

**AUDIT &  
GOVERNANCE  
COMMITTEE  
ANNUAL REPORT  
2013**



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## **Chairman's Introduction**

As the Chairman of the Audit and Governance Committee I am very pleased to present this annual report which sets out the role of the Audit & Governance Committee, and summarises the work we have undertaken both as a Committee, and through the support of the Audit Working Group in 2013.

The Audit and Governance Committee performs an essential role ensuring that good governance is maintained, with a strong system of internal control and risk management. These are the foundations upon which the Council can meet its challenges head on and continue to be effective in delivering good outcomes.

An important part of being effective as an Audit and Governance 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 I meet regularly with the Chief Internal Auditor to ensure the focus of the work programme is relevant.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) in 2006. CIPFA have recently refreshed that guidance so the Committee will review compliance with the new standards during 2014.

Finally I should like to take this opportunity to give my personal thanks to all the officers, Geoff Jones Chairman of the Audit Working Group, my Vice Chairman Cllr Charles Mathew and without exception, all fellow Committee members who have contributed and supported the work of the Committee in such a meaningful and positive way throughout the past year.

**COUNCILLOR DAVID WILMSHURST**  
Chairman, Audit & Governance Committee

## Role of the Audit and Governance Committee

The Audit and Governance 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 and Governance 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 2013, including the Audit Working Group, are summarised under the headings of the key functions. Achievements and improvements to which the Audit and Governance Committee has contributed are highlighted.

### Internal Control

The 2012/13 Annual Governance Statement was agreed by the Committee, and included seven areas for action to improve existing governance arrangements. The Committee actively monitors progress with the implementation of these actions.

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

Personal Budgets

Adult Social Care Client Charging including Fairer Charging

Property Leases

Procurement Improvement Project (including management actions arising from the Accounts Payable audit)

The Committee also reviewed the governance around the transfer of Highways operations from Atkins to Skanska.

The Committee receives regular progress reports from the Chief Internal Auditor, including summaries of the outcomes from Internal Audit work. Through the Audit Working Group, the Committee monitors the progress with the implementation of management actions arising from audit reports.

### Key Achievements

- Supporting managers in implementing effective key controls where material weaknesses in internal control have been identified.
- New charging policy introduced for Adult Social Care bringing a consistency to the charging methodology.
- Review of the end to end process for Fairer Charging, addressing inefficiencies in the system, resulting in significant improvement in the timescales for completing financial assessment.
- Review of the end to end purchase to pay process with changes to improve quality and performance. Implementation of a performance dashboard with key indicators for monitoring the purchase to pay process.
- Monitoring of management actions applied by the Committee to ensure that significant weaknesses in the system of internal control are being prioritised.

### Key Areas of Focus Looking Forward to 2014

- Implementation of a new management information system for Adult Social Care.
- Completion of the Lean review within Adult Social Care.

- **Impact of the Contract Management Framework and Contract Management Application.**
- **Governance and system of internal control for the design and implementation of new operating frameworks resulting from the Externalisation Programme, including the change management process/**

## **Risk Management**

At the end of 2012, an external review of the Risk Management Framework was undertaken by Zurich Municipal. In January 2013, the Committee received and agreed the improvement plan.

The risk management annual report confirmed that good progress has been made with the system of risk management, in particular the ownership that Directorates have for the operation of the system and reporting within their own Directorate.

In October 2013, the Committee, through the Audit Working Group has undertaken to review on a cyclical basis, once a year, the risk management process in each Directorate. CEF was the first, and others have been scheduled for the first quarter of 2014.

On October 2013, the corporate lead role for risk management was transferred to the Chief Internal Auditor following a reorganisation within the Chief Executive's Office. The working group has requested quarterly reports highlighting new risks, risks where the scoring has increased, risks where mitigation has not been effective in reducing exposure to target risk levels. These reports will be used in conjunction with the annual directorate reviews to provide assurance on the adequacy and effectiveness of the system of risk management.

## **Key Achievements**

- **Cyclical review of Directorate risk management systems**

## **Key Areas of Focus Looking Forward to 2014**

- **Quarterly reporting on risk management by the corporate lead.**

## **Internal Audit**

The Audit and Governance 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.

We approved the Internal Audit Strategy for 2013/14, and the quarterly Internal Audit Plans, which gives members the opportunity to challenge and influence the plan where the Committee has identified areas of concern.

