

## **AUDIT and GOVERNANCE COMMITTEE – 4 July 2012**

### **REPORT OF THE AUDIT WORKING GROUP (AWG)**

The Audit Working Group met on 21 June 2012

The meeting was attended by:

Dr. Jones – Chairman; Cllr. Wilmshurst; Cllr. Mathew; Peter Clark; Lorna Baxter; Ian Dyson; Claire Phillips.

Part meeting only: Cllr. Smith; AWG4 Cllr. Lindsay-Gale and Alexandra Bailey; AWG5 Kathy Wilcox; AWG7 Rod Ellis, Sean Collins, Neil Shovell and Sarah Cox; AWG8 Mike King.

Observer: Cllr. Sanders; Cllr. Couchman; Cllr. Shouler; Cllr. Darke

#### **AWG WORK PROGRAMME ITEMS**

The main business items of the meeting were as follows:

AWG 4 Draft Annual Scrutiny Report  
AWG 5 Draft Annual Governance Statement  
AWG 6 Risk Management Report  
AWG 7 Internal Audit Report  
AWG8 SAP Roles Update

#### **MATTERS FOR REPORT TO THE AUDIT COMMITTEE:**

##### **Matters Arising:**

The AWG terms of reference specifies the membership of the Group to be as follows:

"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."

There are currently no "named members" to deputise for Cllr. Wilmshurst or Cllr. Mathew; the Group is referring this to the Audit & Governance Committee to address at the meeting on 4 July 2012.

##### **AWG 7 Internal Audit Report**

There are two areas of concerns arising from the Internal Audit Report:

###### Accounts Payable

The audit of the Accounts Payable system has concluded an unacceptable level of control. The audit has highlighted poor performance over some the key controls within the system that had previously been identified as issues several years ago

following the implementation of the procure to pay system, which the Committee was given assurances had been addressed at the time. The Group expressed their concerns that management controls within the system have lapsed resulting in no effective monitoring over the performance of key control processes leaving the system exposed to significant risk. It was noted that following receipt of the report some controls were immediately restated, and now operating; however, the Group was not satisfied with the timeliness of the reinstatement of management reporting as it was being included as part of the outcome from a Procure to Pay review that has only recently been commissioned and is not due for completion until later this year. The Group insisted that critical management reports must be reinstated promptly, with effective monitoring, review and action where non-compliance with procedures is identified. The Group considered this matter was a significant governance issue, and should be included as an action in the Annual Governance Statement (AGS).

The outcome of the discussion was that Officers agreed the following actions:

- To introduce / reinstate promptly routine management reporting for the key control processes identified as weak in the internal audit report;
- To confirm to the Chief Internal Auditor (CIA) for reporting to the Committee on 4 July 2012 that management reports have been commissioned and a timetable for routine reporting and review established;
- The AGS 2011/12 action plan be updated to include an action on this matter that can then be monitored by the Audit & Governance Committee; and,
- Officers to bring a report to the AWG 10 September, detailing progress with the management action plan and the Procure to Pay project. The Group has requested the report should include the metrics on numbers of non-compliance, value and action taken.

#### Knights Court

The Group received an update on progress with the management action plan, noting Officers assurance that whilst the deadline for preparing written procedures for staff has been put back, the immediate risk has been mitigated as staff have been reminded of the processes and control requirements, and that these are being adhered to. It was agreed that written procedures are required and the Group told officers they expect the revised deadline to be met.

The Group was not satisfied with the action taken on recovering lettings income, as it remains uncollected due to a long outstanding lease agreement still not being renewed. The Officer was told to confirm to the CIA for reporting to the Audit & Governance Committee on 4 July 2012 that that the lease agreement with the Ridgeway Trust for use of Knight Court has been renewed, and the outstanding lettings income invoiced in full.

The Group was concerned that the renewing of other lease agreements may also have lapsed and requested a report to the next meeting detailing the position with our property leases, and the process for maintaining them up to date.

