

# **AUDIT COMMITTEE ANNUAL REPORT 2011**



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## Chairman's Introduction

In this report I have detailed the role of the Audit Committee, and summarised the work we have undertaken as a Committee and through the support of the Audit Working Group in 2011.

The Audit Committee performs an essential role, and we continue to have a strong presence. Through the work of this Committee I am happy to conclude that whilst there are areas for improvement, Corporate Governance, Financial Management and Internal Control within the Council remains strong.

As a Council we are now in the second year of delivering our Business Strategy, and in 2011 we have seen the continuation of the major restructuring and redesign of service delivery through the Directorate Business Strategies. Change of this magnitude is a major challenge for any organisation, so it is essential that strong and effective governance is maintained. As an Audit Committee it is our job to support the successful delivery of the Business Strategies by monitoring and challenging the effectiveness of the governance arrangements that underpin them, and the operation of the systems of internal control that should be maintained across the Council. This has been the main focus of our work during 2011, and will continue to be for the duration of the Business Strategies. We are grateful to the Chief Executive and the County Council Management Team, for their engagement during 2011 that has ensured the Audit Committee are well briefed on the detail and progress in delivering these Strategies.

An important part of being effective as an Audit Committee is the relationship with both our Internal and External Auditors. We continue to have a strong working relationship with both. In my role as Chairman and Risk Management Champion I meet regularly with the Chief Internal Auditor and the Senior Policy and Performance Officer to discuss local issues to ensure the focus of the work programme is relevant.

I am very pleased to report that the Committee continues to receive good support from both Officers and Cabinet Members; we also encourage representation from the Strategy and Partnership Scrutiny Committee at our meetings to provide an insight into areas that may be of interest to the Audit Committee arising from their work and vice versa.

Finally I should like to take this opportunity to give my personal thanks to fellow Committee Members and the Officers who have supported this Committee so well.

Cllr. David Wilmshurst  
Chairman, Audit Committee

## 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 Annex 1 to this report. In discharging these functions the Committee is supported by the Audit Working Group, their terms of reference are attached as Annex 2 to this report.

## Key Activities

In this section the activities of the Committee in 2011, 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

The 2010/11 Annual Governance Statement (AGS) was successfully prepared using the revised assurance process approved by the Committee. The self-assessment procedure has been replaced with assurance statements provided by Corporate Process Owners, and with Internal Audit undertaking specific governance audits across the Directorates. Following its success we have agreed that the same process should be followed for the 2011/12 AGS. The Committee has monitored the progress with actions arising from 2009/10 and 2010/11 Annual Governance Statements.

A key focus of the Committees work in 2011 has been the Business Strategies. In June 2011 the County Council Management Team, including the Chief Executive, attended the Audit Committee to provide an extensive briefing on the Council and Directorate Business Strategies and to answer questions posed by the Committee. Following that meeting we have built into our forward plan, regular updates on progress with those strategies from the Assistant Chief Executive and Chief Finance Officer.

The Committee obtained assurances on the success of the project rolling out SAP for Schools, and the impact it has had on internal control. We have also pursued an on-going issue seeking satisfactory performance in the collection of income through the Fairer Charging process.

In response to Internal Audit and Risk Management reports the Committee has looked in detail at the following areas:

- E&E Project and Risk Management arrangements
- Concessionary Travel
- SAP roles
- Highways Contract
- CEF Safeguarding
- SCS Safeguarding

### Key Achievements

- Sustained high level of governance and system of internal control.
- Prompt action on material issues identified.

### Key Areas of Focus Looking Forward to 2012

- Maintaining effective governance and internal control as the Council continues with the fundamental changes arising from the Business Strategies.

## **Risk Management**

The Committee received an annual report from the Corporate Performance and Review Manager, and has been monitoring the risk management improvement plan, and the adequacy and effectiveness of the system of risk management through the routine reporting by the Senior Policy Officer to the Audit Working Group.

