

**AUDIT &
GOVERNANCE
COMMITTEE
ANNUAL REPORT
2012**



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Chairman's Introduction

Welcome to the first annual report of Audit and Governance Committee.

The Audit and Governance Committee first met in July 2012. Previously known as the Audit Committee it was renamed in May 2012 following a decision by the Council to reshape the standards arrangements for Oxfordshire County Council in response to the Localism Act 2011. The decision included the cessation of the Council's Standards Committee with the responsibility for the overview of members' standards transferring to the newly named Audit and Governance Committee.

This report sets out the role of the Audit & Governance Committee, and summarises the work we have undertaken as a Committee, (including the Audit Committee) and through the support of the Audit Working Group in 2012.

The Audit and Governance Committee performs an essential role, and we continue to have a strong presence, working with officers and members to ensure good governance and a strong system of internal control are being promoted and applied. This is crucial in supporting the organisation as it continues to tackle the challenges of organisational change and significant funding pressures.

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 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 Ian Dyson Chief Internal Auditor, 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 2012, 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 2011/12 Annual Governance Statement was agreed by the Committee, and included eight areas for action to improve existing governance arrangements. The Committee actively monitors progress with the implementation of these actions.

The Committee has also reviewed the AGS process, and this highlighted a concern regarding the visibility to the Committee of issues arising from external inspections. This has resulted in a change to the reporting process where governance issues identified by external inspection agencies will be reported on a timely basis, and not just at the year-end as part of the AGS.

In 2012 the Committee continued to monitor the performance of income generated from the Fairer Charging process up to May 2012. In May the Committee received assurances from officers that performance to acceptable levels was now being achieved; and, from the Cabinet Members that they are being kept informed of performance issues. Following this assurance the Committee was happy with the position, so agreed to cease the regular monitoring.

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

E&E Risk Management
Financial Administration in Local Offices
Property Leases
Accounts Payable
Adult Social Care Management Control Process
Contract Management - Home to School Transport
Highways Contract
Personal Budgets

The Committee has received regular reports on the status of management actions in these areas. In the case of Accounts Payable, a project was established to look at the purchase to pay processes, in part to address the control weaknesses highlighted by Internal Audit, but also to review existing systems and procedures to ensure they are efficient and effective. That project is due to be concluded in May 2013, and the Committee has received regular briefings on progress.

Key Achievements

- **Material weaknesses identified in key controls with managers supported by the Committee in developing effective actions to address the issues.**

- **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 2013

- **Maintaining effective governance and internal control**

Risk Management

2012 has seen development in the way that risk is being managed at a directorate level. The Joint Commissioning Service has been created across Children, Education and Families and Social & community Services, with a single Performance and Information Team, responsible for performance and risk management working across the two Directorates. Similarly there is a single performance and risk management team working across Environment and Economy and Oxfordshire Customer Services.

The Committee has been monitoring the adequacy and effectiveness of the system of risk management through the routine reporting by the Senior Policy Officer to the Audit Working Group. This resulted in the AWG undertaking a more detailed review of the project risk management process within Environment and Economy, and this highlighted some areas for improvement which management has taken on board, including risk management training for staff. The internal audit reports across all directorates are also highlighting that issues arising from 'business as usual' processes are not being picked up early enough through the management control procedures, suggesting that these risks are not getting the right focus.

The Council commissioned a 'health check of our approach to risk management, carried out by Zurich. The results were considered by the Committee in November 2012. The findings highlighted that 'Leadership' is considered a strength, but there were several recommendations relating to improving the risk management strategy and processes. Officers will be reviewing the current strategy in conjunction with CCMT, and the Committee is expecting to receive a report on changes being made in spring 2013.

Key Achievements

- **Plans for improvement to E&E project risk management.**
- **Positive health check by Zurich**

Key Areas of Focus Looking Forward to 2013

- **The implementation of a revised risk management strategy in 2013/14.**

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 2012/13, 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.

During 2012, Internal Audit introduced a new action tracking system, which is used to produce performance reports to the AWG. The implementation has been successful, and has resulted in an improved performance.