The reports of the Chief Internal Auditor to both the Audit and Governance Committee and also the Audit Working Group has enabled emerging issues arising from Internal Audit activity to be considered on a timely basis, including where appropriate working with the Senior Officers to seek assurance that matters are being dealt with promptly and effectively.

**Key Achievements**

- **The Internal Audit function continues to be effective within the organisation and has good engagement with Senior Management and the Committee.**

**Key Areas of Focus Looking Forward to 2014**

- **Compliance with the Public Sector Internal Audit Standards.**
- **Reviewing and then monitoring the resourcing strategy for Internal Audit.**

**External Audit**

The Council's external auditors, Ernst and Young, attended all the committee meetings in 2013, providing regular updates on their work plan and any matters arising. In addition during 2013, they have provided the Committee with sector updates for consideration that highlight key themes, issues and priorities for local government.

The external auditors have an open invitation to attend the Audit Working Group. They do not routinely attend, but do receive all the papers. They attended the Group in September 2013 to assist the Committee in reviewing Pension Scheme fraud risks.

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.

**Key Achievements**

- **Positive audit reports, in particular the Audit of the Statement of Accounts which again identified no material issues or matters of concern.**
- **Good engagement with Ernst and Young who have supported member training, and provided sector wide updates on a regular basis for the Committee to consider.**

**Key Areas of Focus Looking Forward to 2014**

- **Maintaining a strong working relationship with Ernst and Young**

**Anti-Fraud and Corruption**

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

There has been a small increase in the number of financial irregularities that have been identified, and an increase in the instances where internal audit have identified weakness in the control of financial systems being operated within local teams. This has resulted in briefings on governance and counter-fraud to senior managers and their staff.

We received a report on Whistleblowing from the Monitoring Officer, that highlighted there have been very few cases. Overall 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**

- **Governance and Counter-fraud briefings to Senior Management and staff.**

#### **Key Areas of Focus Looking Forward to 2014**

- **2014/15 Fraud risk assessment and Counter-Fraud Plan**

### **Annual Accounts Process**

The 2012/13 Accounts were prepared on time and presented to the Committee for comment. The received the External Auditors report in September 2013 when it was very pleased to note that high standards had been maintained with no material issues reported.

#### **Key Achievements**

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

#### **Key Areas of Focus Looking Forward to 2013**

- **Maintaining the current high standards.**

### **Treasury Management**

The Committee receives reports from the Treasury Management Team three times a year, exercising its stewardship role. The Committee:

- Reviewed the Treasury Management Strategy;
- Received the mid-term performance report; and,
- Received the annual report.

There were no material issues to note; however, the Committee did report to Cabinet a concern with the underperformance of one of the external fund managers highlighted in the mid-term review report.

#### **Key Achievements**

- **Oversight of the Treasury Management Process**

#### **Key Areas of Focus Looking Forward to 2014**

- **Treasury Management Strategy**



**Governance**

Committee agreed the Annual Governance Statement 2012/13 that explained how the County Council had complied with the code of corporate governance with an update on actions identified last year to be carried out during 2012/13 and new actions for 2013/14. They also agreed the updated Corporate Governance Framework

Following the governance review undertaken by the Council and approved on the 2 April the Committee jointly with Performance Scrutiny Committee considered how they would work together to complement each other's roles and responsibilities and avoid duplication. Council agreed that the new governance arrangements be reviewed after a year and the Monitoring Officer will undertake the review. To assist him, the Committee has appointed a working group of members to act as a sounding board for the Monitoring Officer and this has already met.

The Audit & Governance Committee has taken over certain responsibilities from the Council's former Standards Committee with regard to the governance and standards of conduct for elected and co-opted members. Consequently, they received the annual report of the Monitoring Officer on actions and issues in that regard that have occurred in the previous year. The Committee has not received any reports in respect of investigations into allegations of misconduct under members' code of conduct. The Committee has not granted any dispensations from requirements relating to interests as set out in the code of conduct for members.

The Committee received reports on the use of the Regulation of Investigatory Powers Act 2000 (RIPA), the Fire and Rescue Service Annual Statement of Assurance and complaints to the Ombudsmen.

