

**AUDIT &  
GOVERNANCE  
COMMITTEE  
ANNUAL REPORT  
2015**



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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 2015.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) in 2013.

The Committee continues to be well supported by Officers, providing a high standard of reports and presentations. In particular I should like to thank the Internal Audit and the External Audit teams.

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 Sandy Lovatt 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 2013. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
2. The purpose of and Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

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 2015, including the Audit Working Group, are summarised under the headings of the key functions.

### Internal Control

The 2014/15 Annual Governance Statement was agreed by the Committee, and included six areas for action to improve existing governance arrangements. The Committee actively monitors progress with the implementation of these actions. The six key areas are:

Data Quality  
 Commercial Services Board  
 Business Continuity  
 Hampshire IBC Partnership for Finance and HR Services  
 Strategic Risk Register  
 Supported Transport for Children

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

CEF Transport  
 Residential and Home Support payments  
 Adult Social Care Client Charging  
 Adult Social Care new IT system  
 Direct Payments  
 Disposal of ICT Equipment  
 Hampshire Partnership

During 2015, the Committee continued receiving cyclical presentations from the "Corporate Leads" who monitor the adequacy and effectiveness of the key governance processes. During the presentations the Leads set out their framework for monitoring and reviewing the key system, and the assurance it provides.

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 Areas of Focus in 2016

- Health and Social Care Integration;
- Hampshire Partnership;
- Major Programmes;

## **Risk Management**

The Committee through the Audit Working Group has continued to undertake a cyclical review of the Directorate Risk Registers, and receive the quarterly risks management reports from the Chief Internal Auditor.

Overall the reports received have demonstrated the process for reporting and escalating risks is being maintained; however, it was noted several of the high risks escalated to CCMT appeared to have unachievable target dates for reducing the level of risk. The Committee has recommended to CCMT closer scrutiny and challenge on risk mitigation plans and target dates for reducing risks to acceptable levels.

The Corporate Risk Register has been updated and will be subject to regular review by the AWG during 2016.

A review of the Risk Management Strategy has been undertaken and this is due to be reported to the Committee in April 2016.

### **Key Areas of Focus in 2016**

- Risk Management Strategy
- Corporate Risk Register

## **Internal Audit**

We approved the Internal Audit Strategy for 2015/16, 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.

The annual review of the effectiveness of the system of internal audit, commissioned annually by the Committee will report in April 2016.

The Committee has continued to monitor the resourcing of Internal Audit, and was very pleased to note that from January 2016, the team is fully resourced. Based on the evidence of the reports presented to the AWG and the Committee, the team continues to provide an effective challenge and therefore assurance on the key risk activities.

During 2015, the Internal Audit structure was split to provide capacity for risk management and for the management of the assurance mapping process, focussing of the critical services across the Council. A compliance function has also

been developed. The Committee agreed with the revised structure, which is designed to provide a wider coverage and therefore provide the Committee with greater assurance that has previously been provided from the Internal Audit Service. The structure and the assurance mapping procedure has been developed in 2015/16, and is expected to be fully operational in 2016/17.

#### **Key Areas of Focus in 2016**

- **Embedding the assurance reporting procedure.**
- **Compliance Reviews**

#### **External Audit**

The Council's external auditors, Ernst and Young, attended all the committee meetings in 2015, providing regular updates on their work plan and any matters arising. In addition they have provided the Committee with sector updates for consideration that highlight key themes, issues and priorities for local government. These have been well received and are very helpful to the Committee.

The external auditors have an open invitation to attend the Audit Working Group. They do not routinely attend, but do receive all the papers.

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 Areas of Focus in 2016**

- **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 reported matters of suspected fraud, including investigations. In 2015 there have been several instances of potential minor fraud reported.

The Council is now working in collaboration with the Investigations Team in Oxford City Council who provide our counter-fraud service.

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 Areas of Focus in 2016**

- Fraud risk assessment
- National Fraud Initiative data matching

**Annual Accounts Process**

The 2014/15 Accounts were prepared on time and presented to the Committee for comment. We received the External Auditors report in September 2015 when it was very pleased to note that high standards had been maintained with no material issues reported.

**Key Areas of Focus in 2016**

- Hampshire IBC Partnership, and the Impacts Project within OCC.

**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.

The committee members attended an industry update briefing presented by Arlingclose in January 2016 covering new legislation and potential risks; to help inform the review of the 2016 Treasury Management Strategy.

**Key Areas of Focus in 2016**

- Continued scrutiny over the Treasury Management process.

**Governance**

Committee agreed the Annual Governance Statement 2014/15 that explained how the County Council had complied with the code of corporate governance.

During 2014/15 the Committee reviewed the Corporate Governance Framework and the Code of Corporate Governance; and, contributed to the governance and constitution review.

The Committee also received the following reports, the annual report of the Monitoring Officer; the annual report of the Local Government Ombudsman; the use of the Regulation of Investigatory Powers Act 2000 (RIPA); and, the Fire and



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Rescue Service Annual Statement of Assurance there were not material issues or concerns. The Committee was also asked by Council to develop potential measures that could be taken by the Council to increase the diversity of members standing for election in May 2017.

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 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:

<b>Type of appeal</b>	<b>Number in 2014-15</b>
<b>Member Appeals:</b>	
• Appeal against dismissal	1
• Appeal against redundancy selection	1
• Raising concerns at work appeals	2
• Disciplinary and Capability appeals	0
<b>Job Evaluation formal appeals</b>	0
<b>Home to School Transport Appeals</b>	17 24 appeals upheld (wholly or in part) 28 appeals refused 16 appeals withdrawn

\* Excluding Home to School Transport Appeals where the Panel is made up of one councillor, one officer and one independent person.

## **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.

The Audit Working Group, chaired by Dr Jones, comprises three elected members from the Committee, 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 2015 the Chief Finance Officer, the Head of Law and Governance & Monitoring Officer, and the Chief Internal Auditor routinely attended the meetings. These same officers 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 2014 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;

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- 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 up to 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.

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