The key focus of risk management development in 2011 has been training and support for Directorate in the identification and monitoring of risks, and most significantly the integration of risk management into to business management procedures operated by the Directorates, and reported quarterly to CCMT. Whilst underpinned by improvements to the design of the risk registers to make them easier for the end user, the escalation process has evolved such that the quarterly business management reports are highlighting the key strategic risk and performance issues that need the attention of CCMT. The reports received by the AWG show the escalation to CCMT.

In early 2011, this report highlighted weakness in the project management and risk management processes with E&E, so the Officers attended the AWG to explain and outline improvements to their process, supported by the Senior Policy Officer. Recent governance reports produced by Internal Audit demonstrate that the Directorate has improved in this area.

### **Key Achievements**

- **Training of key managers and staff in Directorates has been completed.**
- **Risk management is embedded in the Business Management Process and Reporting within Directorates.**
- **Escalation reporting to CCMT is focussed on the key business management issues and material risks.**

### **Key Areas of Focus Looking Forward to 2012**

- **The restructures in Directorates are not yet completed, and the business management posts, of which ensuring effective risk management is an integral part, are mostly new posts with some changes to personnel. The Committee will monitor through the reporting of the Senior Policy and Performance Officer that the risk management process remains effective.**
- **The consistency and detail in the risk management reports presented to the AWG has significantly improved; however, because the reports are based on the quarterly reporting to CCMT the timing of our meetings can mean the information is not always reflective of current issues. The Group has requested that in future the reports include any significant emerging issues with regards to the effectiveness of risk management.**

## **Internal Audit**

The Audit Committee with the assistance of the Monitoring Officer completed the annual review of the effectiveness of the System of Internal Audit, and concluded it was acceptable. To inform our opinion we met with the Chief Internal Auditor in a private session and were satisfied that he is able to conduct his duties effectively without restriction or undue influence.

In March 2011 we approved the Internal Audit Strategy for 2011/12, endorsing the move to quarterly work plans rather than an annual plan. This allows the service to be more responsive to support Directors where independent assurance is required over the management of their strategic and operation risks. The Chief Internal Auditor presents the quarterly plan for the approval of the Audit Committee which gives members the opportunity to challenge and influence the plan where the Committee has identified areas of concern.

We have also revised the Internal Audit reporting cycle. The Audit Committee has always received the Internal Audit Strategy, Work Plan and Annual Report, but in 2011, we have also received quarterly progress reports, including summaries of all outcomes from the completed internal audit work. The Audit Working Group receives a report at every meeting highlighting any emerging issues from the internal audit work, and the status of the implementation of agreed management arising from the audit reports. This change has worked particularly well as it is ensuring the Committee is informed earlier of issues, and through the Audit Working Group can bring in the senior managers to ensure prompt action will be taken.

### **Key Achievements**

- **Improved performance on the implementation of management actions. Working with Internal Audit to oversee the management action follow up process, including on occasions the Chairman writing to responsible officers where progress is not satisfactory, has seen improvement to the implementation rate.**
- **Earlier engagement with management to ensure areas of unacceptable control is addressed. In 2011 we have responded promptly to Internal Audit reports with "Unacceptable" conclusions and have met with senior managers to get assurance that prompt actions are taken; E&E Highways Contract; SCS Safeguarding; SCS Alert Service; and, CEF Safeguarding (Quality Assurance Process).**

### **Key Areas of Focus Looking Forward to 2012**

- **In 2011 the in-house Internal Audit Team lost four staff who resigned their position, increasing the reliance on outsourced support. There has been an impact on the performance of producing reports on a timely basis. It is expected that vacancies will be recruited to early in 2012 so the Committee will be monitoring the impact this has on performance.**

- **It is expected that new action tracking software will be operational in early 2012 which should improve the efficiency with which actions are monitored and progress reported.**

## **External Audit**

The Council's External Auditors, the Audit Commission, have routinely attended committee meetings in 2011. This enabled the Committee to forge a good working relationship with the Auditors. The Committee also met with the External Auditors in a private session and are satisfied they are free to carry out their duties without restrictions. We are also assured that if identified they would bring any material issues to the attention of the Committee.

