and communities. In Oxfordshire there is a countywide LSP known as Oxfordshire Community Partnership (OCP). |
| Monitoring Officer | This is a statutory post under Section 5 of the Local Government and Housing Act 1989, with the overarching responsibility to ensure the lawfulness and fairness of decision making in the Council. |
| MTFP | Medium Term Financial Plan. Updated annually, the MTFP sets out a five year forecast of resources and service spending priorities. |
| NFI | National Fraud Initiative. The Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. |
| OCP | Oxfordshire Community Partnership: The Countywide LSP in Oxfordshire. |
| OFG | Operational Finance Group: This group is responsible for the implementation of policies and procedures and for the control of financial activities such as budget and yearend. It is directed by the Strategic Finance Managers Group (SFG), to which it reports its activities through its Chair, the Chief Accountant. |
| Ofsted | Office for Standards in Education |
| OSJ | Orders of St. John Care Trust |
| OWP | Oxfordshire Waste Partnership |
| PAYE | Pay As You Earn |
| PCT | Primary Care Trust |
| Project Link | This is the project in Social and Community Services to develop an integrated management system for Adult Social Care that can interface directly with the main accounting system (SAP) |
| PSA | Public Service Agreement |
| PWLB | Public Works Loan Board. A Government agency operating within the United Kingdom Debt Management Office with responsibility for lending money to Local Authorities |

| | |
|---------------------------|---|
| QE | Quantitative Easing Method by which the Bank of England increases the supply of money to the UK economy |
| QuEST | Quality Educational Services and Training: Available in schools from the Educational Effectiveness Service. |
| S151 Officer | A statutory post, under Section 151 of the Local Government Act 1972 held by the Head of Finance and Procurement. The S151 Officer is responsible for the proper administration of the financial affairs of the Council |
| SAP | SAP is the Councils key management information system, including the main accounting system. |
| SAP revitalisation | This is the Programme for the development of SAP required to deliver consistent, reliable and robust business management information. |
| Schools Forum | This is a group made up of representatives from schools and other stakeholder bodies, and includes schools Governors and Head Teachers. The remit of the group is to consider schools funding formula; contracts; financial issues; and the provision of accounts to schools. |
| SDLT | Stamp Duty / Land Tax |
| SFG | Strategic Finance Group: Officer group comprising Head and Assistant Heads of Finance and Strategic Finance Managers, with responsibility for providing advice and assurance on system of internal financial control and to specify the accounting framework and standards and the financial management requirements. |
| Shared Services | This is the Programme designed to bring under one umbrella HR and Finance support functions in order to provide a more efficient and effective services. |
| SIC | Statement on Internal Control: In accordance with the Accounts and Audit regulations 2003, the Council is required to provide an annual statement on the adequacy and effectiveness of its system of internal control. |

| | |
|-------------------------|--|
| SOLACE | Society of Local Authority Chief Executives and Senior Managers is the representative body for senior strategic managers working in the public sector. SOLACE spans all of the UK, having membership in Northern Ireland, Wales, Scotland and England. |
| SORP | Statement of Recommended Practice. These are guidance on accounting standards as defined by the Accounting Standards Board (ASB) |
| SWG | Statement on Internal Control Working Group: An officer group tasked with compiling the SIC, including the development and promotion of the internal control framework, and the collation of evidence to support the annual SIC Statement. |
| SWIFT | Management information system used by Social & Community Services. |
| SWIP | Scottish Widows Investment Partnership An external fund manager who invests money on behalf of Oxfordshire County Council |
| TMST | Treasury Management Strategy Team The team of Oxfordshire County Council officers responsible of the delivery of the Annual Treasury Management Strategy and Annual Investment Strategy |
| Use of Resources | This is part of the Audit Commissions CPA assessment that focuses on financial management and the links to the strategic management of the council. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. |
| WGA | Whole Government Accounts |

Ian Dyson
Assistant Head of Finance (Audit)
Updated 24 June 2008

This page is intentionally left blank

AUDIT COMMITTEE

MINUTES of the meeting held on Wednesday, 19 January 2011 commencing at 11.00 am and finishing at 1.45 pm

Present:

Voting Members: Councillor David Wilmshurst – in the Chair

Councillor Alan Armitage
Councillor Roy Darke
Councillor Stewart Lilly
Councillor Charles Mathew
Councillor Larry Sanders
Councillor C.H. Shouler
Councillor Lawrie Stratford
Councillor Melinda Tilley

**Non-voting
Co-optees:** Dr. Geoff Jones

**Other Members in
Attendance:** Councillor Jim Couchman, Cabinet Member for Finance
& Property

By Invitation: Mary Fetigan, Audit Manager, Audit Commission

Officers:

Whole of meeting S. Scane, Assistant Chief Executive & Chief Finance
Officer; P. G. Clark, Head of Law & Governance; G. K.
Malcolm, Committee Officer.

Part of meeting

| Agenda Item | Officer Attending |
|--------------------|--|
| 6 | S. Skivington, Strategic Finance Manager (Financial Accounting & Reporting) |
| 7,8 | I. Dyson, Assistant Head of Finance (Audit) |
| 9 | T. Chapple (Financial Manager & Pension Fund Investments) |

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

1/11 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

| | |
|-------------------------|---------------------------|
| Apologies for Absence | Substitute |
| Councillor Ray Jelf | Councillor Melinda Tilley |
| Councillor A. M. Lovatt | Councillor Stewart Lilly |

2/11 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 17 November 2010 (AU3) were approved and signed subject at Minute 44 to the deletion in resolution (b) to the words 'nem. con).

Minute 44/10(c) - Corporate ICT Strategy

Members requested an update on the Audit Committee's resolution which noted that, at the suggestion of Councillor Melinda Tilley, Chairman of the Strategy & Partnerships Scrutiny Committee, the report by Dr Geoff Jones on behalf of the Audit Working Group would be considered by the Scrutiny Committee on 18 November 2010 as part of an item 'Corporate ICT Strategy' prior to Cabinet consideration of the matter on 21 December 2010.

The committee officer undertook to circulate the Scrutiny Committee Minute following the conclusion of the meeting.

(The Minute of the Strategy & Partnerships Scrutiny Committee was as follows: "Councillor Wilmshurst introduced the report of the Audit Working Group and added that the Audit Committee had agreed that a copy go to all members and that it also be considered at Cabinet. Following discussion on the lessons to be learnt the Chief Finance Officer responded that it was important to recognise that there were always choices to be made and that there were always risks. Graham Shaw, Deputy Head of ICT Services added that he had been asked to provide an update report for Cabinet on the action being taken. He stressed that there were new approaches in place and that the new Strategy was a key part of that change. It was AGREED that further updates be submitted to the (*..Strategy & Partnerships Scrutiny..*) Committee as appropriate to monitor that the new approach was achieving its objectives.")