#### **AWG 4 Draft Annual Scrutiny Report**

This report was referred to the AWG by the Audit Committee on 29 February 2012. The Group was very grateful to Cllr. Lindsay-Gale for attending this item. The Group expressed disappointment with the report and felt that it was bland, demonstrating

little in the way of outcomes. The Group was told that similar feedback and concerns had been received.

Cllr. Lindsay-Gale reported that she has been tasked with reviewing the operation of the scrutiny function and has established a working group that will look at the effectiveness of Scrutiny in other local authorities. The group will also be seeking the views and ideas of members and officers on how it could be improved in Oxfordshire. The Group was very supportive of this approach, and welcomed the opportunity to contribute ideas and views.

The working group consists of Cllr. Lindsay-Gale, Cllr. Brighthouse, Cllr. David Turner, Cllr. Wilmshurst, and Cllr. Jelf.

### **AWG 5 Draft Annual Governance Statement**

In addition to the inclusion of an action regarding the management control over the Accounts Payable system (AWG7 above), The Group suggested some minor changes to the draft Annual Governance Statement.

Sections 66 - 72 of the draft reviewed refers to "Other external review/assurance mechanisms"; the Group was concerned that with the exception of the Audit Commission reports, the Audit and Governance Committee has no oversight of the reports received from other external inspection agencies. It is recommending that a report be brought to the Audit and Governance Committee setting out how these external reports that are used to inform the AGS are received and monitored; in particular how would the Committee be informed at an early stage if there are any governance issue arising from the reports, and what assurance can it get that areas identified for improvement are being considered and actioned on a timely basis.

### **AWG 6 Risk Management**

The Group noted the report and was happy with the level of information provided; however, wants to look in more detail at the recording of some risks and has requested copies of the Growth and Infrastructure risk register, and the project risk registers for Cogges Link Road, and the Kidlington Waste Recycling Centre, be circulated to the Group before the Committee meeting.

The Group noted that Zurich has been commissioned to undertake a "health check" of the Council's approach to risk management. The Group is recommending the full report from that piece of work be presented to the Audit and Governance Committee.

### **AWG 8 SAP Roles Update**

It was noted that the research has been completed and a supplier will soon be selected so the tool set for testing the level of risk within the existing SAP roles is about to be in place. The CIA will provide an update at the next meeting.

### **Work Programme**

The updated work programme is attached as annex 1 to this report.

### **Recommendations**

**The Committee is RECOMMENDED to**

**a) Note the report;**

- b) Nominate two named substitutes to deputise for Cllr. Wilmshurst and Cllr. Matthew on the AWG when required;**
- c) Receive a report detailing the process from which the Audit and Governance Committee can get assurance that external inspection reports are being properly considered and actioned; and**
- d) Receive the full report produced by Zurich on the conclusion of the health check review on risk management.**

SUE SCANE

Assistant Chief Executive & Chief Finance Officer  
Corporate Core

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June 2012

## **ANNEX 1**

### **AUDIT WORKING GROUP WORK PROGRAMME 2012/13**

**2012**

#### **Monday 10 September**

- Internal Audit Report – Ian Dyson
- Risk Management Report – Claire Phillips
- Lease Agreements -TBC
- Accounts Payable / Procure to Pay Project - Sean Collins / Stephen McHale

#### **Thursday 8 November**

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

**2013**

#### **Thursday 14 February**

- Internal Audit Report – Ian Dyson
- Risk Management Report – Claire Phillips
- Quarterly Update AGS Action Plan – TBC
- Draft work programme 2012/13 – Ian Dyson
- Review of AWG Terms of Reference – Ian Dyson

#### **Wednesday 27 February**

#### **SPECIAL MEETING IMMEDIATELY FOLLOWING THE AUDIT COMMITTEE**

- Private Session with External Auditors - TBC
- Private Session with the Assistant Head of Finance (Audit)

Last updated: 23 April 2012

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