Audit Committee 30 June 2010

AUDIT WORKING GROUP: Chairman’s Annual Report

Report by Dr Geoff Jones, Chairman, Audit Working Group

Introduction

1. The Audit Working Group is a joint Officer/Member working group that assists the Audit Committee in its primary responsibilities: work on internal control matters, enhancing the effectiveness of the Council’s internal and external audit functions, supporting risk management activities and monitoring the Council’s governance arrangements.

2. The Chairman of the Audit Committee, Cllr. David Wilmshurst, has presented the Committee’s Annual Report 2009 to Council on 6 April 2010. That report records the workload and achievements of the Committee, and generously notes the contribution made by the Audit Working Group. The Group is entirely dependent on the Audit Committee for its terms of reference and its workload.

3. The Audit Committee’s Annual Report sets out clearly the work of that Committee over the last year. It therefore details most of the matters that the Audit Working Group has also worked on. But as the Audit Working Group’s independent co-opted Chairman, I feel it is also highly desirable for me to present to the Audit Committee my personal reflections on the work of the Group and offer my own views on the strengths and weaknesses and challenges and opportunities presented by the work the Group has done during the last year. This report therefore tries to offer such a perspective.

AWG Membership and working method

4. The achievements of the AWG has always been heavily determined by the quality of its Councillor membership; in particular, the continuity and commitment shown by its official members, but also by some other members of the Audit Committee who have shown a similar interest in supporting its meetings even if they were not strictly required to do so. As the membership of the Audit Committee changed at the election in June 2009, the AWG also lost several of its most experienced members. I am pleased to report, however, that the new members quickly appreciated the Group’s potential and the opportunities for detailed analysis and discussion it is able to facilitate, and have themselves shown great commitment and contribution. The continuity and expertise that was available to the Group in the past has been successfully renewed. I am grateful to all members of the Group for their contributions. As always, I particularly appreciate the dedication and support of the Chairman and deputy Chairman of the Audit Committee, Cllrs. David Wilmshurst and Ray Jelf.
5. The Group also could not do what it does without the support it gets from officers. I pay tribute to Ian Dyson, Assistant Head of Finance (Audit) and his staff for their excellent advice and support, as well as for the provision of an internal audit function that serves the Council extremely well – not only in my opinion, but also as has been found by the Council’s new external auditors after an in-depth review this year, as well as by an independent review carried out by the Council’s Monitoring Officer. I would also like to thank the other senior officers, notably Sue Scane and Peter Clark, who have continued to advise the Group and contributed in a major way to its effectiveness.

6. The working methods of the Group have continued as in the past. Regular items, such as monitoring the work of internal audit, following up external audit recommendations and reviewing drafts of the Annual Governance Statement are interspersed with ad-hoc matters referred to the Group by the Audit Committee, such as the risk management process for Safeguarding Children.

7. There are also quite a few issues arising from the Group’s pursuit of matters raised by its routine work, for example, by audit reports or examination of risk management documents, and where it has not been satisfied with the assurance it was able to get from submitted reports and documents. On these occasions it has invited officers from the area concerned to explain the issues further. In many ways, these are the areas where the Group can be most effective, as many issues have emerged from this process that were not routinely reported to members – the performance of the Fairer Charging system would be an example.

8. As those attending will know, I see my role as Chairman of these discussions as primarily to facilitate discussion between the Council’s expert professionals and its elected members who are experts in many fields but not always in the sometimes rather arcane aspects of Local Government finance, audit and law. I have tried to help members to focus on areas where it seems to me that adequate assurance of effective management may not be forthcoming. As a consequence of this, meetings are usually full and frank exchanges of views which would not normally be aired in a public forum. This seems to me to be one of the defining features of the AWG role. The current work programme is given as an Appendix to this report.

**Issues and Concerns**

9. The Audit Committee Annual Report mentioned above sets out all the major work the Committee performed in the last year. As a contributor to some of that work, it is not necessary for me to repeat what is so clearly set out there. I would like, however, to highlight some issues of concern that have arisen.

