To: Members of the Audit & Governance Committee

Notice of a Meeting of the *Audit & Governance Committee*

Wednesday, 17 April 2013 at 2.00 pm

County Hall, Oxford, OX1 1ND

[signature: Peter G. Clark]

Peter G. Clark
County Solicitor   April 2013

Contact Officer: **Deborah Miller**
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Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Charles Mathew

Councillors

Roz Smith	Ray Jelf	Lawrie Stratford
Jim Couchman	Caroline Newton	
Roy Darke	Larry Sanders	

Co-optee

Dr Geoff Jones

Notes:

- *Date of next meeting: 3 July 2013;*
- **Members are asked to note that from 1:00-2:00 pm on 17 April (i.e. pre the Audit Committee meeting) there will be a special AWG meeting, dedicated to a private meeting with the External Auditors (1:00 - 1:30), followed by a private meeting with the Chief Internal Auditor.**

- **All members of the Audit & Governance Committee are invited to attend - please note on this occasion this is not an extended invitation to all members as this is not a briefing/development session.**

♻ *recycled paper* ♻

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to
(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?
The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**
- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.
The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned…..".*

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:
Employment (includes*"any employment, office, trade, profession or vocation carried on for profit or gain"*.), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Rachel Dunn on (01865) 815279 or Rachel.dunn@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1.   **Apologies for Absence and Temporary Appointments**

2.   **Declaration of Interests - see guidance note**

3.   **Minutes** (Pages 1 - 8)

To approve the minutes of the meeting held on 16 January 2013 (**AG3**) and to receive information arising from them.

4.   **Petitions and Public Address**

EXEMPT ITEM

Item 5

It is RECOMMENDED that the public be excluded for the duration of item 5 in the Agenda since it is likely that if they were present during that item there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the item in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in exemption outweighs the public interest in disclosing the information.

THE REPORT TO THE ITEM HAS NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS 'CONFIDENTIAL' BY MEMBERS AND OFFICERS ENTITLED TO RECEIVE THEM.

THIS IS FOR REASONS OF COMMERCIAL SENSITIVITY AND THE FINANCIAL RISK TO THE COUNCIL IF THE CONTENTS ARE DISCLOSED.

THIS ALSO MEANS THAT THE CONTENTS SHOULD NOT BE DISCUSSED WITH OTHERS AND NO COPIES SHOULD BE MADE.

5.   **Report of the Audit Working Group - AWG3 The Future of Adult Social Care in Oxfordshire** (Pages 9 - 32)

2:10

Report by the Chief Internal Auditor (**AG5**).

The information contained in the report and annex is exempt in that it falls within the following prescribed category:

3 – information relating to the financial or business affairs of any particular person

(including the authority holding that information)

It is considered that in this case the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would distort the proper process of the transaction and the Council's standing generally in relation to such transactions in future, to the detriment of the Council's ability properly to discharge its fiduciary and other duties as a public authority.

This is the report of the Audit Working Group meeting on 4 April 2013. It sets out the matters for reporting to the Audit & Governance Committee relating to the Item AWG3 "The Future of Adult Social Care"

The Committee is RECOMMENDED to:

(a)   **task the Audit Working Group with reviewing the detailed improvement plan at the meeting on 20 June 2013;**
(b)   **receive regular updates on progress with the implementation plan;**
(c)   **task the Audit Working Group with receiving regular briefings on the design of new systems and procedures arising from the implementation of the improvement plan.**

6.   Audit Working Group Report (Pages 33 - 38)

2:30

Report by the Chief Internal Auditor (**AG6**).

The report summarises the matters arising at the meetings of Audit Working Group on 14 February and 4 April 2013.

The Committee is RECOMMENDED to note the reports and approve the Audit Working Group terms of reference.

7.   Ernst & Young External Auditors (Pages 39 - 84)

2:50

A representative of Ernst & Young will attend for these items

- Oxfordshire County Council Audit Plan Year End 2013 (**AG7(a)**)
- Oxfordshire County Council Pension Fund Audit Plan Year End 2013 (**AG7(b)**)
- Oxfordshire County Council and Oxfordshire County Council Pension Fund Audit Progress Reports (**AG7(c)**);
- Ernst and Young Letter to Those Charged with Governance (**AG7(d)**).

The Committee is RECOMMENDED to note the reports.

8. Internal Audit Services - Internal Audit Strategy & Annual Plan 2013/14 (Pages 85 - 100)

3:10

This report sets out the Internal Audit Strategy, including the resources available and how the service will be delivered in 2013/14. Work plans will be prepared on a quarterly basis and will be presented to the Audit Committee for approval. The work plan for Q1 is attached as an Appendix to the report.

The Committee is RECOMMENDED to approve the Internal Audit Strategy and the Q1 Work Plan.

9. Review of the Effectiveness of the system of Internal Audit (Pages 101 - 110)

3:30

Report by the Monitoring Officer (**AG9**)

This report provides a commentary on the performance of the Internal Audit system throughout 2012/13, and will be used as a source of evidence when compiling the Annual Governance Statement.

The Committee is RECOMMENDED to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2012/13.

10. Risk Management Framework (Pages 111 - 136)

3:50

Report by the Assistant Chief Executive and Chief Finance Officer (**AG10**)

The report sets out a proposal for a Risk Management Framework to be adopted across Oxfordshire County Council.

The Council have implemented a risk management process that is well implemented and widely used. Last year, Zurich carried out a health check on our processes and procedures. Included in the report were recommendations to refresh the corporate strategy and to further embed risk management, together with business management and monitoring, across the organisation.

The refreshed Risk Management Framework sets out how the Council will continue to mature and embed its risk management approach.

The Audit & Governance Committee is RECOMMENDED to agree the draft Risk Management Framework for use across Oxfordshire County Council.

11.   Procure to Pay Project - Update

4:10

Officers will provide the Committee with a progress report on the management actions arising out of last year's unacceptable procure to pay audit report. These actions were included in the Purchasing Improvement Project run with the support of external consultants CMC, which was due to conclude at the end of March. This progress report will highlight key issues arising during the project, the work still outstanding and revised timescales for its completion. The format of future monitoring reports, including targets where currently set, will be available, alongside a commentary as to the achievability of these targets against the September 2013 deadline.

The Committee is RECOMMENDED to note the report.

12.   Audit Committee - Draft Work Programme 2013/14 (Pages 137 - 140)

4:30

To review/update the Committee's Work Programme (**AG12**).

CLOSE OF MEETING

4:40

Pre-Meeting Briefing
There will be a pre-meeting briefing at County Hall on Tuesday 11 April 2013 at 2.00 pm for the Chairman, Deputy Chairman and Opposition Group Spokesman.

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 16 January 2013 commencing at 2.00 pm and finishing at 4.15 pm.

Present:

Voting Members: Councillor David Wilmshurst – in the Chair

Councillor Charles Mathew (Deputy Chairman)
Councillor Roz Smith
Councillor Jim Couchman
Councillor Roy Darke
Councillor Caroline Newton
Councillor Larry Sanders
Councillor Lawrie Stratford
Dr Geoff Jones

Other Members in Attendance: Councillor Ian Hudspeth
Councillor Kieron Mallon (for Agenda Item 5).

By Invitation: Mary Fetigan, Ernst & Young.

Officers:

Whole of meeting   P. Clark, Monitoring Officer and Head of Law & Culture; L. Baxter, Deputy Chief Finance Officer; I. Dyson, Chief Internal Auditor; D. Miller, Chief Executive's Office.

Part of meeting

Agenda Item	**Officer Attending**
5	M. Kemp, Deputy Director (Commercial) for Environment & Economy;
9	H. Doney, Financial Manager – Treasury Management;
11	S. Collins, Service Manager;
11	P. Ashby, Strategic Procurement Manager;
11	K. Thomas, Purchasing Improvements Project Manager (Consultant)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with [a schedule of addenda tabled at the meeting][the following additional documents:] and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports [agenda, reports and schedule/additional documents], copies of which are attached to the signed Minutes.

1/13   APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

An apology for absence was received from Mary Fetigan, Ernst & Young.

2/13   MINUTES
(Agenda No. 3)

The Minutes of the Meeting held on 21 November 2012 were approved and signed.

3/13   EXEMPT ITEM
(Agenda No.4)

RESOLVED: that the public be excluded for the duration of Item 5 in the Agenda since it is likely that if they were present during that item there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to that item in the Agenda and it is considered that, in all the circumstances of each case, the public interest in exemption outweighs the public interest in disclosing the information.

PUBLIC SUMMARY OF PROCEEDINGS FOLLOWING THE WITHDRAWAL OF THE PRESS AND PUBLIC

4/13   LEASED / LICENCED OUT COUNCIL PROPERTY
(Agenda No. 5)

The information contained in the report and annexes is exempt in that it falls within the following prescribed category:

3 – information relating to the financial or business affairs of any particular person (including the authority holding that information)

It is considered that in this case the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would distort the proper process of the transaction and the Council's standing generally in relation to such transactions in future, to the detriment of the Council's ability properly to discharge its fiduciary and other duties as a public authority.