3/11 AUDIT COMMISSION

(Agenda No. 5)

The Committee considered reports (AU5(a)-(e)) which were introduced by Ms. Fetigan, Audit Commission, as follows:

- (5a) 10/11 Opinion Audit Plan Oxfordshire County; and
- (5b) 10/11 Opinion Audit Plan Oxfordshire Pension Fund

The Opinion Audit Plans set out the work proposed by the Commission to be undertaken in 2010/11 for the audit of financial statements and the value for money conclusion 2010/11.

(5c) Annual report on the audit of grant claims 2009/10 (in draft);

The Certification of Claims and Returns - annual report 2009/10 summarised the findings from the certification of 2009/10 claims and recommended action plan.

(5d) Internal and External Audit Protocol;

The Joint Working Protocol – Internal & External Audit outlined the approach to support effective joint working to delivering the audit in 2010/11.

(5e) Audit progress report and details of changes in approach.

The External Audit Progress Report identified the work the Commission would deliver as part of the 2010/11 plan, progress with the plan, and highlighted key changes in audit approach from clarification of the International Standards on Auditing and developments in the value for money conclusion.

Ms. Fetigan then responded to questions and comments including the Commission's consultation on possible rebate and the Commission's approach to value for money conclusions. In relation to item 5(c) – Certification of Claims & Returns – currently in draft, she undertook to supply the final version to members. The Committee welcomed the Joint Working Protocol as a positive development. Members also welcomed the Progress Report and in particular the regular updates to the Committee.

Ms. Fetigan, Audit Commission and team were thanked for their work.

RESOLVED: to receive and note the Audit Commission reports.

4/11 INTERNATIONAL FINANCIAL REPORTING STANDARDS

(Agenda No. 6)

From 2010/11 the Council's accounts were required to be prepared using International Financial Reporting Standards (IFRS) as part of a wider public sector move to comply with international accounting standards. Members had had an opportunity to attend an informal pre-meeting development session on IFRS prior to the meeting during which Ms. Skivington had explored the matters in more depth.

The Committee considered a report (AU6) which provided a reminder of the main differences between the IFRS-based Code and the previous Statement of Recommended Practice (SORP) and updated the Committee on progress in ensuring the Council's compliance with the required changes.

Ms. Skivington introduced the report which provided information about the restatement of accounts, the presentation of the financial statements, the main areas of difference between IFRS and SORP and progress with work on the project. Members sought information including progressing as high priority configuration changes required to SAP, and cost / benefit of the changes to the Council.

Members explored the costs of implementing the Regulations, benefits to the Council, progress with configuration changes required to SAP, and briefing and training for officers and councillors.

The Committee thanked Ms. Skivington for her presentation prior to the start of the meeting and for her report and work.

RESOLVED: to

- (a) receive the report; and
- (b) note the IFRS project progress to date.

5/11 REVIEW OF THE PROCESS FOR REPORTING ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

(Agenda No. 7)

In accordance with the Accounts and Audit Regulations 2003 (as amended in 2006), the Council was required to undertake a review of the effectiveness of the system of Internal Audit.

The Committee considered a report (AU7) which detailed the assurance framework and suggested a process for undertaking and reporting on the review. Mr. Dyson introduced the report. He drew attention in particular to the Sources of Evidence shown at paragraph 7 which outlined the existing process for reviewing the effectiveness of the system of internal audit; no changes were being proposed. The suggested annual survey format was set out at Appendix 1. The Committee considered that the CIPFA statement on the role of the Head of Internal Audit was helpful and that the Council was already applying the standards and had healthy governance arrangements and quality of work.

Whilst it was recognised that there was a strong working relationship with directorates, officers were asked to urge active co-operation with regard to the completion and timely submission of the questionnaire.

RESOLVED: to

- (a) approve the existing process for reviewing the effectiveness of the System of Internal Audit;
- (b) approve the circulation list, content and format of the Annual Survey Questionnaire; and
- (c) authorise the Monitoring Officer to undertake the review and report back to the Audit Committee.

6/11 REPORT OF THE AUDIT WORKING GROUP - 6 JANUARY 2011

(Agenda No. 8)

The Committee considered a report (AU8) on the following specific matters which had been considered by the Audit Working Group (AWG) on 6 January 2011:

- AWG 3 Matters arising from the Audit Committee 17 November 2010
(Financial Management in Schools: during debate the Committee sought information about the availability of training for school governors on financial matters. Mr. Dyson undertook to pursue the matter outside the meeting.)
- AWG 4 SAP in Schools – End of Programme Report
- AWG 5 Update on Fairer Charging Performance
- AWG 6 2009/10 AGS Action Plan Progress Report
- AWG 7 Risk Management Progress Report
- AWG 8 Internal Audit progress report
- AWG 9 Counter-Fraud Progress Report
- AWG10 CLG Select Committee Call for Evidence on audit and inspection of local authorities.
- AWG11 Work Plan
- AWG12 Proposed meeting dates for 2011/12

RESOLVED: to

- a) approve the AWG meeting dates in 2011/12; and
- b) note the report.

7/11 TREASURY MANAGEMENT STRATEGY STATEMENT & ANNUAL INVESTMENT STRATEGY 2011/12

(Agenda No. 9)

The Committee considered a report (AU9-circulated with the Cabinet Agenda for 25 January 2011) which set out the proposed Treasury Management Strategy for the financial year 2011/12, the Prudential Indicators, the borrowing strategy and an interest rate forecast. Also included in the report was the Annual Investment Strategy, detailing the range of Specified and Non Specified investments that the Council may enter into, and the minimum credit criteria for the investment type.

Mr. Chapple introduced the report and the reporting process. He confirmed that the Cabinet on 25 January 2011 would consider this report as part of Service & Resource Planning 2011-2016. The Cabinet was recommended to recommend Council to approve:

- (1) the Treasury Management Strategy Statement ;
- (2) Prudential Indicators from April 2011; and
- (3) that in relation to the 2011/12 strategy any further changes required be delegated to the Chief Finance Officer in consultation with the Leader and Cabinet Member for Finance.

Councillor Couchman commented that the report confirmed that the Council continued to be prudent in this area. The Committee made no specific comments to Cabinet on the Statement and Strategy Prudential Code and Indicators.

RESOLVED: to note the report and the Cabinet decision and thank Mr Chapple and team for their work.

8/11 BUSINESS STRATEGY

(Agenda No. 10)

Ms. Scane reported that members would be updated on the financial element of the Council's Business Strategy at the budget briefing on 21 January 2011 and at the Cabinet on 25 January 2011 as part of the Service & Resource Planning 2011-2016. The final Local Government Finance Settlement was expected to be made available by ministerial statement in early February 2011.

RESOLVED: to note the position.