10. In my opinion, the governance system that is operated in Oxfordshire represents an example of the very best practice in local authorities. I have also been impressed over the years by the open way in which officers and members interact, and by the progress to improve the governance and financial systems that has been made in recent years. The Shared Services Centre is a good example of how innovation and better integration of functions driven by a suitable and versatile accounting system can lead to greater efficiencies. Accountability to members is mostly clear and transparent. But there are exceptions where there are still some fundamental tensions. A number of these have been apparent during the last year.
**Fairer Charging**

11. Probably most frustrating for many Audit Committee members, and myself, has been the failure so far to manage effectively the financial performance of the Fairer Charging system for domiciliary care of the elderly. Over the years, the Audit Committee has tried to improve the coordination between social care for the elderly and the financial arrangements that must support it. The Committee has long been aware of the incompatibilities of the systems involved, and mindful of the sometimes differing objectives and responsibilities of care workers and finance specialists. For a long time, faith - and considerable resources- were placed in Project Link to develop financial management modules on the existing client software system, and it expected that the outcome would have included an integrated Fairer Charging process as a way of mitigating these issues. Arguably, the commitment to this ultimately failed project prevented more mundane alternatives being explored.

12. The weaknesses in the Fairer Charging process were originally exposed by Internal Audit when the process was managed within the Social and Community Services Directorate; However, the Audit Committee through the AWG became directly involved once the financial assessment and income recovery procedure had transferred to Shared Services in 2008. It should have been possible to evaluate the overall financial effectiveness of the system. But it took quite some time for performance information to be forthcoming, and even now regular monthly reports of the key indicators are not available to members (the system involves several hundred thousands of pounds). Although it was clear that there were many factors making concerted management of the system difficult, members of the AWG became particularly frustrated when it appeared that despite their expressed concerns, there did not appear to be either any urgency in responding to those concerns, or even clear accountability for the system as a whole, even though substantial income was being lost. Hopefully, steps are at last being taken that will significantly reduce the lost income, but there needs to be a systematic improvement that is sustainable by all concerned.

**Schools Finance Support**

13. The issue of the efficacy of the financial advice and support given to Schools was one of the earliest issues to come before the AWG, in 2005. Later, in response to further adverse Audit reports, steps were taken to improve the consistency and efficacy of financial advice to Schools. A senior member of the Audit team was seconded to assist and a substantial O&M exercise was carried out. The results of this effort have been agreed and put into place, but it remains to be seen over the course of a whole year’s financial cycle whether they have been effective in all cases. A complicating factor has been the introduction of SAP in Schools, and it has been a concern of many members as to whether this was the appropriate solution where the problem was seen to be a lack of capacity in the skills available in some individual schools. Hopefully, this aspect has been or will shortly be resolved in all but a handful of schools (but see below).

**SAP**

14. The Audit Committee has taken a close interest in the development of SAP following the Financial Management Action Plan. Although that programme has now been completed, a number of issues associated with SAP were raised at the AWG.
15. Firstly, the introduction of the shared services centre highlighted the fact that many roles had changed and that roles on SAP no longer reflected the way accountabilities were now organised. As a result, new roles needed to be mapped into SAP which reflected the new organisation, and by post not by officer name. The first phase of this exercise was delayed due to SAP development work, but the job of mapping the main authorisations was completed by the year-end. The process of reviewing potential conflicts in the new roles, and the sign-off by accountable officers has not yet been completed but it is on schedule to go live at the end of June 2010. However, the exercise has highlighted the difficulties of securing nil conflicts in the SAP authorisation structures, and my understanding is that many potential conflicts remain. In other words, SAP does not in itself provide absolute security against individual roles being able to do things that separation of duties would suggest is not desirable.

16. At the AWG we also heard of a number of possibilities for SAP development work; for example, the development of the HR and unit cost modules which are either not in use or used to only a limited extent. About the same time, early in 2010 we heard about overspends on SAP development projects of approximately £1.2m (ECC6 Upgrade and O&M work). There have now been significant reductions in ITC staffing to address budget overruns, although the full effect of these will not be felt until 2011. So whilst there have been huge improvements in budgetary control, monthly monitoring, accounts payable (e-procurement) and final accounts preparation, it appears that there is some way to go before SAP can be said to be utilised to its fullest potential, and that budget pressures may make further development work difficult to finance. (As part of its current workload, the AWG is looking into the problems of the ICT budget deficit.)