The Committee considered a report (AG5) which responded to a request from the Committee on 21 November 2012 for the Cabinet Member for Police & Policies and the Deputy Director to report back on Knights Court and other County Council properties which were occupied by third parties where the rent/licence fee was not being collected.

The Committee were addressed by the Cabinet Member for Police & Policies, Councillor Kieron Mallon and the Deputy Director (Commercial) for Environment & Economy, Mr Mark Kemp.

RESOLVED: to ask officers to report back to the Audit Working Group in six months time giving details of any Oxfordshire County Council properties occupied by third parties where rent/licence fees were not being collected.

5/13   ERNST AND YOUNG EXTERNAL AUDITORS
(Agenda No. 6)

The Committee considered the Annual Audit Fee letters 2012/13 for Oxfordshire County Council and the Oxfordshire Pension Fund (AG6). The Letters set out the work that Ernst & Young proposed to undertake for the 2012/13 financial year. The fees reflected the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2012/13.

The members welcomed the decreased fees set out in the letters.

Mary Fetigan then introduced the Audit Committee briefing paper which had been developed by Ernst & Young to update committees on wider public issues which might have an impact on them. She sought the opinion of members as to whether they would find it useful to receive this type of briefing in the future.

Members welcomed the briefing indicating that they found it very useful and that they would wish to continue receiving it in the future.

Mary Fetigan further gave a brief update of the work being undertaken by Ernst & Young. She reported that the team were now well into the planning for the Audit and that they had started their walk through and had agreed a detailed approach to co-ordination with Internal Audit.   Officers would bring a detailed report to the meeting in April.

Members thanked Ms Fetigan for her reports.

RESOLVED: to receive the reports.

6/13   ANNUAL GOVERNANCE STATEMENT PROCESS - ANNUAL REVIEW OF THE ASSURANCE FRAMEWORK
(Agenda No. 7)

The Committee had before them a report (AG7) which set out the Corporate Governance Framework for the Committee's consideration.

Mr Clark, in introducing the report, stated that this report was now before members due to a new version of 'Delivering Good Governance in Local Government' Framework being published by CIPFA in December 2012 and the new requirement for Fire Authorities to publish an annual statement of assurance. This would sit alongside the authority's governance statement.

Changes to the external inspection regime, and a move to more ad hoc reporting since the previous framework was agreed, also required an updated means of monitoring any governance issues arising from each inspection.

He indicated that the updated corporate assurance framework had been updated to reflect the changes coming out of the Localism Act and local Government Review. However, it maintained the existing process whereby a corporate lead officer for each

key governance process provided a statement at the year end. This statement would explain what systems they had in place to ensure internal control, and their assessment of the current position across the whole council, identifying areas for improvement where appropriate. Internal Audit would provide an independent assessment of compliance with corporate processes for each directorate.

Directors would continue to be required to sign off certificates at year end confirming that controls were in place and/or that actions were being taken to address any weaknesses identified through this process.

The key responsibility of evaluating the effectiveness of the control environment remained with those charged with that corporate responsibility. Directorates were responsible for addressing any identified weaknesses.

RESOLVED: to approve the revised Corporate Governance Assurance Framework.

7/13   INTERNAL AUDIT PLAN - 2012/13 PROGRESS REPORT AND QUARTER 4 PLAN
(Agenda No. 8)

The Committee had before them the Internal Audit progress report and Plan for quarter 4 2012-13 (AG8) for approval.

Mr Dyson introduced the 2012/13 update against Quarter 4 Internal Audit Plan which was summarised in Appendix 1 to the report. He also reported on the findings of the audit of the Youth Offending Service (Appendix 2) and gave an update of the progress on the Counter-Fraud Plan (Appendix 3).

In relation to a question regarding the 'unacceptable' report for the Riverside Centre, Mr Dyson reported that this situation was unlikely to occur in any of the other hubs as they did not have shops and new Section 151 procedures had been put in place to prevent further occurrences.

RESOLVED: to note the report.

8/13   TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2013/14
(Agenda No. 9)

The Committee considered the report to Cabinet on 16 January 2013 (AU9) by the Assistant Chief Executive & Chief Finance Officer on the Treasury Management Strategy Statement and the Annual Investment Strategy for 2013/14.

Mrs Doney introduced the paper and responded to members' questions and comments. The report complied with the technical requirement of the CIPFA Treasury Management Code of Practice and set out the strategy for financing prudential borrowing during 2013/14 using temporary internal balances. The key change in the report this year was that all Prudential Indicators, relating to Treasury Management and Capital, were included as shown in Appendix A to the report. Capital Prudential Indicators were previously approved by members as part of a

separate annex to the annual Service & Resource Planning Report. Members were asked to note that the indicators were still in draft form as they were dependant on updates to the capital Programme.

She further reported that the Council intended to continue to place funds with the external fund manager, Investec Asset Management. Details of this fund and other pooled funds used by the Council, including performance and monitoring, were given in section 8 to the report.

The Council would continue to prioritise the security and liquidity of capital. The Council would aim to achieve investment returns that were commensurate with these priorities. To achieve this, the Treasury Management Strategy Team (TMST) would aim to maintain a balanced portfolio between longer term deposits with high credit quality counterparties and investments in liquid instruments and shorter term deposits with Money Market Funds (MMFs) and high credit quality banks.

Revisions to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice in 2011 following the granting of the general power of competence to local authorities in the Localism Act 2011 required the Council to state its policy on the use derivatives. This was set out in section 10 of the report.

The Council would continue to benchmark the performance of the Treasury Management function through membership of the CIPFA benchmarking club. In-house performance would also continue to be benchmarked against 3 month London Interbank Bid Rate (LIBID).

The Committee sought further information on the risk and governance elements of the Treasury Management Strategy.

Members then thanked Mrs Doney for such a detailed explanation of the report.

RESOLVED: to note the report to Cabinet.

9/13   **DISPENSATIONS FOR FULL COUNCIL**
(Agenda No. 10)

The Committee had before them a report (AG10) which sought Councillor's view as to whether a dispensation was required for County Councillors in the setting of the Council's budget where a member held "any beneficial interest in land which is within the area of the relevant authority" (Relevant Local Authorities (Disclosable Pecuniary Interests) Regulations 2012).

Mr Clark reported that Under the former Code of Conduct which had now been abolished by the Localism Act 2011, councillors had personal interests in any matter which might have "affected" or "related to" their land. This was no longer the case for 'disclosable pecuniary interests'. Rather, a councillor now had a disclosable pecuniary interest only when the subject matter concerned their "beneficial interest in land". When the budget was being set, this decision contributed to the setting of the precept. However, the reference point for this was all properties within the respective bands as opposed to any individual one. While under the former Code, express

dispensation was arguably needed, it was considered that this was no longer the case.

He further reported that whilst the setting of a precept may affect the charge payable on a property, it did not affect the value of the property in question. It was also the case that the legislation could have been drafted specifically to require dispensation had this been the intention behind the Localism Act requirements.

There was no national consensus on this matter. At parish and town council level, for instance, the National Association of Local Councils had advised local councils that a disclosable pecuniary interest did arise. However, the Monitoring Officers of Oxfordshire's city and district councils have advised local councils in their area that they do not agree with this view and that a disclosable pecuniary interest does not exist in this case.

In the absence of any definitive national guidance, which had not been forthcoming, it was for each local authority to determine its own approach.

He further stressed that where Monitoring Officers had advised their members that no disclosable pecuniary interest arose, members would in any case be able to demonstrate that they had "reasonable excuse" for not having declared the interest.

Members thanked Mr Clark for his advice and paid tribute to his extended work across the Districts on Governance issues.

RESOLVED: to agree that no dispensation is required with regards to the setting of the Council budget and that County Councillors be advised accordingly.

10/13 PROCURE TO PAY PROJECT - UPDATE
(Agenda No. 11)

The Committee received a brief presentation by Mr Ken Thomas, Purchasing Improvement Project Manager (Consultant) which set out the details of the purchasing improvements project designed to improve the purchasing processes of the Authority. A copy of the presentation is attached to the signed copy of the minutes.

He outlined the stages of the project, the first of which was a number of engagement workshops to be held with service teams to plan, discuss and agree changes. The project team would then bring back issues and recommendations (on which channel to use) for agreement with Finance, Procurement and Audit.

At present there were around 269 requisitioners and the plan was to consolidate those into a team of around 100. These 100 requisitioners would then receive adequate training to provide a 'guidance and gate keeping' service which in turn would improve the quality of the purchasing process ensuring that the level of error was reduced and the percentage of right first time increased dramatically. He gave assurances to members that high level leads would be appointed in the directorates to lead staff through the process.

He outlined the timescales for the project, indicating that processes should be in place by the end of March and that targets should be met by the end of September.

RESOLVED:

(a)   to note the report; and

(b)   ask officers to report back to the Audit & Governance Committee once the project was up and running.

11/13   AUDIT COMMITTEE - DRAFT WORK PROGRAMME 2013/14
(Agenda No. 12)

The Committee considered its Work Programme (AG12).

The Committee noted that there was very little business for the meeting in February and that there was a meeting set down for April.

RESOLVED: to cancel the Meeting set down for 27 February 2013 and move any business to the next scheduled Meeting on 17 April 2013.