9/11 DRAFT WORK PROGRAMME 2011/12

(Agenda No. 11)

The Committee reviewed and updated its Work Programme (AU11).

In relation to the topic relating to scrutiny governance & control matters at the foot of the second page, officers clarified that the heading 'Regular Reports' indicated that the scrutiny annual report and scrutiny annual work programme would be brought to the Committee as they became available.

RESOLVED: to adopted the Work Programme for the remainder of the Council Year.

..... in the Chair

Date of signing

Audit Working Group Terms of Reference

Membership

The Audit Working Group shall comprise of:-

the independent member of the Audit Committee who will chair the Group, together with three members of the Audit Committee, one of whom shall be the Chairman of the Committee. There will also be three named members of the Audit Committee who will deputise as required.

The Assistant Chief Executive & Chief Finance Officer, the County Solicitor and Monitoring Officer, the Assistant Head of Finance (Audit), and the ~~Assistant~~ Corporate Performance & Review Manager, or their representatives shall attend the Group meetings.

Members of the Group and their deputies should have suitable background and knowledge to be able to address satisfactorily the complex issues under consideration and should receive adequate training in the principles of audit, risk and control.

All members of the Audit Committee are invited to attend Audit Working Group Meetings as observers. The Assistant Head of Finance (Audit) should be notified in advance should a member of the Committee wish to attend.

Role

The Audit Working Group shall:

act as an informal working group of the Audit Committee in relation to audit, risk and control to enable the Committee to fulfil its responsibilities effectively in accordance with its terms of reference (Part 2 Article 8 Section 1a of the Constitution);

routinely undertake a programme of work as defined by the Audit Committee;

consider issues arising in detail as requested by the Audit Committee;

receive private briefings on any matters of concern;

at least annually hold a private session with the External Auditors not attended by any officers, and a further private session on Internal Audit matters with the Assistant Head of Finance (Audit) only.

Reporting

The Assistant Chief Executive & Chief Finance Officer will report to the Audit Committee on matters identified by the Group following consultation with the Chairman and members of the Group.

Meeting

The Group shall meet regularly in cycle with the Audit Committee.

The Group may invite any officer or member of the Council to attend its meetings to discuss a particular issue and may invite any representative of an external body or organisation as appropriate.

Confidentiality

The Group will meet in private to allow full and frank consideration of audit, risk and control issues.

All matters discussed and papers submitted for the meetings including minutes of the previous meeting must be treated as confidential. Papers will be circulated in advance to all members of the Audit Committee for information whether attending the Group or not.

Where any other member wishes to inspect any document considered by the Group and believes that s/he has a 'need to know' as a County Councillor, the procedure in the Council's Constitution relating to Members Rights and Responsibilities (Part 9.3) shall apply.

UpdatedFebruary 2011

Review Date.....February 2012

Officer Responsible Ian Dyson, Assistant Head of Finance (Audit)
Telephone 01865 (32)3875
lan.dyson@oxfordshire.gov.uk

**AUDIT WORKING GROUP
WORK PROGRAMME 2011/12**

2011

Thursday 31 March

- Internal Audit Progress Report – Ian Dyson
- Fairer Charging Progress Report – Sean Collins/Simon Kearey/Alan Sinclair
- Early Issues for the Annual Governance Statement
- Draft report – review of the effectiveness of Internal Audit – Peter Clark
- Risk Management Progress Report – Belinda Dimmock-Smith
- Whistle blowing annual report – Peter Clark

Thursday 16 June

- Internal Audit Issues – Ian Dyson
- Draft Internal Audit Annual Report – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith
- Draft Annual Governance Statement
- Fairer Charging progress report – Simon Kearey / Sean Collins / Sandra Stapley

Thursday 8 September

- Internal Audit Issues – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith

Thursday 3 November

- Internal Audit Issues – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith
- Quarterly Update AGS Action Plan – TBC

2012

Thursday 5 January

- Annual Governance Statement Process – annual review of the assurance framework – TBC
- Quarterly Update AGS Action Plan – TBC
- Internal Audit Issues – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith

Thursday 16 February

- Internal Audit Issues – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith
- Progress report on issues arising from the External Audit Reports - TBC
- Draft work programme 2012/13 – Ian Dyson
- Review of AWG Terms of Reference – Ian Dyson
- Private Session with External Auditors - TBC
- Private Session with the Assistant Head of Finance (Audit)

Last updated: 21 February 2011

Ian Dyson, Assistant Head of Finance (Audit) 01865 323875

This page is intentionally left blank

OXFORDSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICES
INTERNAL AUDIT STRATEGY 2011/12

Ian Dyson
Assistant Head of Finance (Audit)
Financial Services and Procurement
Corporate Core

February 2011

INTERNAL AUDIT SERVICES

INTERNAL AUDIT STRATEGY 2011/12

1. Introduction

- 1.1 In previous years the Audit Committee has been presented with a combined Internal Audit Strategy and Annual Audit Plan for approval. This report is the strategy for 2011/12, there will be no detailed annual plan for 2011/12. The Council is undergoing significant change over the next few years, and key risks will be emerging as the Business Strategy is implemented, therefore developing a risk based annual assurance plan is not appropriate. In recognition of the pace of change we will be developing and delivering assurance plans on quarterly basis for the foreseeable future.
- 1.2 This paper outlines in more detail the Internal Audit Strategy, including the resources available and how we will be delivering our service in 2011/12.

2. Internal Audit Strategy

- 2.1 The Accounts and Audit Regulations 2003 (S6) as amended in 2006, state that the Council needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with the proper internal audit practices. Proper internal audit practices are defined in the CIPFA Code of Practice for Internal Audit in Local Government in the UK, which was also updated for 2006.
- 2.2 The CIPFA Code of Practice 2006 defines Internal Audit as an assurance function whose primary role is to provide an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and efficient use of resources.
- 2.3 The Assistant Head of Finance (Audit) provides this opinion in an annual report on the System of Internal Control, which is used to inform the Council's Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis. The methodology for identifying areas for audit is detailed in section 3 of this report.
- 2.4 A key part of the strategy is ensuring the right skills mix and resources exist to deliver an effective service; from 2011/12 there are significant pressures on the Internal Audit Service:

- The Internal Audit Budget is being reduced by £63,000 in 2011/12, and a further £36,000 in each of the two following years.
- The Department for Education ended the FMSiS programme in November 2010. It had been expected to run until at least March 2013. Loss of income to Internal Audit from the cessation of this programme is £84,000 per annum. We are waiting to hear on what is to replace FMSiS, but the Schools Forum have requested a report in March with a proposal for continuing with a reduced chargeable service from Internal Audit to support the Governing Body in maintaining financial governance. As there is no certainty on the outcome, for planning purposes the abolition of FMSiS is being treated as a financial pressure.
- In April 2010, a Principal Auditor joined the team under statutory transfer from the disbanded LSC. This post was to be fully funded for three years through the Area Based Grant (ABG). Following Government review of the ABG, from 2011/12 the post could no longer be funded from that source, which would have been a budget pressure; however, the post became vacant in January 2011 and will not therefore be filled. The pressure on the Internal Audit Service is a loss of 115 audit days.
- A member of the team will be on maternity leave throughout 2011/12. Some funding will be available to back fill, although not equivalent to a full time post.
- A full time member of the team will be returning from maternity leave in April 2011, but at reduced hours. The saving on salary will be used to backfill using the call off contract, but this will result in a small reduction in overall audit days available.
- A member of the team who we are supporting in obtaining the CIPFA qualification will be taking up secondment opportunity during 2011/12 to develop their experience portfolio as required by CIPFA. Whilst in terms of staff development this is mutually beneficial, the impact will be a small reduction in the overall audit days available. (The impact is one year only, so from 2012/13 the available audit days will increase again)
- The staffing structure outlined later in this report is dependent on the external income and cost sharing generated through working with Thames Valley Police Authority and Buckinghamshire County Council. In 2009 we entered into a three year agreement to manage the Internal Audit Service for Thames Valley Police Authority. The agreement ends in March 2012. Given the uncertainty with regards to the role of Police Authorities there is a high risk that this income stream will cease from 2012/13.

2.5 To manage these pressures and to provide resilience and flexibility to ensure we have the right resources available, we are currently consulting

- staff at Oxfordshire and Buckinghamshire to have a fully collaborated service with a shared Chief Internal Audit and Audit Management, and occasional need for audit staff to work across the two Authorities. The consultation process should be concluded before the end of March. In addition to the in house teams, we continue to bring in audit staff under the call off contract with Deloitte PSIA, including specialist auditors for areas where skills in both teams need to be developed, for example contract auditing. In Oxfordshire we will continue to contract out IT Audit.
- 2.6 Whilst the contract with Deloitte operates on a call off basis, we will continue to work closely with them in helping to meet our training needs, through direct training, access to their web based knowledge share, and by sharing resources on audits to enable knowledge and skills transfer to the in house staff where required.
- 2.7 Through working with Deloitte we will be able to utilise their Audit Management Software, which will automate the audit file, and reporting process, as well as supporting flexible and remote working which is particularly important as we move towards full collaboration.
- 2.8 A further enhancement planned for 2011/12 is new software to manage actions tracking. In Internal Audit we currently operate spreadsheets for monitoring implementation of agreed management actions, which is heavily resource intensive. The software solution will reduce significantly the amount of auditor time administering the process, allowing those days to be directed more effectively towards delivering actual audits.
- 2.9 There will remain a significant emphasis for internal audit activity in reviewing financial systems and compliance with the governance framework; however, as the Council implements the Business Strategy and service delivery changes, assurance on strategic risks such as major procurement of services, and changes to the management infrastructure are key areas requiring assurance, along with the key operational risks. To ensure we are directing audit resources to key risk areas we will be operating on a quarterly planning cycle, that will be integrated with the Corporate Performance Team, and will include combined quarterly meetings with the Directorate Leadership Teams to consider performance risk and controls, and to agree the key areas where assurance is required.
- 2.10 The structure of the Internal Audit Team will be changing for 2011/12, moving away from a Directorate based structure to one where an Audit Manager has responsibility for leading on strategic risks, whilst the other leads on operational risks. This structure reflects the new cross working approach of the Business Strategy.
- 3. Audit Planning Methodology**
- 3.1 A quarterly internal audit plan will be produced in consultation with the Corporate Performance Team and with consideration to the risk registers. This will be agreed with the Directors during quarterly meetings.

- 3.2 The Quarterly plans will be presented to the Audit Committee for consideration and comment.
- 3.3 The Audit Plans will continue to be influenced by external organisations and statutory bodies we work with and provide assurance to. We have developed a joint working protocol with the Audit Commission that is enabling us to review our approach to the auditing of key financial systems without affecting the assurance we can give, or the reliance Audit Commission place on our work.
- 3.4 We will continue to support the Corporate Governance Assurance Group in producing the annual governance statement through undertaking annual compliance audits that will support Directors in completing their annual statements, but also in co-ordinating the meetings and the production of the Annual Governance Statement and Action Monitoring.
- 3.5 Counter-fraud will continue to be part of the planned audit activity; however we will no longer be providing a contingency for undertaking fraud investigations. Where an investigation is required this will be a charged back service, and the income used to back fill, or procure the services as required. We are currently exploring with another Authority the opportunity for them to provide a fraud investigation service on a call off basis.

4. Resources

4.1 The Internal Audit Service is resourced as follows:

| In House Team | 2010/11 FTE | 2011/12 FTE | Chargeable Days available | Planned OCC days 2011/12 | Planned External days 2011/12 |
|-----------------------------------|--------------------|-----------------------------------|----------------------------------|---------------------------------|--------------------------------------|
| Assistant Head of Finance (Audit) | 1.0 | 1.0 | 180 | 87 | 93 |
| Audit Managers | 1.6 | 1.6 | 281 | 186 | 95 |
| Principal Auditors | 3.0 | 2.0 – (including maternity leave) | 199 | 179 | 20 |
| Senior Auditor | 3.0 (one vacancy) | 1.8 | 289 | 269 | 20 |
| Auditors | 3.0 | 1.0 | 186 | 96 | 90 |

| | | | | | |
|-----------------|-------------|------------|-------------|-------------|------------|
| | | | | | |
| CIPFA Trainee | 1.0 | 1.0 | 152 | 152 | 0 |
| Audit Assistant | 0.8 | 0.8 | 135 | 105 | 30 |
| External | | | | | |
| IT Audit | | | 140 | 100 | 40 |
| BCC | | | 40 | 40 | |
| Deloittes | | | 407 | 255 | 152 |
| Total | 13.4 | 9.2 | 2009 | 1469 | 540 |

4.6 The staffing reductions are explained as follows:

- Principal Auditor reduced by one – was funded through ABG. Vacant post
- Senior Auditor reduced by 1.2 – the vacancy in 2010 was never filled and has been deleted as part of the savings. The 0.2 is for reduced hours with effect from 1 April 2011.
- Auditor reduced by 2 – Both posts were funded through external income generation, (TVPA and FMSiS), both are vacant posts so are being deleted as part of the savings.