The Committee is responsible for the work of the Appeals & Tribunals Sub-Committee a panel of members that is chaired by a member of the Audit & Governance Committee. They carry out a range of appeals and tribunals:

Type of appeal	Number in 2013-14	Result
<b>Member Appeals:</b>		
<ul style="list-style-type: none"> <li>• Appeal against dismissal</li> </ul>	3	Two appeals not upheld.  One appeal upheld and the employee was re-instated with a final written warning.
<ul style="list-style-type: none"> <li>• Appeal against redundancy selection</li> </ul>	0	
<ul style="list-style-type: none"> <li>• Raising concerns at work appeals</li> </ul>	0	
<ul style="list-style-type: none"> <li>• Disciplinary and Capability appeals</li> </ul>	0	

Type of appeal	Number in 2013-14	Result
Job Evaluation formal appeals	2	One post went up in grade. One post stayed the same grade.
Home to School Transport Appeals	12	8 appeals upheld (wholly or in part) 28 appeals refused 2 appeals pending

#### Key Achievements

- Oversight of the Corporate Governance process

#### Key Areas of Focus Looking Forward to 2014

- Completion of the Governance Review

## Membership, Meetings & Attendance

### **Audit and Governance Committee**

The Audit and Governance Committee comprises of nine elected members representing the three main political parties and a Co-opted Member, Dr Geoff Jones. There were changes to the membership following the elections in May 2013; Cllr Sandy Lovatt, Cllr Surinder Dhesi, Cllr Susanna Pressel and Cllr Janet Godden, replaced Cllr Jim Couchman, Cllr Ray Jelf, Cllr Roy Darke, and Cllr Larry Sanders. Membership of the Committee at the end of 2013 was as follows:

Cllr David Wilmshurst (Chairman), Cllr Charles Mathew (Vice Chairman)  
Cllr Sandy Lovatt, Cllr Lawrie Stratford, Cllr Caroline Newton, Cllr Surinder Dhesi, Cllr Susanna Pressel, Cllr Roz Smith, Cllr Janet Godden, Dr Geoff Jones (Co-opted).

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

### **Officers**

The Audit and Governance 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 2013 the Chief Finance Officer (Assistant Chief Executive and Chief Finance Office up to September 2013), the Head of Law and Governance & Monitoring Officer, and the Chief Internal Auditor routinely attended the meetings. These same officers along with the Performance and Review Officer also attended the Audit Working Group meeting.

### **External Audit**

The External Auditors, Ernst and Young, have attended all the Audit and Governance Committee meetings.

### **Meetings**

The Audit and Governance Committee met six times in 2013 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 & Governance Committee Functions

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

- (1) The functions relating to elections specified in Section D of Schedule 1 to the Functions Regulations.
- (2) The functions in relation to the designation of particular officers for certain purposes specified in Paragraphs 39, 40, 43 and 44 in Section I of Schedule 1 to the Functions Regulations.
- (3) 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).
- (4) 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 maximise the use of resources available as part of a total controls assurance framework;

and to draw to the attention of the appropriate scrutiny committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.
- (5) 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.
- (6) 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;

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

and to draw to the attention of the appropriate scrutiny committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.

- (7) To promote high standards of conduct by councillors and co-opted members.
- (8) To grant dispensations to councillors and co-opted members from requirements relating to interests set out in the code of conduct for members.
- (9) To receive report from member-officer standards panels appointed to investigate allegations of misconduct under the members' code of conduct.
- (10) To advise the Council as to the adoption or revision of the members' code of conduct.
- (11) 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.
- (12) The Committee will appoint an Appeals & Tribunals Sub-Committee which will have the following responsibilities and membership:

Responsibilities:

- (i) The determination of appeals against decisions made by or on behalf of the authority as specified in Paragraph 2 of Schedule 2 to the Functions Regulations.
- (ii) To hear and determine appeals in cases where the relevant procedure rules require this function to be performed by a formally constituted committee or sub-committee.
- (iii) To hear and determine appeals in other cases under the relevant procedure rules.

Membership:

The Appeals & Tribunal Sub-Committee will meet as needed and its membership will be:

- (i) A member of the Audit & Governance Committee (or substitute)
- (ii) Two other members of the Council (one being a Cabinet member in the case of Fire Discipline issues)

## **ANNEX 2 - Audit Working Group Terms of Reference**

### **Membership**

The Audit Working Group shall comprise of:-

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

The Chief Finance Officer, the Monitoring Officer and Head of Law and Governance, and the Chief Internal Auditor, 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 and Governance Committee can attend Audit Working Group Meetings as observers.

### **Role**

The Audit Working Group shall:

act as an informal working group of the Audit and Governance 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 and Governance Committee;

consider issues arising in detail as requested by the Audit and Governance 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 Chief Finance Officer will report to the Audit and Governance 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 and Governance 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 and Governance 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 2014

Review Date.....February 2015

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