Key Achievements

- **Implementation of the 4Action action tracking system, resulting in improved performance on the number of actions implemented**
- **Earlier engagement with management to ensure areas of unacceptable control is addressed. In 2012 we have continued to respond 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, Home to School Transport Contracts, Property Leases, Financial Administration in area offices; SCS Adult Social Care Management Controls, Personal Budgets; Accounts Payable.**

Key Areas of Focus Looking Forward to 2013

- **Resources in the in house team remains low, with reliance on use of contract staff, which although successful in 2012, the strategy remains to have skills in house.**

External Audit

During 2012 we have overseen a change in our external auditors, with the Audit Commission leaving us in September 2012, replaced by Ernst and Young; however, whilst the organisation has changed the Committee was very pleased to note that the core staff have remained on the OCC contract. This should ensure continuity and minimise the impact on officers. The External Auditors routinely attended committee meetings in 2012. 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.

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 2013

- 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 has also approved the Counter-Fraud plan.

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 2013

- Review of the fraud risk assessment
- Proactive testing of fraud risk areas

Annual Accounts Process

The 2011/12 Accounts were prepared on time and presented to the Committee for comment. The Committee then received the External Auditors report in September 2012 when it was very pleased to note there was one again no material issues.

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 reviewed the risk management process for Treasury Management, in conjunction with the Treasury Management Strategy. The Committee was happy with the process and the strategy.

The Committee also received a mid-term progress report and the annual report. There were no issues or concerns arising.

Key Achievements

- **Oversight of the Treasury Management Process including detailed review of the risk management**

Key Areas of Focus Looking Forward to 2013

- **Maintaining current high standard.**
- **Successful implementation of the Lloyds Link online system.**

Standards for Members

The Committee has not had to discharge its new role in respect of standards as there have been no cases referred.

Included in the terms of reference of this Committee is the responsibility "to grant dispensations to councillors and co-opted members from requirements relating to interests set out in the code of conduct for members". The Committee received a report at the July meeting setting out arrangements for dealing with such instances which are consistent with the Council's code of conduct for members and the Localism Act 2011.

Membership, Meetings & Attendance

Audit and Governance Committee

The Audit Committee comprises of nine elected members representing all political parties and a Co-opted Member, Dr Geoff Jones. There were changes to the membership during 2012; In May 2012, Cllr Sandy Lovatt, Cllr Tony Crabbe and Cllr Alan Armitage moved off the committee, replaced by Cllr Jim Couchman, Cllr Ray Jelf and Cllr Roz Smith; and, in September 2012, Cllr Caroline Newton replaced Cllr Charles Shouler. Membership of the Committee at the end of 2012 was as follows:

Cllr David Wilmshurst (Chairman), Cllr Charles Mathew (Vice Chairman)
Cllr Roz Smith, Cllr Roy Darke, Cllr Larry Sanders, Cllr Jim Couchman,
Cllr Lawrie Stratford, Cllr Caroline Newton, Cllr Ray Jelf, 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.

Other Members

The Committee was grateful for the regular attendance and contribution by the Cabinet Member for Finance and Property.

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 2012 the Assistant Chief Executive & Chief Finance Officer or the Deputy Chief Finance Officer, the County Solicitor & 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, the Audit Commission up to September 2012, and thereafter Ernst and Young, attended all the Audit and Governance Committee meetings.

Meetings

The Audit and Governance Committee met seven times in 2011 and the Audit Working Group met five 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 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 appropriate 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 appropriate Scrutiny Committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.

5. To promote high standards of conduct by councillors and co-opted members.
6. To grant dispensations to councillors and co-opted members from requirements relating to interests set out in the code of conduct for members.
7. To receive report from member-officer standards panels appointed to investigate allegations of misconduct under the members' code of conduct.
8. To advise the Council as to the adoption or revision of the members' code of conduct.
9. 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.

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 Assistant Chief Executive & Chief Finance Officer, the Monitoring Officer and Head of Law and Governance, 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 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 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.

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