Analysis of auditor days

| | 2010/11 | Comments | 2010/11 | Diff. | Reason for change |
|------------------------------|---------|---|---------|-------|---|
| Gross days – In house team | 2388 | This represents 9.23 FTE, including 1.0 expected to be on maternity leave for all of 2011/12. | 3437 | -1049 | Reduction of four posts (260 days each) – 1 X Assistant Audit Manager, 1 x Senior Auditor, 2 x Auditor. Reduction in hours from full time to 0.8 for a Senior Auditor (49 days). Error in 10/11 days – Administration should have been an extra 40 days. |
| Compliance Manager – Schools | 0 | | 73 | -73 | This was directly funded as part of the income generated through the FMSiS audit |

| | | | | | |
|-------------------------|-------------|--|-------------|--------------|--|
| Support Finance | | | | | activity which ends 31 March 2011 |
| Contract days | 587 | This is made up of: 100 days IT Audit plus 40 days IT Audit for TVPA 255 days Audit Services Contract (includes days for expected maternity cover and for Senior Auditor secondment backfill), plus 152 days for TVPA 40 days for new 14-18's learning assurance requirements | 682 | -95 | Last year there was a provision for 180 days for FMSiS not required from 1 April 2011. The number of days from the Audit Services contract has increased by 105. The days for 14-18's assurance is reduced by 20 days as the LA is now only required to provide assurance on sixth form funding. |
| Total Gross days | 2975 | | 4192 | -1217 | |
| Overheads | 789 | This time is for bank holidays, annual leave, special leave, training, contingency for sick absence, and recruitment. | 1016 | -227 | The time remains relatively high despite the reduction in staff as there remains a full year overhead for maternity leave and additional professional training days for a Senior Auditor to complete her experience log. The overhead includes time for the Team Administrator not previously included. In total 180 days are lost to professional training (3 staff), and 220 days to maternity leave. |
| Non Chargeable Days | 177 | The non chargeable days are for non audit related activity, including administration time, the wider role of the | 465 | -288 | The reduction reflects the loss of in house posts, and also the restructure in the team and focus on maximising chargeable days – including |

| | | | | | |
|---|------|--|------|-----------|---|
| | | AHOF (Audit), staff appraisals, 1:1's and departmental work. | | | the administration time. |
| Total Chargeable days available | 2009 | This is the number of days that contribute directly to internal audit activity. | 2711 | -702 | |
| Chargeable Days – non assignment | 255 | These are days not attributed to planned audit activity, such as the Head of Audits management days, admin support for actual audit work, preparation of the audit plan, operational planning, reports for the AWG and Audit Committee, and corporate assurance groups | 278 | -23 | There is a small decrease. overall Auditor days has decreased but the chargeable administrative time has increased by 70 days, as nature of the role has changed. |
| Chargeable days – External Clients (BCC and TVPA) | 540 | | 451 | + 89 days | 222 days is provided by contract staff, and charged out admin time. There is an increase of 110 days planned for BCC as part of the collaboration, 143 in house days are planned on TVPA work, which is a reduction of 123 days. |
| Chargeable days – OCC assignment based | 1214 | This is the number of days available for delivering the audit plan. | 1982 | -768 | The end of FMSiS has reduced the audit days by 481. The loss of the funding for the statutory transferred post (Vacant from January 2011 not being replaced) has resulted in a further reduction of 115 days. The reduction in budget of £63K has therefore resulted in a further reduction |

| | | | | | |
|--|--|--|--|--|----------------------------|
| | | | | | in assignment days of 172. |
|--|--|--|--|--|----------------------------|

4.5 It is planned that Internal Audit Services will deliver a minimum of 1214 days on Audit Assignments that will be designed to provide reasonable assurance on the system of internal control. As outlined above the quarterly plans will be presented to the Audit Committee, with Q1 at the April meeting. The type of audit activity will be:

| | |
|-----------------------|--|
| Key Financial Systems | <p>We will test any changes to the existing systems, and will undertake walkthrough test to confirm the system. We will agree with External Audit the key controls to be tested, and undertake the compliance/substantive testing.</p> <p>We will also complete our assurance work through analytical review using the audit interrogation software on identified areas of fraud risk and error.</p> |
| Governance | <p>We will undertake testing across Directorates of compliance against the governance and regulatory framework, including the key control processes covering HR, ICT, Financial Management, Risk Management, Project Management, Performance, and Procurement. This will provide evidence to the Directors for completion of their annual assurance statement.</p> |
| Schools | <p>We will seek assurance through analytical on SAP and through the work of the Schools Finance Support Team, with targeted visits to schools if and when required.</p> <p>This may be subject to change depending on the consultation with the Schools Forum in March.</p> |
| IT Audit | <p>We will undertake a programme of audits of operational systems, and we will provide assurance on major ICT strategic projects planned in 2011/12</p> |
| Contract Audit | <p>We will be using Deloitte for providing</p> |

| | |
|------------------|---|
| | Contract Auditors, to work with the in house team to enable the skills knowledge transfer. This work will cross all Directorates. |
| Operational Risk | Performance systems for key operational risks ascertained through consultation with Corporate Performance Team and Directors be reviewed and tested. |
| Strategic Risk | Performance systems for the management of strategic risk, for example major procurement and projects will be reviewed and tested. |
| Counter Fraud | A programme of Counter-Fraud work will be produced, including raising awareness, and proactive fraud testing using the Audit Interrogation software, and the data matches highlighted in the 2010 NFI exercise. |
| Follow Up | We will continue to monitor and report on the implementation of agreed management action. As stated above we are looking at a new software solution to reduce the administrative burden of the current system. |

5. Risks

- 5.1 The key risk areas to the achievement of the plan are performance and capacity. Performance is considered low risk, but capacity is a medium risk as the amount of change and therefore impact on risk and performance is an unknown quantity. This is being mitigated in part by having quarterly plans reported to the Audit Committee so that capacity issues can be identified early.

6 Performance Monitoring / Reporting

- 6.1 The proposed performance indicators for 2011/12 are attached as appendix 1 to this report. I am proposing a change to the current reporting into the Audit Committee: Currently an Internal Audit progress report is presented at each Audit Working Group; it is recommended to Committee that in addition to presenting a quarterly plan to the Audit Committee, they should also be receiving the performance report against the previous months plan, with a summary of the outcomes from each audit. As a matter of course any audits with an "unacceptable" overall opinion should

be referred to the AWG, who should call in the responsible Manager for assurance on what action is being taken. It is also proposed that the AWG receive monitoring reports on outstanding management actions as a matter of course from Internal Audit.