.... in the Chair

Date of signing   2013

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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AUDIT & GOVERNANCE COMMITTEE – 17 APRIL 2013

REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group has met twice since the last Audit and Governance Committee. This report covers both meetings:

Thursday 14 February 2013
The meeting was attended by:
Dr Geoff Jones – Chairman; Cllr Wilmshurst; Cllr Mathew; Cllr Roz Smith; Sue Scane; Ian Dyson; Peter Clark; and, Claire Phillips.

Part meeting only: Sarah Cox; AWG4 Sean Collins and Tim Willott; and, AWG5&6 John Morgan.

Observer: Cllr Couchman; Cllr Darke; and, Cllr Stratford.

AWG WORK PROGRAMME ITEMS
The main business items of the meeting were as follows:

AWG 4 P2P Project Progress Report
AWG 5 SCS Adult Social Care Management Control
AWG 6 SCS Personal Budgets
AWG 7 Risk Management Report
AWG 8 Quarterly Update – AGS Action Plan
AWG 9 Internal Audit Update
AWG 10 Timetable and Work programme
AWG 11 Review of AWG Terms of Reference

The Group was satisfied with the reports and updates received with no material issues to be referred to the Audit & Governance Committee. The matters for the Committee to note or action are listed below:

AWG4 P2P Project Progress Report
The Group noted satisfactory progress with the project. The Committee is due to receive a further update at the meeting on 17 April 2013 when it is expected that the management dashboard populated with the performance targets will be presented. The Group has requested a report to their meeting on 7 November 2013 showing the actual performance achieved in the first quarter of 2013/14 to consider the impact of the implemented improvement plan.

AWG5 and AWG 6 - SCS Personal Budgets and SCS Adult Social Care Management Control
The Group received a progress report on the implementation of actions arising from the internal audit reports, and was pleased to note that the new operational governance group was operating well. It was confirmed that the Deputy Director would be attending the next AWG to provide a further update.

AWG7 Risk Management Report
A revised risk management framework is to be presented to the Committee on 17 April 2013.

It was noted that the briefing on the new procedure for Programme Management, cancelled as the pre committee briefing 16 January 2013, has been rescheduled for 3 July 2013.

AWG10 Timetable and Work Programme
The AWG timetable and work programme is attached as appendix 1 to this report

AWG 11 Review of AWG terms of reference.
There are no material changes being proposed the Group. The terms of reference is attached as appendix 2. The Committee is recommended to approve the terms of reference.

Thursday 4 April 2013
The meeting was attended by:
Dr Geoff Jones – Chairman; Cllr Wilmshurst; Cllr Roz Smith; Sue Scane; and, Ian Dyson.

Part meeting only: Cllr Mathew; Peter Clark; David Illingworth; Katherine Kitashima; AWG3 Lucy Butler and Graham Shaw; AWG6 Glenn Watson.

Observer: Cllr Darke and Cllr Sanders.

AWG WORK PROGRAMME ITEMS
The main business items of the meeting were as follows:
AWG 3 "The Future of Adult Social Care in Oxfordshire"
AWG 4 Internal Audit progress report
AWG 5 AGS Actions – 2011/12 update and 2012/13 early draft
AWG 6 Whistleblowing Incidents 2012/13

MATTERS FOR REPORT TO THE AUDIT COMMITTEE:

AWG 3 "The Future of Adult Social Care in Oxfordshire"
This item is subject to a separate report on the Committee's agenda.

AWG 4 Internal Audit Progress Report
The results of recently completed audits were noted. The Chief Internal Auditor (CIA) also highlighted the current audit of CEF Contract Procurement and Contract Management. The Group agreed that the CEF Deputy Directors responsible for this area should be invited to the next AWG to discuss report.
The Group noted the progress on implementation of management actions and welcomed the additional analysis showing actions where original implementation dates have changed. There was concern at the number of changes, and whilst reassured by the CIA that the internal audit process is to check with Senior Managers they are aware and have agreed the change in dates, the Group has requested more information on why the dates have been changed.

AWG 5 AGS Actions
The Group noted the position of the 11/12 AGS actions, and was invited to review the early draft of proposed actions for 2012/13. It was suggested that the Corporate Governance Assurance Group should consider an additional action with regard to Adult Social Care strategy, as set out in the presentation to the Group (AWG 3),

once the expected development plan has been produced. There is a draft action for 2012/13 referring to the newly formed Commercial Services Board; the Group requested a copy of the terms of reference for the Group be circulated.

AWG 6 Whistleblowing Incidents 2012/13
The Group noted the report highlighted a small increase in the number of whistleblowing incidents overall in 2012/13 compared with 2011/12; however, the report did not highlight any areas for concern or further action.

RECOMMENDATIONS

The Committee is RECOMMENDED to approve the Audit Working Group terms of reference.

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Contact: Officer: Ian Dyson, Chief Internal Auditor Tel 01865 323875
                 ian.dyson@oxfordshire.gov.uk

April 2013

APPENDIX 1

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AUDIT WORKING GROUP
TIMETABLE AND WORK PROGRAMME 2013/14
</div>

2013

Wednesday 17 April 1:00-2:00
- Private meeting with Ernst and Young
- Private meeting with Chief Internal Auditor

Thursday 20June
- Property Leases performance report - Mark Kemp
- Internal Audit Report – Ian Dyson
- CEF Contract Procurement and Contract Management - TBC
- "Future of Adult Social Care" follow up - Lucy Butler/Graham Shaw
- Risk Management Report – Claire Phillips
- Draft Annual Governance Statement

Thursday 5 September
- Internal Audit Report – Ian Dyson
- Risk Management Report – Claire Phillips

Thursday 7 November
- Internal Audit Issues – Ian Dyson
- Risk Management Report – Claire Phillips
- Annual Governance Statement Process – annual review of the assurance framework - Peter Clark
- P2P Dashboard/performance report for Q1 2013/14 - Sean Collins

2014
Thursday 13 February
- Internal Audit Report – Ian Dyson
- Risk Management Report – Claire Phillips
- Draft work programme 2012/13 – Ian Dyson
- Review of AWG Terms of Reference – Ian Dyson

Last Updated - 4 April 2013

Ian Dyson
Chief Internal Auditor

APPENDIX 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.

Updated ………..February 2013

Review Date……February 2014

Officer Responsible   Ian Dyson, Chief Internal Auditor
                           Telephone 01865 (32)3875
                           Ian.dyson@oxfordshire.gov.uk
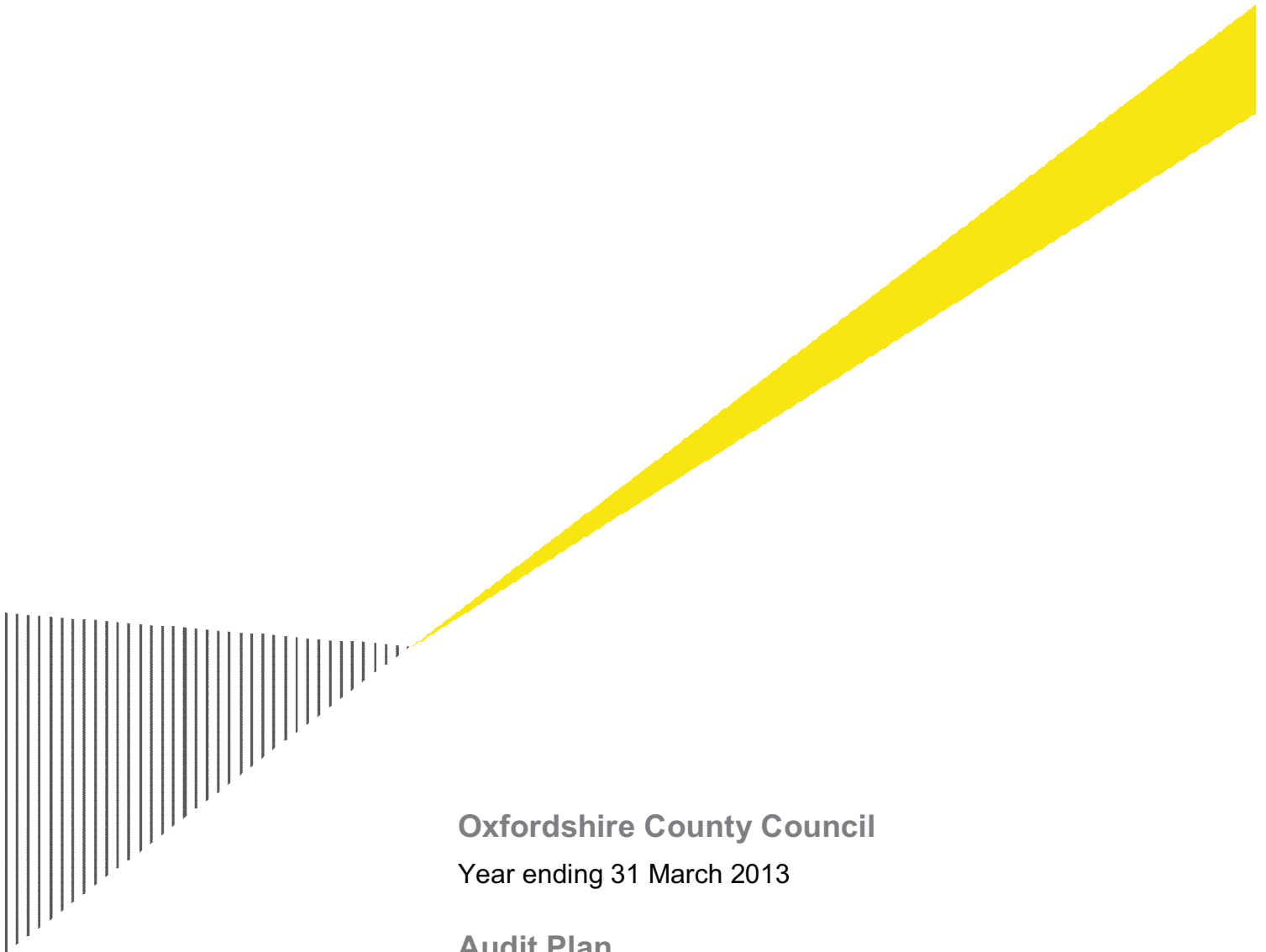
Oxfordshire County Council

