

AUDIT COMMITTEE ANNUAL REPORT 2009

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Chairman's Introduction

I am delighted to be reporting on the activities and achievements of the Audit Committee in 2009, in what has been my fifth year as Chairman. Sitting on this Committee is always challenging as being part of an effective and dynamic organisation means risks and issues are constantly evolving. The Audit Committee has a significant role in ensuring that the Council can remain effective and high performing despite the many challenges it faces, through strong governance underpinned by an effective risk management and internal control framework.

In 2009 the membership of the Committee itself changed following the local elections in June. We said goodbye to five long standing members of the Audit Committee, all of whom have made a significant contribution to the Committee; Alan Bryden, Patrick Greene, Dermot Roaf, John Sanders and Craig Simmons should be proud of their contribution they have made to this Committee and what it has achieved; I would like to thank them all for the time, effort and support they have given to the role.

In June we welcomed Alan Armitage, Sandy Lovatt, Roy Darke, Larry Sanders and Lawrie Stratford onto the Committee and I am very pleased to say the transition has been seamless. The new members have all embraced the "One Team" approach, and as Officers will testify, have already demonstrated the core skills needed to be an effective member on an Audit Committee, namely an ability to question, probe and seek clarification about complex issues.

2009 also saw the changeover of our External Auditors from KPMG LLP to Audit Commission. It is important for this Committee to have a strong working relationship with both Internal and External Audit, and the first few months of this new relationship with the Audit Commission have been very encouraging and they have been regular attendees at the Committee meetings. In my role as Chairman I also regularly meet with the Head of Internal Audit and the External Auditors to ensure the relevance of the agenda to local and national issues. . The Audit Commission also supported the Members Training Programme by participating in the presentation on the Role of an Audit Committee training that was put on in September 2009.

The key purpose of this report is to detail the role of the Audit Committee, and to summarise the key activities and achievements in 2009 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 2009 the Committee was grateful for the regular attendance and contribution by the Cabinet Member for Finance, and the Chairman Corporate Governance Scrutiny Committee, (Strategy and Partnerships Scrutiny Committee from June 2009). The final section of this report details the membership and meetings of both the

Audit Committee and the Audit Working Group in 2009.

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.

As a final thank you, I would like to mention the support this Committee received from Councillor Charles Shouler in his role as Cabinet Member for Finance. Charles has regularly attended our meetings, and as Chairman that has enabled me to ask him to comment on the various reports and issues being raised. The Committee greatly valued his regular input and clarification over complex financial issues. Charles has of course stood down from his role on the Cabinet, but I am pleased to report that Councillor Keith Mitchell is providing a similar level of support.

I have no doubt that in 2010 we as a Council will face many challenges, not least through the scale of efficiency savings, but I am confident that the strength of governance within this Council, underpinned by an effective Audit Committee will see us successful through these difficult times.

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 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 2008/09 Annual Governance Statement, including identification of key weaknesses and action plans to address them.
- Quarterly monitoring of progress on actions identified in the 2007/08 and 2008/09 Annual Governance Statement.
- Reviewing the adequacy and effectiveness of the current Financial Management framework against the CIPFA Financial Management Model of good practice.
- Monitoring the implementation of improving control over Project Management.
- Review the outcomes from the six monthly internal control checklist assurance process, where Directors, Heads of Service, and Corporate Business Leads undertake a self assessment of compliance against key controls.
- Supporting Internal Audit by closely monitoring the implementation and effectiveness of improvements resulting from issues raised.
- Monitoring the progress with the business process re-engineering exercise within the Schools Finance Team; and, the progress with improving the performance on the Fairer Charging System.
- Increased scrutiny of the Treasury Management Function in accordance with new guidelines

Risk Management

- Review of the annual report from the Risk Manager, and monitoring of the risk management improvement plan.
- Review quarterly Risk Management reports including an update on compliance with the risk management process across all Directorates. The quarterly reports also contain the highest scored risks escalated to the County Council Management Team, and the Strategic Risk Register, for the consideration of the Committee; 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,
- The Committee, through the Audit Working Group, and through the Chairman as Member Champion for Risk Management, have been monitoring closely the development of Risk Management across the Council, as resources available for this key role in 2009 were restricted due to staff absence. The improvements made in 2009 have been limited, but through working with the Officers the Committee is now pleased to note a strengthening and

application and reporting of risk management that should further enhance the existing process. The Committee is expecting to see evidence of the change in 2010, and has request more frequent detailed reporting from the Officers responsible for monitoring risk management.