Ian Dyson

Assistant Head of Finance (Audit)

February 2011

APPENDIX A Proposed PERFORMANCE INDICATORS 2011/12

| | Performance Measure | Target | Frequency reporting | of | Method |
|---|--|--|--------------------------------------|-----------|--|
| 1 | Elapsed time between start of the audit (opening meeting) and Exit Meeting. | Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc) | Every Quarter to AWG | | Internal Audit Performance Monitoring System |
| 2 | Elapsed Time for completion of audit work (exit meeting) to issue of draft report. | 15 Days | Every Quarter to AWG | | Internal Audit Performance Monitoring System |
| 3 | Elapsed Time between issue of Draft report and issue of Final Report | 15 Days (Except Schools Audits) | Every Quarter to AWG | | Internal Audit Performance Monitoring System |
| 4 | % of Quarterly Internal Audit Planned Activity delivered in the period. | 80% by end of each quarter | Quarterly report to Audit Committee. | | Internal Audit Performance Monitoring System |
| 5 | % of 2011/12 planned audit activity completed by 30 April 2012 | 100% | Report to Audit Committee | | Internal Audit Performance Monitoring System |
| 6 | Hours charged to audits compared to budgets | All audits delivered within budget | Every Quarter to Audit Committee | | Internal Audit Performance Monitoring System |

| | | | | |
|----|--|---|--|--|
| 7 | % of Priority 1 and 2 management actions followed up after implementation date | All priority 1 and 2 actions followed up within three months of the date of expected implementation | Every Quarter to AWG | Internal Audit Performance Monitoring System |
| 8 | % of management actions implemented within the agreed timescales | 90% of all management actions | Every Quarter to AWG | Internal Audit Performance Monitoring System |
| 9 | Customer satisfaction | < 10 substantiated complaints against the service | Progress report to Audit Committee | Complaints recording |
| 10 | Directors satisfaction with internal audit work | Satisfactory or above | Annually - review of the effectiveness of IA | Questionnaire |
| 11 | Extent of reliance External Audit can place on Internal Audit | Reliance placed on IA work | Report by Audit Commission | Audit Commission |

**AUDIT COMMITTEE
ANNUAL REPORT
2010**



Contents

| Section | Page |
|---|-------------|
| Chairman's Introduction | 2 |
| Role of the Audit Committee | 4 |
| Key Activities | 5 |
| Membership, Meetings & Attendance | 8 |
| Appendices | |
| 1 – Audit Committee Functions (extract from the Council's Constitution) | 11 |
| 2 – Audit Working Group Terms of Reference | 13 |

Chairman's Introduction

This is now my sixth year as Chairman of the Audit Committee, and I am delighted to once again be reporting that the Council continues to demonstrate a strong and embedded culture of good governance underpinned by an effective corporate governance framework. The Audit Committee supported by Officers has worked hard to ensure that good governance is maintained despite the many challenges faced by the Council so that we as a Local Authority can continue to perform well in delivering good outcomes locally for the people of Oxfordshire. What is clear is that the hard work will need to continue throughout 2011 and beyond as our organisation undergoes fundamental change to infrastructure and in the delivery of services. We are undoubtedly facing very difficult times, so as the Council prepares for the major changes and challenges, the Audit Committee will continue to have a strong presence, ensuring that good governance is maintained with the appropriate controls and processes in place and operating effectively.

In 2010 there was only one change to the membership of the Committee; in March Tim Hallchurch MBE, left, and was replaced by Charles Shouler who having spent many years attending the Committee as Cabinet Member for Finance needed no induction into this new role. I would like to thank Tim, who sat on the Committee for several years for the excellent contribution he has made and for all the time and effort he put into the role.

An important part of being effective as an Audit Committee is the relationship with both our Internal and External Auditors. We have a strong working relationship with both, and in my role as Chairman I also regularly meet with the Head of Internal Audit and the External Auditors to discuss local and national issues to ensure the focus of the work programme is relevant.

The key purpose of this report is to detail the role of the Audit Committee, and to summarise the key activities and achievements in 2010 that demonstrate how we have fulfilled this role effectively; however, essential to an effective Committee is the membership itself and the support it receives from Officers and Cabinet Members. Committee members have both expertly supported and challenged officers and Cabinet Members to ensure our risk management, internal control and governance arrangements are effective and transparent, and during 2010 the Committee was grateful for the regular attendance and contribution by the Cabinet Member for Finance and Property, and the Chairman of the Strategy and Partnerships Scrutiny Committee. The final section of this report details the membership and meetings of both the Audit Committee and the Audit Working Group in 2010.

I should like to take this opportunity to give my personal thanks for their contribution and support to; all the committee members; particularly Dr. Geoff Jones, Chairman of the Audit Working Group and co-opted member of the Audit Committee; Sue Scane, Assistant Chief Executive & Chief Finance Officer; Peter Clark, County Solicitor and Monitoring Officer; Ian Dyson, Assistant Head of

Finance (Audit), and the Internal Audit Team; and Geoff Malcolm, Principal Committee Officer. On behalf of the Audit Committee I should also like to thank the Officers who have presented well prepared detailed reports, and have provided timely and comprehensive responses to our questions and challenges.

Cllr. David Wilmshurst
Chairman, Audit Committee

DRAFT

Role of the Audit Committee

The Audit Committee operates in accordance with the “Audit Committees, Practical Guidance for Local Authorities” produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006. The Guidance defines the purpose of an Audit Committee as follows:

“ to provide independent assurance of the adequacy of the risk management framework and the associated control environment, 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.”

The key functions of the Audit Committee are defined within the Council’s Constitution; the relevant extract is attached as Appendix 1 to this report. In discharging these functions the Committee is supported by the Audit Working Group, their terms of reference are attached as Appendix 2 to this report.

Key Activities

In this section the activities of the Committee in 2009, including the Audit Working Group, are summarised under the headings of the key functions. Achievements and improvements to which the Audit Committee has contributed are highlighted.

Internal Control

- Review and approval of the 2009/10 Annual Governance Statement, including identification of key weaknesses and action plans to address them.
- Quarterly monitoring of progress on actions identified in the 2008/09 and 2009/10 Annual Governance Statement.
- Review and revision of the Corporate Governance Assurance Framework.
- Monitoring the delivery of the Financial Management Action Plan resulting from the previous years assessment of the current financial management framework.
- Investigation of the ICT Overspend in 2009/10.
- Review of the Business Continuity arrangements including the effectiveness of the Major Incident Reporting System
- Supporting Internal Audit by closely monitoring the implementation and effectiveness of improvements resulting from issues raised.
- Monitoring the progress with improving the performance on the Fairer Charging System.
- Review of the Local Government Ombudsman Annual Review of the Council for 2009/10
- Scrutiny of the Treasury Management Function in accordance with best practice

Risk Management

- Review of the annual report from the Risk Manager, and monitoring of the risk management improvement plan.
- Review of Risk Management progress reports and the Strategic Risk Register to gain assurance over the process; and to determine whether further examination of the processes is required in any area.
- Review of the risk management process for Safeguarding Children services, as a follow up to the work undertaken in 2009, including a presentation by the new Director for CYPF
- In 2009 The Committee, through the Audit Working Group, and through the Chairman as Member Champion for Risk Management, were concerned on the effectiveness of the Risk Management overview across the Council, as resources available for this key role in 2009 were restricted due to staff absence. In 2010 the Committee extended the reporting requirements to the AWG to be every meeting rather than quarterly. This has enabled to AWG to press for improvements in the quality and detail of the reports they have been receiving, to get the assurance that risk management is being properly

applied. Stability in the resourcing of the risk management overview was achieved during the second half of 2010 and this has subsequently resulted in the AWG receiving the reports with the information and detail it has been requesting.