Year ending 31 March 2013

Audit Plan

March 2013

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Audit and Governance Committee
Oxfordshire County Council   28 March 2013
County Hall
New Road
Oxford
OX1 1ND
CO3 3WG

Dear Councillor Wilmshurst

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. The purpose is also to allow the Committee to consider whether our audit is aligned with their service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 17 April 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
For and behalf of Ernst & Young LLP
Enc

Contents

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ► Our audit opinion on whether the financial statements of Oxfordshire County Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and

- ► A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

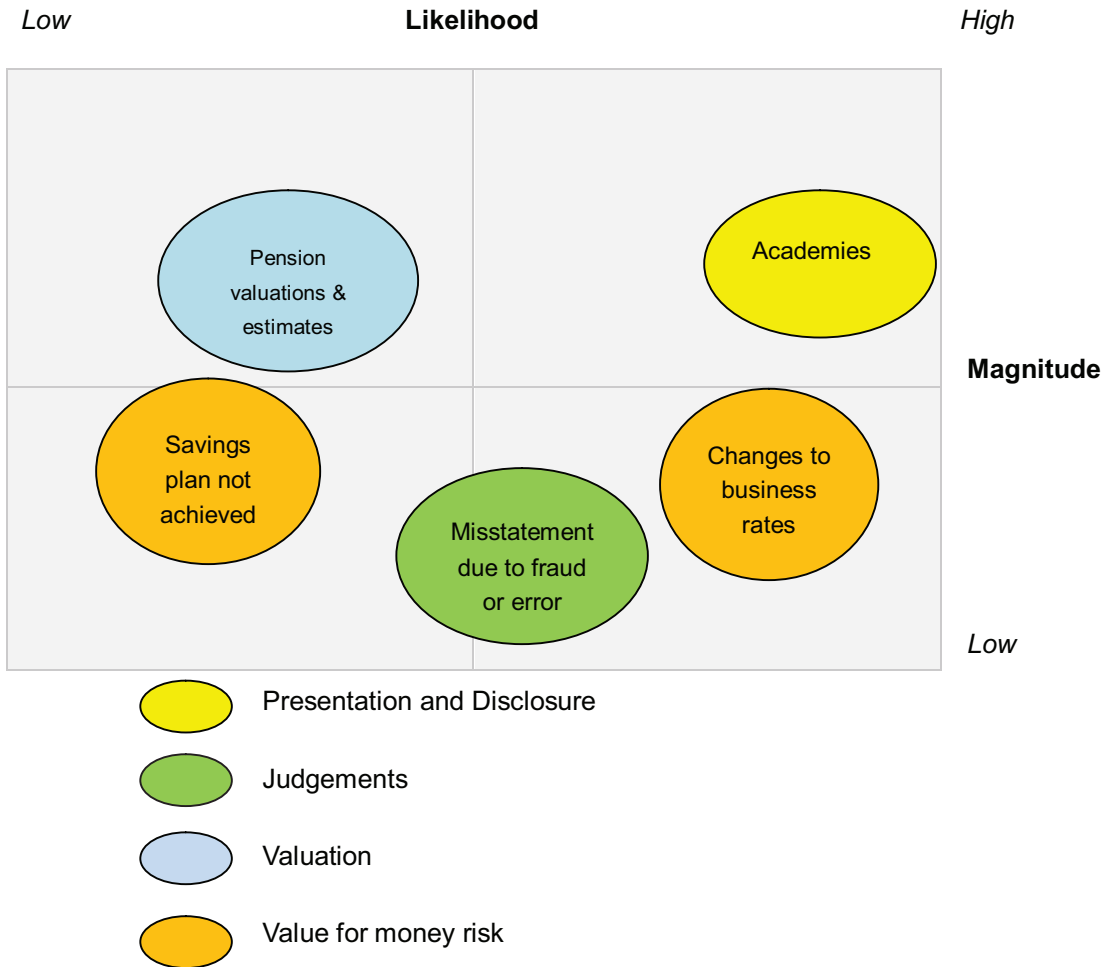When planning the audit we take into account several key inputs:

- ► Strategic, operational and financial risks relevant to the financial statements.

- ► Developments in financial reporting and auditing standards.

- ► The quality of systems and processes.

- ► Changes in the business and regulatory environment.

- ► Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4, and summarised below.

The grid below shows the overall assessment of these risks in terms of their likelihood of occurrence in 2012/13 as well as the perceived magnitude of the risk to our opinion.

	Likelihood	
Low		*High*

Magnitude

Risk diagram showing:
- Pension valuations & estimates (Valuation)
- Academies (Presentation and Disclosure)
- Savings plan not achieved (Value for money risk)
- Misstatement due to fraud or error (Judgements)
- Changes to business rates (Value for money risk)

Legend:
- Presentation and Disclosure
- Judgements
- Valuation
- Value for money risk

We have identified a significant risk to the audit opinion:

► Academies – 16 schools are likely to take academy status before 31 March 2013. These schools will no longer be owned or run by Oxfordshire County Council. The assets, expenditure and income relating to these schools should not be recorded in the Council's accounts from the point of transfer. This will have a material impact on property plant and equipment within the balance sheet as well as amounts recorded in the Comprehensive Income and Expenditure Statement.

We have also identified four other risks:

Financial statements

► Misstatement due to fraud and error - this is an inherent risk due to the nature of local authority finances and increasing pressures on management to achieve financial targets.

► Pension valuations and estimates – The financial statements include a number of significant valuations or estimates in respect of pension obligations. These figures are accounting estimates with a high degree of uncertainty attached to them.

Value for Money Conclusion

► Savings plan not achieved – The Council is under continuing pressure to deliver savings plans in the coming years and this raises the risk of not achieving these savings.

► Changes to business rates – The significant changes to business rates bring with them financial and reputational risks.

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We will provide an update to the Committee on the results of our work in these areas in our report to those charged with governance in September 2013.

Our process and strategy

► Financial statement audit

  ► We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider the size of useable reserves, the Council's financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

  ► We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

  ► We seek to place reliance on the work of internal audit wherever possible. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.

  ► There has been no change to the scope of our audit compared to previous audits.

► Arrangements for securing economy, efficiency and effectiveness

  ► We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Oxfordshire County Council, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks	Our audit approach
Academies	
16 schools are planning to move to academy status during 2012/13. This will have an impact on how you account for the schools property, plant and equipment (ppe), expenditure and income such as Direct Schools Grant.	Our approach will focus on: ▶ evaluating the management controls in place to ensure the appropriate accounting entries are made; ▶ undertaking testing to ensure that academy ppe is appropriately removed from the Statement of Financial Position; and ▶ ensuring the Comprehensive Income and Expenditure Statement only includes amounts relating to LEA controlled schools.

Other risks (including fraud risks)	Our audit approach
Pensions valuations	
The financial statements include a number of significant valuations in respect of pension obligations. These include the estimated liability on the pension fund as well as movements and charges in year. These figures are accounting estimates with a high degree of uncertainty attached to them.	Our approach will focus on: ▶ evaluating the management controls in place to ensure the appropriate information is shared with the actuaries; ▶ Assess the appropriateness of using the work of the actuary as a basis for accounting entries; and ▶ ensuring the statements accurately reflect the figures provided by the actuary.
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. The Council continues to face significant financial pressures due to reduced external funding and changes such as the localisation of council tax support. These changes add further pressure on management to meet budget and savings targets. This presents a risk that the financial statements may be materially misstated.	Based on the requirements of auditing standards our approach will focus on: ▶ identifying fraud risks during the planning stages; ▶ inquiry of management about risks of fraud and the controls put in place to address those risks; ▶ understanding the oversight given by those charged with governance of management's processes over fraud; ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud; ▶ determining an appropriate strategy to address those identified risks of fraud; and ▶ performing mandatory procedures regardless of specifically identified fraud risks. We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you. Our approach to address the risks of fraud we have identified at this stage of our planning will focus on: ▶ reviewing the year-end position against in-year financial forecasts; ▶ reviewing the reasonableness and completeness of prepayments, accruals and provisions; ▶ testing material adjustments made by journals; and ▶ reviewing transactions both before and after year-end to ensure they are correctly disclosed in the correct financial period

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3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Oxfordshire County Council; and

2. Whether there are proper arrangements in place at Oxfordshire County Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks. At this stage of our audit we have not identified any significant risks.