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 2008/09 by the Assistant Head of Finance (Audit)
 - o Feedback from KPMG LLP, 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 implementation of agreed management actions arising from the work of Internal Audit.

External Audit

- The Council's External Auditors, KPMG LLP and more recently Audit Commission have regularly attended committee meetings in 2009. This enabled the Committee to maintain a good working relationship with the Auditors.
- Received the External Auditors' Annual Report, for 2008/09, and monitored through to implementation the actions arising from that report;
- Received the 2007/08 Annual Audit and Inspection Letter from the Audit Commission;
- Received the statutory reports on the Audit of the Statement of Accounts and Use of Resources 2009. This report details the work undertaken in respect of the accounts and also Internal Audit.

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;
- 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.

Annual Accounts Process

- Review and approval of the 2008/09 Annual Accounts, submitted to the Auditors.
- As stated above, the Committee also reviewed and approved the 2008/09 Annual Governance Statement reported with the Annual Accounts, and received the Auditors report on the Annual Accounts.

Key Achievements

- **Successful implementation of the Financial Management Action Plan building on the positive results from the independent review undertaken in 2008,**
- **Introducing the role of monitoring the system for Treasury Management in accordance with guidance from Government and the Audit Commission; including the training of members to fulfil this role effectively.**
- **Establishing ownership and accountability for the improvement in performance over the Fairer Charging System and ensuring momentum is maintained in delivering the improvements.**

Key Areas of Focus Looking Forward to 2010

- **Maintaining effective governance and internal control whilst delivering efficiency savings.**
- **Data Quality – including the impact of the SAP Development Programme and the review of IT needs in Social & Community Services.**
- **Embedding of structure changes in CYPF.**
- **Transforming Social Care as Self Directed Support and Personal Budgets are rolled out.**
- **Reviewing impact of the Business Process Re-engineering on the effectiveness of the Schools Finance Team**

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 the Chairman of the Corporate Governance Scrutiny Committee (Strategy and Partnerships from June 2009). The Committee was also grateful for the attendance at the January meeting of the Cabinet Member for Children Young People and Families.

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 2009 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 Corporate Risk and Performance Advisor also routinely attend the Audit Working Group meeting.

External Audit

Our External Auditors, both KPMG and now the Audit Commission have supported the Audit Committee by regularly attending meetings to present their reports.

Meetings

The Audit Committee met seven times in 2009, including a special meeting on 16 June to elect the Chairman and Deputy Chairman following the Local Elections. The Audit Working Group met five times in 2009, the meeting scheduled for June 2009 was cancelled due to the Local Elections. 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 – 5 June 2009

Name	Audit Committee	Audit Working Group
Cllr. David Wilmshurst	Chairman	Member
Cllr. Ray Jelf	Deputy Chairman	Member
Cllr. Alan Bryden	Member	Member
Cllr. Patrick Greene	Member	
Cllr. Timothy Hallchurch MBE	Member	Substitute / Observer
Cllr. Charles Mathew	Member	Substitute / Observer
Cllr. Dermot Roaf	Member	Substitute / Observer
Cllr. John Sanders	Member	Observer
Cllr. Craig Simmons	Member	
Dr. Geoff Jones	Co-opted Member	Chairman

Summary of membership 5 June – 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	
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 2009:

Date and Presenter	Topic
21 January 2009, Alan Sinclair, Programme Manager	Transforming Adult Social Care Programme, including Self Directed Support
23 September 2009, Ian Dyson, Assistant Head of Finance (Audit); And others.....	Overview of the Role of the Audit Committee
18 November 2009, Matt Barlow & Tim Chapple JOB TITLE	Treasury Management
20 January 2009, Mark Winstanley	ICT Security

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.

Appendix 2 - Audit Working Group Terms of Reference

Membership

The Audit Working Group shall comprise of:-

~~three County Councillors, including the Chairman of the Audit Committee with three named substitutes;
one independent member drawn from the Audit Committee (who will be appointed by the Committee and will Chair the Group).~~

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** ~~Corporate Risk and Performance Adviser~~, or their representatives shall attend the Group meetings.

Members of the Group and their **deputy's substitutes** 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 (Section I 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 (Section (ff) paragraph 12) shall apply.

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