**Improving AWG Effectiveness**

17. Each of these cases, whilst having different histories and presenting different problems, may indicate a more difficult underlying issue: whether the coordinating and control mechanisms in the Council are effective where cross-cutting responsibilities and accountabilities are involved, and whether the AWG is fully effective in pursuing cross-cutting issues. I have recorded above my respect for the managerial coordinating and reporting mechanisms, and it can be argued that the measure of any organisation’s performance is how well it identifies and responds to such issues. Oxfordshire would perform well on such a measure Nevertheless, I would like to raise the possibility that the mechanisms in place do not always deal adequately with some emerging problems, and I would suggest that some lessons can be learnt from the AWG process to ensure that its effectiveness will be adequate for the challenges ahead. I have not mentioned partnership arrangements, as the AWG did not consider them specifically during the year, but obviously such a question would apply equally to them.

18. I think some of the lessons that emerge from AWG activities in 2009/10 are as follows:

18.1 **We should be quicker in following up concerns that emerge from routine reports.**

- For example, by the time that the Group learns that actions from an internal audit report have not been agreed by the relevant management, several months may have passed since the original work. We need a better early-
warning system for what are likely to be high-priority issues, even though the audit report may not have been agreed by officers.

18.2 We should insist on meeting the Head of Service if there are important unresolved issues reported, even if the audit issue is primarily financial.

- Failure to do that led to a long delay in reforming the Fairer Charging system.

18.3 We should allocate sufficient time to ensure we understand complex issues.

- We tended to focus on the bottom line in Fairer Charging because there were so many complex factors involved that were in fact critical in achieving reforms.

18.4 We should be stronger in raising concerns with the Audit Committee, including recommending referral to the appropriate Cabinet member.

- I think that with hindsight we have not made it clear enough in our public reports to the Audit Committee the significance of the areas of concern being raised, and what we think the Audit Committee should do about them.

18.5 We should make sure we always know what is happening on issues we have previously been involved in.

- There have been occasions where we have been assured that effective action is being taken and yet the issue has reappeared some time later.

19. In many cases, we were aware of these potential shortcomings and tried to overcome them, but were not always as effective as we should have been. Hopefully, by absorbing these lessons, it will be possible to increase the effectiveness of the Group in the future.

**Conclusion**

20. The Committee has already received an excellent summary of the main issues it – and to some extent the AWG - has dealt with during the last year in its Annual Report 2009. Rather than identify exactly what work AWG has performed in support of that effort, I have used this opportunity to highlight what seem to me to be the main issues dealt with by the Group; those which in my opinion will also have a significant impact into the current year and beyond.

**Recommendation**

The Committee is asked to note the report.

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AUDIT WORKING GROUP
WORK PROGRAMME 2010/11

2010

Wednesday 9 June
- Internal Audit Progress Report including Q4 2009/10 performance – Ian Dyson
- Draft Internal Audit Annual Report – Ian Dyson
- Risk Management Progress Report – Dr Imran Alvi
- Fairer Charging progress report – Simon Kearey / Sean Collins / Sandra Stapley
- KPMG recommendations follow-up
- CYPF Internal Control Arrangement – David Calver / Sharon Fleming

Monday 14 June
- Special session on ICT overspend

Thursday 8 September
- Internal Audit Progress Report (Including Q1 performance 2010/11) – Ian Dyson
- Risk Management Progress Report – Dr Imran Alvi

Thursday 4 November
- Internal Audit Progress Report (Including Q2 performance 2010/11) – Ian Dyson
- Risk Management Progress Report – Dr Imran Alvi
- Quarterly Update AGS Action Plan – TBC

2011

Thursday 6 January
- Annual Governance Statement Process – annual review of the assurance framework and results from the Internal Control Checklists – TBC
- Quarterly Update AGS Action Plan – TBC
- Internal Audit Quarterly Report (including Q3 performance 2010/11) – Ian Dyson
- Risk Management Progress Report – Dr Imran Alvi

Thursday 17 February
- Internal Audit Progress Report 2010/11 – Ian Dyson
- Risk Management Progress Report – Dr Imran Alvi
- Progress report on issues arising from the External Audit Reports - TBC
- Draft work programme 2010/11 – 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: 24 May 2010
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