Other risks		Our audit approach
Achievement of savings plan		
The Council has a medium term plan for savings to achieve financial balance. The plans are risk rated and monitored on a number of levels. Achievement of the plans to date has been good however a risk remains around increasing financial pressure in the future.	Financial resilience	Our approach will focus on: ▶ reviewing the position against budget on an ongoing basis and at year end ▶ understand the Council's response to significant financial pressures such as the spending review.
Changes to arrangements business rates		
From April 2013, there will be changes to the arrangements for business rates. These changes represent a significant change for the Council and bring both financial and reputational risks.	Economy, efficiency and effectiveness Financial resilience	Our approach will focus on: ▶ How the Council has planned for and managed these changes. ▶ How the Council has assessed the likely impact of the changes on its financial position and built these into its future financial projections and budget.

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4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

i) financial statements; and

ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

► Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and

► Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Our audit involves:

► assessing the key internal controls in place and testing the operation of these controls;

► review and re-performance of the work of your internal auditors;

► reliance on the work of other auditors where appropriate;

► reliance on the work of experts in relation to areas such as pensions and valuations; and

► substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts receivable

- Accounts payable

- Cash processing

- Payroll and

- Property, plant and equipment.

Investments, loans and cash balances will be tested substantively at year end.

Analytics

We aim to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and

- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and The Audit and Governance Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.

Use of experts

We will utilise Ernst & Young pensions experts to help us to form a view on assumptions and judgments made by actuaries.

We will utilise the work of management's valuation experts in auditing the property, plant and equipment balances and the work of Oxfordshire Pension Fund's actuaries in setting IAS19 figures.

Other procedures

In addition to the key areas of emphasis outlined, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

► Addressing the risk of fraud and error.

► Significant disclosures included in the financial statements.

► Entity-wide controls.

► Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

► Auditor independence.

Procedures required by the Code

► Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.

► Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.

► Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Oxfordshire County Council is £146,610.

4.5 Your audit team

The engagement team is led by Maria Grindley, who has significant experience on Oxfordshire County Council. Maria Grindley is supported by Mary Fetigan who is responsible for the day-to-day direction of audit work, and who is the key point of contact for Deputy Chief Finance Officer and Corporate Finance Manager.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Audit and Governance Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a report to the Audit and Governance Committee in July and September, incorporating the outputs from the interim audit and our year-end procedures respectively. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Audit and Governance Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare a management letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	timetable Audit & Governance Committee	Deliverables to Audit And Governance Committee
High level planning:	**November - December**	January	Audit Fee letter
Risk assessment and setting of scopes	**December - January**	April	Progress Report Audit Plan
Testing of routine processes and controls	**January - April**	July	Progress Report
Value for money conclusion	**February -April**	July	Progress Report
Year-end audit including WGA	**July – September**	September	Reports to those charged with governance Audit reports (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, plus Pension Fund opinions). Audit completion certificate Whole of Government Accounts Certification
Reporting	**November**	November	Management Letter
Grant claims	**July - November**	November	Report on the audit of grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

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5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

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Appendix A   Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13	Actual Fee 2011/12	Explanation of variance
	£'000	£'000	
Total Audit Fee – Code work	**146,610**	**244,350**	40% reduction reflects the savings achieved from the Audit Commission procurement exercise.
Certification of claims and returns*	8,100*	9,089	2012/13 planned fee is set by the Commission based on the fee charged for 2010/11, adjusted to reflect the savings from the audit Commission procurement exercise

The agreed fee presented above is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables.

► We are able to place reliance, as planned, on the work of internal audit.

► The level of risk in relation to the audit of accounts in consistent with that in the prior year.

► No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based.

► Our accounts opinion and value for money conclusion being unqualified.

► Appropriate quality of documentation is provided by the audited body.

► Effective control environment.

► There are no questions asked or objections made by local government electors.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

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Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee, or equivalent, of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Report to those charged with governance
Fraud ► Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the panel may be aware of	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan Report to those charged with

Required communication	Reference
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence For listed companies, communication of minimum requirements as detailed in the ethical standards: ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Certification work ▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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Assurance | Tax | Transaction | Advisory

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Oxfordshire County Council Pension Fund

Year ending 31 March 2013

Audit Plan

March 2013

EJ ERNST & YOUNG

Audit and Governance Committee
Oxfordshire County Council Pension Fund   28 March 2013
County Hall
New Road
Oxford
OX1 1ND
CO3 3WG

Dear Councillor Wilmshurst

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. The purpose is also to allow the Committee to consider whether our audit is aligned with their service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 17 April 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Maria Grindley
For and behalf of Ernst & Young LLP
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Contents

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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with our audit opinion on whether the financial statements of Oxfordshire County Council Pension Fund give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended.

When planning the audit we take into account several key inputs:

► Strategic, operational and financial risks relevant to the financial statements.

► Developments in financial reporting and auditing standards.

► The quality of systems and processes.

► Changes in the business and regulatory environment.

► Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present risks to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4, and summarised below.

The grid below shows the overall assessment of these risks in terms of their likelihood of occurrence in 2012/13 as well as the perceived magnitude of the risk to our opinion.

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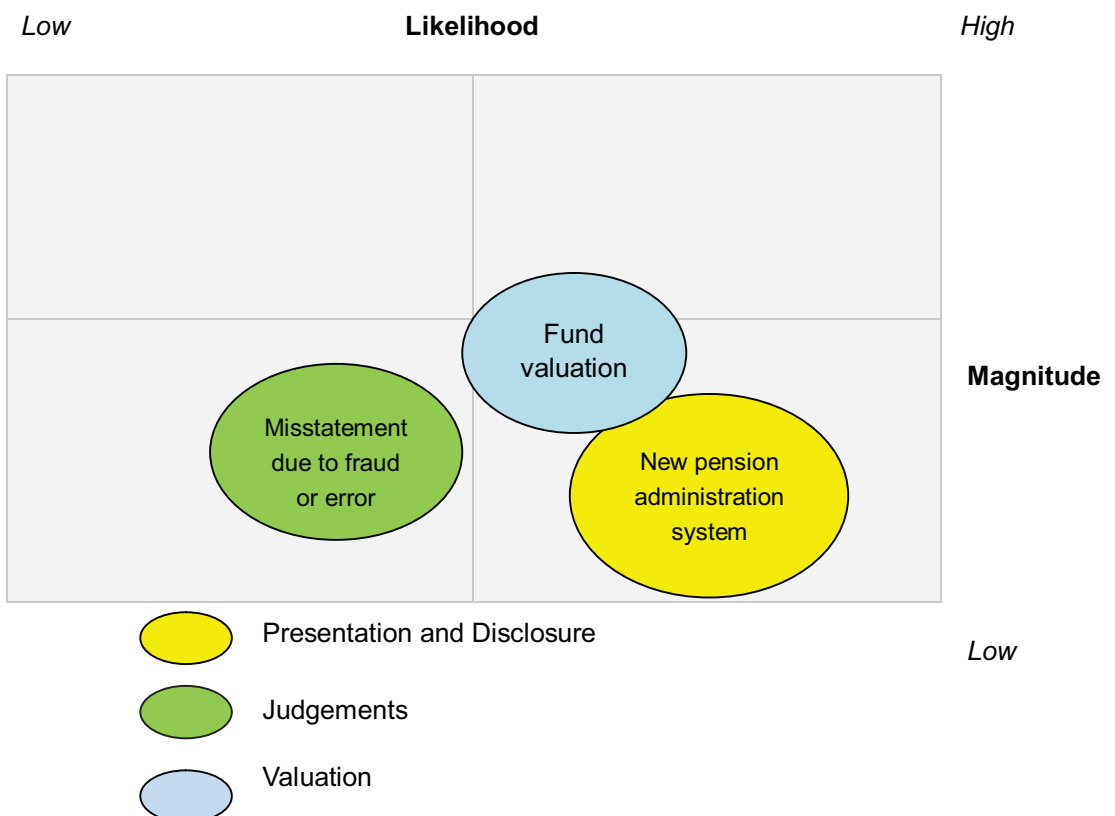
We have not identified any significant risks to the audit opinion.

We have identified three other risks to the financial statements:

- Misstatement due to fraud and error - this is an inherent risk due to the nature of local authority finances and increasing pressures on management to achieve financial targets

- New pension administration system – The change to the system at the end of March will raise risks around the transfer of data and

- Fund Valuation – the actuary prepares an estimate of the overall funding position of the fund and its potential future liabilities. This is an accounting estimate with inherent uncertainty requiring robust data from the pension fund.

We will provide an update to the Audit and Governance Committee on the results of our work in the above areas in our report to those charged with governance scheduled for delivery in September 2013.

Our process and strategy

► Financial statement audit

    ► We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Pension Fund's net assets. We also consider the Pension Fund's reporting history. Our audit is designed to identify errors above materiality.

    ► We aim to rely on the Pension Fund's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

    ► We seek to place reliance on the work of internal audit wherever possible. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.