Whilst we are happy with the current Auditors, The Department for Communities and Local Government has announced major changes to the future for Public Audit, and from September 2012 there will be a change to the service provider; who it will be is not yet known. We are very grateful to our Auditors for keeping us informed of the changes and the process of tender for the contract from September 2012.

The Committee responded to the DCLG consultation published in June 2011, on the Future of Local Public Audit. The Government response to that consultation was not received until January 2012, and much of the detail still has to be determined, however we do know that at the completion of the contract currently out to tender by the Audit Commission, responsibility for the procurement of external auditors will reside with the Council. It is also expected there will be changes prescribed to the constitution of the Audit Committee as it currently stands to manage that procurement.

## **Key Achievements**

- **Very positive audit reports, in particular the Audit of the Statement of Accounts which once again identified no material issues or matters of concern.**

## **Key Areas of Focus Looking Forward to 2012**

- **The Auditors identified issues in some of their Grant work where improvements are required in the accounting process. The Committee will seek assurances that action is being taken.**
- **It is unclear at this stage who our new Auditors will be from September 2012, and what if any impact it will have.**

## **Anti-Fraud and Corruption**

The Audit Committee receives regular updates from the Chief Internal Auditor on any matters of fraud and corruption. The Committee has also approved the Counter-Fraud plan.

In January 2011 the output from the National Fraud Initiative data matching exercise was received, and officers have been investigating the matches. The process is



overseen by Internal Audit and subject to review by the External Auditors, who have reported they are satisfied with the progress being made. The results are very positive with no material errors being identified.

We received a report on Whistleblowing from the Monitoring Officer, that highlighted there have been very few cases. The Council has a strong system of internal control so it is not unexpected there is very little fraud identified; however nationally statistics show that fraud is on the increase, so it is important that we all remain vigilant.

#### **Key Achievements**

- **Good governance and strong System of Internal Control that is effective in minimising the risk of fraud.**

#### **Key Areas of Focus Looking Forward to 2012**

- **The resources allocated by Internal Audit to Counter-Fraud work has reduced in 2011 due to the high turnover in their team. This will need to be addressed in 2012 to ensure vigilance is maintained.**

### **Annual Accounts Process**

The 2010/11 Accounts were prepared for the first time under the new International Reporting Standards. The Accounts and Audit Regulations were also updated in March 2011, with a change that the Accounts no longer had to be reviewed by the Audit Committee prior to submission for audit; however, we considered it to be good practice to review the submitted accounts in conjunction with the Annual Governance Statement.

#### **Key Achievements**

- **Once again the Audit of the Statement of Accounts found no material issues.**

#### **Key Areas of Focus Looking Forward to 2011**

- **Maintaining the current high standards.**

## **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.

The Audit Working Group, chaired by Dr. Jones, comprises of three elected members; Cllr. Wilmshurst, Cllr. Mathew, and Cllr. Armitage, plus officers. Papers for the Audit Working Group are circulated in advance to all members of the Audit Committee who can request to attend the working group meetings.

There has been minimal change to the membership during 2011, which has been important in maintaining the right balance of skills, knowledge and experience which the committee needs to be effective. In June 2011, Cllr. Crabbe replaced Cllr. Jelf on the Committee, with Cllr. Mathew elected as Vice Chairman.

### **Other Members**

The Committee was grateful for the regular attendance and contribution by the Cabinet Member for Finance and Property, and the representation from the Strategy and Partnerships Scrutiny Committee.

### **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. In 2011 the Assistant Chief Executive & Chief Finance Officer, the County Solicitor & Monitoring Officer, and the Chief Internal Auditor attended routinely attend the meetings. These same officers along with the Performance and Review Officer also attended 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 seven times in 2011 and the Audit Working Group met six times. 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.

## ANNEX 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.

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## **ANNEX 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 Chief Internal Auditor, and the 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 Chief Internal Auditor 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 Chief Internal Auditor 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.

Updated .....February 2012

Review Date.....February 2013

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