Internal Audit

- In accordance with the 2006 amendment to the 2003 Accounts and Audit Regulations, the Committee undertook a continuous review of the effectiveness of the system of internal audit. This comprised of:
 - o Approval of the process for undertaking the review;
 - o Approval of the Internal Audit Strategy, Annual Plan and set of performance indicators;
 - o Quarterly reports by the Assistant Head of Finance (Audit) detailing progress against the plan and performance targets;
 - o Annual report for 2009/10 by the Assistant Head of Finance (Audit)
 - o Feedback from the External Auditors on reliance placed on the work of Internal Audit;
 - o Review of compliance against the 2006 CIPFA Code of Practice for Internal Audit;
 - o Annual survey across Head of Service and Directors to feedback on performance and effectiveness of Internal Audit;
 - o Annual report by the Monitoring Officer collating the evidence, and conclusion on the effectiveness of the System of Internal Audit.
- The Committee has also supported the Assistant Head of Finance (Audit) on structure changes to ensure the function is properly resourced, and fit for purpose.
- The Committee, through the Audit Working Group has monitored the results of internal audit assignments and the implementation of agreed management actions.

External Audit

- The Council's External Auditors, the Audit Commission, have routinely attended committee meetings in 2010. This enabled the Committee to forge a good working relationship with the Auditors.
- The Committee has received the External Auditors Reports throughout the year, including their feedback on issues identified. The Committee has also been provided with the External Auditors plan to comment on.

Anti Fraud and Corruption

- The quarterly Internal Audit progress reports include an update on internal investigations being undertaken relating to matters of fraud and corruption;
- Approval and progress monitoring of the Counter-Fraud Plan

- The Monitoring Officer provides an annual report on cases of whistle blowing, from both internal and external sources.
- Review and approval of the whistle blowing process.
- Review of the implications of the Bribery Act

Annual Accounts Process

- Review and approval of the 2009/10 Annual Accounts, submitted to the Auditors, and the subsequent result of the audit
- As stated above, the Committee also reviewed and approved the 2009/10 Annual Governance Statement reported with the Annual Accounts.
- The Committee has also monitored the Councils readiness for implementing IFRS in preparation for the production of the 2010/11 Statement of Accounts.

Key Achievements

- **Sustained high level of governance and system of internal control as demonstrated in the outcomes of the Annual Governance Review and the results of the Audit of the Statement of Accounts where no material issues were reported.**
- **Investigation into the ICT Overspend and assurance over the adequacy of the management actions taken to minimise the risk of further occurrence.**
- **Ensuring improvements in the corporate overview and reporting on risk and performance.**

Key Areas of Focus Looking Forward to 2011

There is only one overarching key area for the Audit Committee to focus on:

- **Maintaining effective governance and internal control whilst the Council undergoes fundamental changes in delivering its business strategy.**
- The Council faces huge challenges over the next twelve months, and it will only be successful in meeting those challenges through having strong and effective governance. The role of the Audit Committee is therefore key to ensuring this is achieved.**

Membership, Meetings & Attendance

Audit Committee

The Audit Committee comprises of nine elected members representing all political parties and a Co-opted Member, Dr. Geoff Jones, who continues to bring to the Committee a high level of knowledge and understanding of governance, public sector accounting and audit.

Having the right skills, knowledge and experience are key attributes for members of an audit committee to have in order for this key assurance function to be effective. Specifically members should have the ability to question, probe and seek clarification about complex issues, and should have experience in some of the core functions of the Committee; financial awareness is essential, but a broad understanding of the financial, risk and control, and governance issues facing local authorities and the Council specifically is more important than having an accounting background or professional qualification.

Other Members

The Committee was grateful for the regular attendance and contribution by the Cabinet Member for Finance and Property, and the Chairman of the Strategy and Partnerships Scrutiny Committee. The Committee was also grateful for the attendance at the January and March meetings of the Leader of the Council.

Officers

The Audit Committee continues to be well supported by Officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee. Essentially the Committee is well supported by Senior Officers. In 2010 the Assistant Chief Executive & Chief Finance Officer (A member of the County Council Management Team), the County Solicitor & Monitoring Officer, and the Head of Internal Audit routinely attended the meetings. These same officers along with the Performance and Review Officer also routinely attend the Audit Working Group meeting.

External Audit

Our External Auditors, the Audit Commission, routinely attend all the Audit Committee meetings.

Meetings

The Audit Committee met six times in 2010. The Audit Working Group also met six times in 2010 including a special meeting on 14 June 2010 at the behest of the Audit Committee. The meetings of both were timetabled to ensure the agreed work programmes could be discharged in a timely manner with the regularity of monitoring and review maintained.

Work programmes are used by both the Audit Committee and the Audit Working Group to ensure requirements of the Committee are fulfilled. The programmes

are reviewed with officers at each meeting and added to when appropriate to ensure ad-hoc investigations instigated by the Committee are reported.

Summary of membership 1 January – 31 December 2009

| Name | Audit Committee | Audit Working Group |
|------------------------------|--------------------------|-----------------------|
| Cllr. David Wilmshurst | Chairman | Member |
| Cllr. Ray Jelf | Deputy Chairman | Member |
| Cllr. Alan Armitage | Member | Member |
| Cllr. Sandy Lovatt | Member | Substitute / Observer |
| Cllr. Timothy Hallchurch MBE | Member – upto March 2010 | |
| Cllr. Charles Shouler | Member – from April 2010 | |
| Cllr. Charles Mathew | Member | Substitute / Observer |
| Cllr. Roy Darke | Member | Substitute / Observer |
| Cllr. Lawrie Stratford | Member | |
| Cllr. Larry Sanders | Member | |
| Dr. Geoff Jones | Co-opted Member | Chairman |

Training and Development

Prior to Audit Committee meetings time is allocated for officers to deliver a development session for members to keep them up to date with any new requirements or changes to the existing governance framework. Although the topics relate to audit issues, the sessions are not exclusive to the Audit Committee and are open to all members. The following development sessions were delivered in 2010:

| Date and Presenter | Topic |
|---------------------------------------|---|
| 20 January 2010, Mark Winstanley | ICT Security |
| 3 March 2010, Paul James | Partnership Governance and Delivery |
| 21 April 2010, Stephanie Skivington | Final Accounts Briefing |
| 30 June 2010, Alexandra Bailey | Risk Management |
| 19 January 2011, Stephanie Skivington | International Financial Reporting Standards |

Appendix 1 - Audit Committee Functions

The following are the functions of the Audit Committee extracted from the Constitution – Part 2 Article 8 Section 1(a).