    ► There has been no change to the scope of our audit compared to previous audits.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Oxfordshire County Council Pension Fund, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Other risks (including fraud risks)	Our audit approach
New pension administration System	
The pension administration system is being changed at the end of March 2013. This presents challenges around ensuring full and accurate data is transferred to the new system and that the new system will operate effectively and securely.	Our approach will focus on: ► Understanding the arrangements in place for full and accurate transfer of data and ensuring effective operation of the new system ► Reviewing key documentation around data transfer and system operation.
Fund valuation	
There will be an update to the fund valuation in 2013. The valuation will be based on data sent to the actuaries from the Pension Fund.	Our approach will focus on: ► Review of controls over the accuracy and completeness of data sent to the actuary ► Testing of key data to source.
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. The Pension Fund continues to face significant financial pressures due to reduced returns on investment. In addition the fund faces a number of fraud risks around misuse of assets and inappropriate benefit claims. This presents a risk that the financial statements may be materially misstated.	Based on the requirements of auditing standards our approach will focus on: ► identifying fraud risks during the planning stages; ► inquiry of management about risks of fraud and the controls put in place to address those risks; ► understanding the oversight given by those charged with governance of management's processes over fraud; ► consideration of the effectiveness of management's controls designed to address the risk of fraud; ► determining an appropriate strategy to address those identified risks of fraud; and ► performing mandatory procedures regardless of specifically identified fraud risks. We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you. Our approach to address the risks of fraud we have identified at this stage of our planning will focus on: ► reviewing year end figures against expectations ► considering benefit fraud with officers and within review of financial systems ► reviewing the work of the custodian ► testing material adjustments made by journals and ► reviewing transactions both before and after year-end to ensure they are correctly disclosed in the correct financial period.

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3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Pension Fund's financial statements in both the County Council's financial statements and the Pension Fund's Annual Report. We will issue two audit reports covering these objectives.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our audit involves:

► assessing the key internal controls in place and testing the operation of these controls;

► review and re-performance of the work of your internal auditors;

► reliance on the work of other auditors where appropriate;

► reliance on the work of experts in relation to areas such as valuation of the fund; and

► substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Cash processing

- Investments

- Pension Benefits and lump sums;

- Transfers in

- Transfers out and

- IAS26 disclosures regarding fund value including data sent to the actuary.

We expect to test contributions substantively at year end.

Analytics

We aim to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of benefits payroll and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and

- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and The Audit and Governance Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.

Use of experts

We will utilise Ernst & Young pensions experts, as necessary, to help us to form a view on judgments made in the financial statements.

We will utilise the work of Oxfordshire Pension Fund's actuaries in setting IAS26 figures.

Other procedures

In addition to the key areas of emphasis outlined, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

► Addressing the risk of fraud and error.

► Significant disclosures included in the financial statements.

► Entity-wide controls.

► Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

► Auditor independence.

Procedures required by the Code

► Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.

3.3   Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will

form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this amount will be presented to you in our year-end report.

3.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Oxfordshire County Council Pension Fund is £24,108.

3.5 Your audit team

The engagement team is led by Maria Grindley, who has significant experience on Oxfordshire County Council Pension Fund. Maria is supported by technical experts from within the Ernst& Young Pension Fund team. Mary Fetigan is responsible for the day-to-day direction of audit work, and who is the key point of contact for Deputy Chief Finance Officer and pension team.

3.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the Audit and Governance Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit and Governance Committee in July and September, incorporating the outputs from the interim audit and our year-end procedures respectively. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Audit and Governance Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare a management letter in order to communicate to the Pension Fund and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	timetable Audit & Governance Committee	Deliverables
High level planning:	January	January	Audit Fee letter
Risk assessment and setting of scopes	**December - March**	April	Progress Report Audit Plan
Testing of routine processes and controls	**January - April**	July	Progress Report
Year-end audit	**July – September**	September	Report to those charged with governance Audit reports (including our opinions on the financial statements within the County Council financial statements and within the Annual Report) Audit completion certificate
Reporting	**November**	November	Management Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

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4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

4.3   Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

Appendix A   Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13	Actual Fee 2011/12	Explanation of variance
	£'000	£'000	
Total Audit Fee – Code work	**24,108**	**39,414**	39% reduction reflects the savings achieved from the Audit Commission procurement exercise.

The agreed fee presented above is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables

► We are able to place reliance, as planned, on the work of internal audit

► The level of risk in relation to the audit of accounts in consistent with that in the prior year

► Our accounts opinion being unqualified

► Appropriate quality of documentation is provided by the audited body

► Effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Appendix B   UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee, or equivalent, of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Report to those charged with governance
Fraud ► Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the panel may be aware of	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan Report to those charged with

Required communication	Reference
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	governance
▶ The principal threats	
▶ Safeguards adopted and their effectiveness	
▶ An overall assessment of threats and safeguards	
▶ Information about the general policies and process within the firm to maintain objectivity and independence	
For listed companies, communication of minimum requirements as detailed in the ethical standards:	
▶ Relationships between Ernst & Young, the audited body and senior management	
▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence	
▶ Related safeguards	
▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	
▶ A statement of compliance with the ethical standards	
▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	Report to those charged with governance
▶ Whether the events or conditions constitute a material uncertainty	
▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements	
▶ The adequacy of related disclosures in the financial statements	
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Certification work ▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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Oxfordshire County Council and Oxfordshire County Council Pension Fund

Year ending 31 March 2013

Audit Progress Reports

April 2013

ΞII ERNST & YOUNG

Audit and Governance Committee
Oxfordshire County Council   28 March 2013
County Hall
New Road
Oxford
OX1 1ND
CO3 3WG

Dear Councillor Wilmshurst

Audit Progress Report - 2012/13

We are pleased to attach our Audit Progress Report. This report covers the audits of Oxfordshire County Council and Oxfordshire County Council Pension Fund.

This Progress Report summarises the work we have undertaken to date since our appointment as your auditor on 1 September 2012. The purpose of this report is to provide the Audit and Governance Committee with an overview of the stage we have reached in your 2012/13 audits and ensure our audits are aligned with the Committee's service expectations.

Our audits will be undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We issued our Audit Plans to the Audit and Governance Committee in April 2013 for this meeting. Since we commenced the audit we have completed our initial planning, started to document the key financial systems and have continued to update our risk assessment. There are no new issues that we are required to communicate to you as a result of this work. We have also agreed a detailed plan with Internal Audit to ensure that we can place reliance on their testing wherever appropriate.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
Director
For and behalf of Ernst & Young LLP

Contents

1. Work completed

Meetings

We have held a number of meetings with the executives, key officers and other stakeholders as part of our ongoing audit process:

- November 2012 - Introductory meeting with Internal Audit to discuss audit approach and detailed liaison

- November 2012 - Introductory meeting with County Council finance team to discuss audit approach and key financial statement issues for the coming year.

- December 2012 – Introductory meeting with the Assistant Chief Executive and Chief Finance Officer and Deputy Chief Finance Officer to discuss the engagement team and outline on our audit approach.

- February 2013 – Introductory meeting with the Pension Fund team to discuss audit approach and key financial statement issues for the coming year.

Initial planning and risk assessment

We have completed our initial planning and determined that we are able to rely on the control environment for both the County Council audit and the Pension Fund audit. We will update our risk assessments as the year progresses.

Walk throughs and tests of control

We have documented most of the key financial systems, completed some of our walk throughs and identified tests of control. We have agreed a plan with Internal Audit that will ensure that walkthroughs and testing of controls are completed.

Our work has not identified any issues that we need to bring to your attention as those charged with governance.

Value for money assessment for the County Council

We have completed our initial risk assessment for our value for money work against the Audit Commission's specified criteria and areas of focus. We have not identified any significant risks to date that we need to undertake additional local risk based work to address.

We will complete and update a detailed risk assessment across the audit. We will communicate to you any significant risks we have identified and any additional local risk based work we may need to undertake as a result.

Grant claim certification

We have not yet started any work on the certification of your claims. We plan to start the audit of your Teachers Pension Claim in July 2013 and Employment Based Initial Teacher Training in the autumn.

2. Timetable

Audit and Governance Committee Timeline

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts, and the deliverables we have agreed to provide to you through the 2012/13 Audit and Governance Committee cycle.

We will provide formal reports to the Audit and Governance Committee throughout our audit process as outlined below. Where required, we will issue an Interim Report, summarising the findings from our audit at that stage. From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate.

Following the conclusion of our audit we will prepare a Management Letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work on both the County Council Audit and the Pension Fund Audit.

Audit phase	Timetable	timetable Audit & Governance Committee	Deliverables to Audit And Governance Committee
High level planning:	**November – December (County) January - February (Pension Fund)**	January	Audit Fee letter
Risk assessment and setting of scopes	**December – January (County) February (Pension Fund)**	April	Progress Report Audit Plan
Testing of routine processes and controls	**January - April**	July	Progress Report
Value for money conclusion (County)	**February -April**	July	Progress Report
Year-end audit including WGA	**July – September**	September	Reports to those charged with governance Audit reports (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, plus Pension Fund opinions). Audit completion certificate Whole of Government Accounts Certification
Reporting	**November**	November	Management Letter
Grant claims	**July - November**	November	Report on the audit of grant claims

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters through our Sector Briefings.