1. The functions in relation to the approval of the statement of accounts etc specified in Paragraph 45 in Section I of Schedule 1 to the Functions Regulations including the Annual Governance Statement (including Statement on Internal Control.
2. To monitor the risk, control and governance arrangements within the Council, together with the adequacy of those arrangements and those of others managing Council resources:
 - to ensure compliance with relevant legislation, guidance, standards, codes and best practice, whether external or internal;
 - to provide assurance on the effectiveness of those arrangements both generally and for the purposes of the Annual Governance Statement, including arrangements for reporting significant risks; and
 - to ensure coordination between internal and external audit plans to maximize the use of resources available as part of a total controls assurance framework;
 - and to draw to the attention of the Strategy & Partnerships Scrutiny Committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.
3. To consider and comment on the Council's External Auditor's annual work plan, the annual audit letter and any reports issued by the Audit Commission or the Council's External Auditor. Where issues affect the discharge of executive functions, to make recommendations as appropriate to the Cabinet, and where any issues affect the discharge of non-executive functions, to make recommendations to the appropriate Council Committee.
4. To systematically monitor:
 - the performance and effectiveness of Internal Audit Services processes within the Council, including undertaking an annual review using key performance indicators e.g. client satisfaction, percentage of plan completed, percentage of non-chargeable time;
 - the strategic Internal Audit Services Plan and annual work plan, advising on any changes required to ensure that statutory duties

are fulfilled;

- resourcing for the service, making recommendations to the Cabinet and Council on the budget for the service; and

- arrangements for the prevention and detection of fraud and corruption;
- the system for Treasury Management

- and to draw to the attention of the Strategy & Partnerships Scrutiny Committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.

5. To implement the foregoing in accordance with a programme of work agreed by the Committee annually in advance, and to report to the Council on the Committee's performance in respect of that programme.

DRAFT

Appendix 2 - Audit Working Group Terms of Reference

Membership

The Audit Working Group shall comprise of:-

the independent member of the Audit Committee who will chair the Group, together with three members of the Audit Committee, one of whom shall be the Chairman of the Committee. There will also be three named members of the Audit Committee who will deputise as required.

The Assistant Chief Executive & Chief Finance Officer, the County Solicitor and Monitoring Officer, the Assistant Head of Finance (Audit), and the ~~Assistant~~ Corporate Performance & Review Manager, or their representatives shall attend the Group meetings.

Members of the Group and their deputies should have suitable background and knowledge to be able to address satisfactorily the complex issues under consideration and should receive adequate training in the principles of audit, risk and control.

All members of the Audit Committee are invited to attend Audit Working Group Meetings as observers. The Assistant Head of Finance (Audit) should be notified in advance should a member of the Committee wish to attend.

Role

The Audit Working Group shall:

act as an informal working group of the Audit Committee in relation to audit, risk and control to enable the Committee to fulfil its responsibilities effectively in accordance with its terms of reference (Part 2 Article 8 Section 1a of the Constitution);

routinely undertake a programme of work as defined by the Audit Committee;

consider issues arising in detail as requested by the Audit Committee;

receive private briefings on any matters of concern;

at least annually hold a private session with the External Auditors not attended by any officers, and a further private session on Internal Audit matters with the Assistant Head of Finance (Audit) only.

Reporting

The Assistant Chief Executive & Chief Finance Officer will report to the Audit Committee on matters identified by the Group following consultation with the Chairman and members of the Group.

Meeting

The Group shall meet regularly in cycle with the Audit Committee.

The Group may invite any officer or member of the Council to attend its meetings to discuss a particular issue and may invite any representative of an external body or organisation as appropriate.

Confidentiality

The Group will meet in private to allow full and frank consideration of audit, risk and control issues.

All matters discussed and papers submitted for the meetings including minutes of the previous meeting must be treated as confidential. Papers will be circulated in advance to all members of the Audit Committee for information whether attending the Group or not.

Where any other member wishes to inspect any document considered by the Group and believes that s/he has a 'need to know' as a County Councillor, the procedure in the Council's Constitution relating to Members Rights and Responsibilities (Part 9.3) shall apply.

UpdatedFebruary 2011

Review Date.....February 2012

Officer Responsible Ian Dyson, Assistant Head of Finance (Audit)
Telephone 01865 (32)3875
ian.dyson@oxfordshire.gov.uk

AUDIT COMMITTEE – 02 MARCH 2011

WORK PROGRAMME 2011/12

2011

20 April

Election of Chairman & Deputy Chairman for the 2011/12 Council Year

Review of the Effectiveness of the System of Internal Audit 2010/11
(Peter Clark)

29 June

Internal Audit Services – Annual report 2010/11
(Ian Dyson)

Annual Governance Statement 2010/11
(Peter Clark)

Statement of Accounts 2010/11
(Sue Scane)

Audit Working Group Chairman's Annual Review of Activities 2010/11

21 September

Risk Management Annual Report
(Risk & Performance Adviser)

Final Statement of Accounts 2010/11:
Annual Governance Report 2010/11 (OCC)
Annual Governance Report 2010/11 (OCC Pension Fund)
Statement of Accounts 2010/11 Audit Adjustments
Letter of Representation to the Auditors

Treasury Management Outturn 2010/11
(Sue Scane)

Local Government Ombudsman's Annual Review of OCC
(Peter Clark)

Review of Corporate Governance Assurance Framework
(Peter Clark & Sue Scane)

16 November

Treasury Management Governance – Annual Report
(Sue Scane)

Financial Management Action Plan
Progress to date and feedback
(Jo Stone / Kathy Wilcox)

2012

18 January

Review of the Process for Reporting on the Effectiveness of the System of Internal Audit
(Ian Dyson)

Audit Committee - Draft Work Programme 2012/13
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

29 February

Audit Committee Annual Report to Council 2011
(in accordance with the process adopted by the Committee on 29 November 2006)

Internal Audit Services-Internal Audit Strategy & Annual Plan 2012/13
(Ian Dyson)

Audit Commission Reports

2011:

02 March - Progress Report

20 April - Progress Report

29 June - Progress Report, Letter to Those Charged with Governance

21 September - Progress Report, Annual Governance Report

16 November - Progress Report, Annual Audit Letter

2012:

18 January - Progress Report

29 February - Progress Report

Regular Reports:

- Scrutiny - Governance & control Matters (as they become available):
 - scrutiny annual report
 - scrutiny work programme(Alexandra Bailey)
- Audit Working Group
(Ian Dyson)
- Audit Committee Work Programme – update/review
(Committee Officer/Chairman/relevant officers)

Other matters

None identified

Background Papers Nil

Contact officer: Geoff Malcolm, Principal Committee Officer
Tel: (01865) 815904

February 2011

This page is intentionally left blank