Appendix 1: Audit Progress

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	January 2013	Completed	Reported to January 2013 Audit and Governance Committee
Audit Plan	April 2013	Completed	Reported to April 2013 Audit and Governance Committee
Progress Report	April 2013	Completed	Reported to April 2013 Audit and Governance Committee
Progress Report	July 2013		
Report to Those Charged with Governance	September 2013		
Audit Report (including opinion and vfm conclusion)	September 2013		
Audit Certificate	September 2013		
WGA Certificate	September 2013		
Management Letter	October 2013		
Report on the Audit of Grant Claims	December 2013		

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Cllr David Wilmshurst
Chair of the Audit and Governance Committee
Oxfordshire County Council
New Road
Oxford
OX1 1ND

Direct line: 01189 281667
Email: MGrindley@uk.ey.com

28 March 2013

Dear Councillor Wilmshurst

Understanding how the Audit and Governance Committee gains assurance from management - Oxfordshire County Council and Oxfordshire County Council Pension Fund

Auditing standards require us to formally update our understanding of your management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the questions below.

The Audit and Governance Committee have been identified as 'those charged with governance' for both the County Council and the Pension Fund. Therefore please could you clarify where your responses refer to both audits and where they differ.

1) How does the Audit and Governance Committee, as 'those charged with governance' at the Council and Pension Fund, exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);

- identifying and responding to risks of fraud, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;

- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Council code of conduct);

- encouraging employees to report their concerns about fraud; and

- communicating to you the processes for identifying and responding to fraud or error?

2) How does the Audit and Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

3) Is the Committee aware of any:

- breaches of, or deficiencies in, internal control; and

- actual, suspected or alleged frauds during 2012/13?

4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

5) How does the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012/13?

6) Is the Audit and Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?

7) How does the Audit and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Yours sincerely

Maria Grindley, Audit Director
For and on behalf of Ernst & Young LLP

OXFORDSHIRE COUNTY COUNCIL

INTERNAL AUDIT SERVICES

INTERNAL AUDIT STRATEGY 2013/14

Ian Dyson
Chief Internal Auditor

April 2013

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INTERNAL AUDIT SERVICES

INTERNAL AUDIT STRATEGY 2013/14

1.   Introduction

1.1   This paper details the Internal Audit Strategy, including the resources available and how we will be delivering our service in 2013/14. Work plans will be prepared on a quarterly basis and will be presented to the Audit Committee for approval. The work plan for Q1 is attached as an appendix to this report.

2.   Internal Audit Strategy

2.1   The Accounts and Audit Regulations 2011 (S6) state that the Council needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with the proper internal audit practices. In 2013, the Institute if Internal Audit (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA) published a combined Public Sector Internal Auditing Standards. In April 2013, we are expecting CIPFA to publish a Local Government Practice Note to accompany these standards. Together they will become the "proper practice" referred to in the Accounts and Audit Regulations 2011. In Quarter 1 the Chief Internal Auditor will undertake a self assessment against the revised Local Government standards, and will report back on the findings to the Regulatory and Audit Committee.

2.2   The Public Sector Internal Auditing Standards defines "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

2.3   The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council's Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis. The methodology for identifying areas for audit is detailed in section 3 of this report.

2.4   The Internal Audit Service is delivered in collaboration with Buckinghamshire County Council, with resources shared between the two Councils.

2.5   A key part of the strategy is ensuring the right skills mix and resources exist to deliver an effective service. The resources in place for 2013/14 are shown in the table in section 4 of this report. Part of the resource budget is not yet committed. This will be used to try and recruit additional in house staff; however, should this not be successful we will use the budget to buy in days through the Audit Services Contract with Deloitte.

2.6   In Oxfordshire we will continue to contract out IT Audit.

2.7   As reported previously there is relationship within the Internal Audit Team which presents a potential conflict of interest. The Chief Internal Audit is related to the Senior Auditor who leads on counter-fraud. The conflict is being managed; the Senior Auditor's line manager, the Audit Manager, has a direct reporting line to the Deputy Chief Finance Officer (The CIA's line manager), on any performance related issues, including appraisals; Counter-fraud activity is managed in collaboration with Wokingham Borough Council, where the Investigations Manager, manages to counter-fraud activity undertaken by the Senior Auditor, and liaises with line manager on any performance matters. There is no direct management between the CIA and the Senior Auditor.

2.8   There will remain a significant emphasis for internal audit activity reviewing financial systems and compliance with the governance framework; however, a key priority for 2013/14 will be to complete assurance mapping for all critical services across the Council. This was part of the 2012/13 strategy, but we were unable to deliver it. This year it will be a priority, and the resource structure has been adjusted to ensure it is achievable. Internal Audit will support with the assurance mapping, and testing the effectiveness of the defined assurance procedures. To ensure we are directing audit resources to key risk areas we will be operating on a quarterly planning cycle.

3.   Audit Planning Methodology

3.1   A quarterly internal audit plan will be produced in consultation with the Directors and their Leadership Teams during quarterly meetings.

3.2   The Quarterly plans will be presented to the Audit & Governance Committee for consideration and comment.

3.3   The Audit Plans will continue to be influenced by external organisations and statutory bodies we work with and provide assurance to. We will be developing a joint working protocol with Ernst and Young that will enable us to review our approach to the auditing of key financial systems without affecting the assurance we can give.

3.4   We will continue to support the Corporate Governance Assurance Group in producing the annual governance statement through undertaking annual compliance audits that will support Directors in completing their annual statements. The Chief Internal Auditor is a member of the Group

3.5 Counter-fraud will continue to be part of the planned audit activity. Where an investigation is required this will be a charged back service, and the income used to back fill, or procure the services as required. We have an agreement with Wokingham Borough Council to provide a fraud investigation service on a call off basis.

4. Resources

4.1 The Internal Audit Service is resourced as follows as at 1 April 2013:

In House Team	2013/14 FTE	Chargeable Days available	Planned OCC days 2013/14	Planned External days 2013/14
Chief Internal Auditor	1.0	185	93	92
Audit Managers	1.6	290	220	80
Principal Auditor	1.0	154	154	0
Principal Auditor (Contracts)	1.0	200	125	75
Senior Auditor	2.0	400	200	200
Audit Assistant	0.8	139	139	0
External				
IT Audit		130	100	30
Deloittes		225	70	155
Wokingham		150	150	
Other				
To be sourced through recruitment or Call off		170	120	50

Total	7.4	2043	1371	682

Analysis of auditor days

	2013/14	Comments	2012/13	Diff.	Reason for change
Gross days – In house team	1882	This represents 7.4 FTE	2423	-541	Reduction of in house staff
Contract days	505	This is made up of: 100 days IT Audit plus 30 days IT Audit for TVPA 224 days Audit Services Contract. 150 days collaboration with Wokingham	390	+115	The increase in days reflects the reduction in FTE in house, pending recruitment, and the collaboration with WBC
Other	170	To be sourced through recruitment or Call off		+170	There is unallocated budget for recruitment. This will be used for call off if recruitment is unsuccessful.
Total Gross days	2557		2813	-256	
Overheads	370	This time is for bank holidays, annual	562	-192	The reduction is due to the staffing changes and a

		leave, special leave, training, contingency for sick absence, and recruitment. It also includes for expected paternity leave in quarter 2.			reduction in the time for professional training. This may be subject to change depending on the outcome of the recruitment.
Non Chargeable Days	144	The non chargeable days are for non audit related activity, including administration time, the wider role of the AHOF (Audit), staff appraisals, 1:1's and departmental work.	191	-47	Small increase in non-chargeable days due to staffing changes.
Total Chargeable days available	2043	This is the number of days that contribute directly to internal audit activity.	2060	-17	
Chargeable Days – non assignment	219	These are days not attributed to planned audit activity, such as the Chief Internal Auditors management days, admin support for actual audit work, preparation of the audit plan, operational planning, reports for the AWG and Audit Committee, and corporate assurance groups	263	-44	
Chargeable days – External Clients (BCC and TVPA)	682		627	+ 55 days	235 days are outsourced, but the remaining 447 days are by the in house team reflecting the collaboration with Buckinghamshire and TVP

Chargeable days – OCC assignment based	1142	This is the number of days available for delivering the audit plan.	1170	-28	

4.2 It is planned that Internal Audit Services will deliver a minimum of 1142 days on Audit Assignments that will be designed to provide reasonable assurance on the system of internal control. As outlined above the quarterly plans will be presented to the Audit & Governance Committee, with Q1 attached as appendix 2. The type of audit activity will be:

Key Financial Systems	We will test any changes to the existing systems, and will undertake walkthrough test to confirm the system. We will agree with External Audit the key controls to be tested, and undertake the compliance/substantive testing. We will also complete our assurance work through analytical review using the audit interrogation software on identified areas of fraud risk and error.
Governance	We will undertake testing across Directorates of compliance against the governance and regulatory framework, including the key control processes covering HR, ICT, Financial Management, Risk Management, Project Management, Performance, and Procurement. This will provide evidence to the Directors for completion of their annual assurance statement.
Schools	We will seek assurance through analytical review on SAP and through the work of the Schools Finance Support Team, with targeted visits to schools if and when required.
IT Audit	We will undertake a programme of audits of operational systems, and we will provide assurance on major ICT strategic projects planned in 2011/12
Contract Audit	We will be undertaking a programme of Contract Audits, including major

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	procurement. A key focus will be contract management, and compliance with the Contract Standing Orders.
Operational Risk	Performance systems for key operational risks ascertained through consultation with Corporate Performance Team and Directors be reviewed and tested.
Strategic Risk	Performance systems for the management of strategic risk, for example major procurement and projects will be reviewed and tested.
Counter Fraud	A programme of Counter-Fraud work will be produced, including raising awareness, and proactive fraud testing using the Audit Interrogation software.
Follow Up	We will continue to monitor and report on the implementation of agreed management action.

5   Performance Monitoring / Reporting

5.1   The proposed performance indicators for 2013/14 are attached as appendix 1 to this report.

5.2   The Audit Committee will receive a quarterly report, including the next quarters plan for approval, a status update on the approved work plans, and a summary of the outcomes of completed audits. As a matter of course any audits with an "unacceptable" overall opinion will be reported to the AWG, who should call in the responsible Manager for assurance on what action is being taken. It is also proposed that the AWG receive monitoring reports on outstanding management actions as a matter of course from Internal Audit.

6. RECOMMENDATION

The Committee is RECOMMENDED to approve the Internal Audit Strategy and the Q1 Work Plan.

Ian Dyson

Chief Internal Auditor

April 2013

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APPENDIX 1   Proposed PERFORMANCE INDICATORS 2013/14

	Performance Measure	Target	Frequency of reporting	Method
1	Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	Quarterly report to A&G	Internal Audit Performance Monitoring System
2	Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 Days	Quarterly report to A&G Committee.	Internal Audit Performance Monitoring System
3	Elapsed Time between issue of Draft report and issue of Final Report	15 Days	Quarterly report to A&G Committee.	Internal Audit Performance Monitoring System
4	% of 2013/14 planned audit activity completed by 30 April 2014	100%	Report to A&G Committee	Internal Audit Performance Monitoring System
5	% of management actions implemented	90% of all management actions	Every Quarter to AWG	Action Management Tracking System
6	Effectiveness of Internal Audit	Acceptable opinion	Monitoring Officer report to A&G Committee	
7	Extended Management Team satisfaction with internal audit work	Satisfactory or above	Annually - review of the effectiveness of IA	Questionnaire

APPENDIX 2 Audit & Governance Committee 17 April 2013 - Draft 2013/14 Quarter 1 Plan.

Directorate	Qtr Start	Audit
CEF	1	**CEF Governance and Financial Management** This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as *Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources and Legislation.* During Quarter 1, Internal Audit will review the area of <u>Budget Setting.</u> A separate audit is also planned to start in quarter 1 which look to provide assurance on the system for Review of Charges within each directorate.
CEF	1	**CEF - Assurance Mapping** During quarter 1 Internal Audit will be developing the methodology for undertaking an exercise to map out the assurance framework for all key services within the County Council, initially focussing on CEF. It will be a major piece of work, but the outcome should provide management with a high level review of the management controls in place to assure them that service objectives and outcomes will be met, or to provide the early warnings when action is required. Where gaps in the assurance framework are identified this will be used to direct future internal audit activity.
CEF	1	**CEF Troubled Families Grant** This is a new grant which Internal Audit are required to sign off, first submission of a small sample of families was reviewed and signed off in January 2013. Audit Manager will continue to advise on design of controls for data collection and reporting prior to summer return being made.
SCS	1	**SCS Governance and Financial Management** This is an annual audit to review governance and financial management arrangements in place within

Directorate	Qtr Start	Audit
		each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources and Legislation. During Quarter 1, Internal Audit will review the area of Budget Setting. A separate audit is also planned to start in quarter 1 which look to provide assurance on the system for Review of Charges within each directorate.
SCS	1	**LEAN project** The Audit Manager will review the scoping of the new project which aims to review and re-design processes in Adult Social Care to ensure they are lean, appropriate and in line with future direction of the service. Future Internal Audit involvement will be agreed to include review of draft "to-be" processes and also review of system mapping exercise.
SCS (OFRS)	1	**OFRS – Joint Fire Control** The Audit Manager will continue to work with the project manager in reviewing the progress against key stages of the project implementation. Specific audit activity will be agreed which will include review of the project management governance arrangements.
SCS	1	**NHS Information Governance Toolkit (IGT)** S&CS access to NHS networks and systems is dependent upon them complying with NHS IGT requirements. This audit will review the compliance with those requirements
CEO	1	**CEO Governance and Financial Management** This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as *Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources and Legislation.*

Directorate	Qtr Start	Audit
		During Quarter 1, Internal Audit will review the area of <u>Budget Setting.</u> A separate audit is also planned to start in quarter 1 which look to provide assurance on the system for Review of Charges within each directorate.
EE	1	**EE Governance and Financial Management (including Customer Services)** This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources and Legislation. During Quarter 1, Internal Audit will review the area of Budget Setting. A separate audit is also planned to start in quarter 1 which look to provide assurance on the system for Review of Charges within each directorate.
EE	1	**Integrated Transport Unit** The review will focus on the management and operations within the Integrated Transport Unit. The service delivers transport for eligible clients wishing to attend residential care homes, day centres and adult training centres for people with learning disabilities. The audit will also review the ITU Business Plan for the provision of transport to day services and the services provided to SCS.
EE	1	**Property and FM Contract** Internal Audit will continue to review the governance arrangements for this contract, and specifically in Q1 will, in conjunction with the contract management team, undertake a detailed "audit" of the final accounts for a number of works. This will include going back to prime accounting records held by CCS.
EE	1	**Highways Contract** This audit will review the management and operation of the Highways Contract with Atkins. The audit

Directorate	Qtr Start	Audit
		will focus on the contract management controls, performance and financial processes in place.
E&E (OCS) & SCS	1	**Abacus Re-tender** The Audit Manager will continue to work with the project manager in reviewing the progress against key stages of this project implementation.
E&E (OCS)	1	**Transforming Oxfordshire Customer Services** The review will cover the overall governance and programme management arrangements in place within the TOCS programme. For quarter one, the audit will cover the process and approval mechanism for the outcome of the service reviews currently being conducted. Further work will be completed during the remainder of 2013/14, depending on the outcome and recommendations of the service review process. Additionally, an overview of the Customer Service Centre Programme will also be maintained with testing being undertaken on any key changes to processes and internal controls, as required.
E&E (OCS)	1	**Reshaping Finance** The audit will review the project to deliver changes to the financial management processes within the Council. The review will focus on how the changes are implemented and communicated across the organisation.
E&E (OCS)	1	**HR Self Service** Internal Audit will provide advice and support in delivering the objectives of the HR Self Service Project. This will include providing assurance on the design of any new key process or changes relating to the four work streams of the project: - Personal Details Management (including Bank Details). - Travel and Expense Management.

Directorate	Qtr Start	Audit
		- Sickness and Absence Management. - E-Payslips.
E&E (OCS)	1	**Procurement Improvements Project** From April 2013, the remaining improvements and actions as part of the PIP will be managed in house. This audit will monitor the remaining deliverables of the PIP, reviewing changes to processes, in particular the design of controls and reporting, as required, to the Project Board. Once operational, testing will be undertaken on the revised procurement processes in place.
E&E (OCS)	1	**Schools Finance & Technical Team (Part 2)** The Schools Support and Technical Team is the main provider of assurance on the performance of financial management at schools. This audit will follow up on the 2012/13 review, focussing on the effectiveness of the budget monitoring and financial management arrangements in place.
E&E (OCS)	1	**Mobile Computing** To review the security of data held and processed on mobile devices, such as tablets, laptops and smartphones. There has been significant growth in the use of mobile devices and it remains a key risk area, especially in terms of compliance with the Data Protection Act 1998.
E&E (OCS)	1	**NHS Information Governance Toolkit (IGT)** To ensure compliance with NHS IGT requirements. S&CS access to NHS networks and systems is dependent upon them complying with NHS IGT requirements.
PH	1	**Public Health** This is not a specific audit, but Internal Audit are monitoring the on-going project for the mobilisation of Public Health responsibility to the Council with effect from April 2013. Future Internal Audit activity to be agreed.
Contract Audit	1	A needs assessment for contract audit is being undertaken from which a detailed plan will be produced. Key contracts within E&E are already highlighted for review in Q1

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Directorate	Qtr Start	Audit
Counter-Fraud	1	During Q1 the main focus of the Counter-Fraud activity will be undertaking a full fraud risk assessment. This will be used to highlight priority areas for proactive fraud testing. The results of the fraud risk assessment and proactive testing plan will be presented to the A&G Committee in July. We will be refreshing the Counter-fraud plan, and will continue with the Directorate presentations aiming to raise awareness of whistlebowing and counter-fraud responsibilities. We will also continue reviewing the NFI data matches highlighted from the 2012 NFI Data Matching exercise.
Assurance Mapping methodology	1	During Q1 we will develop the methodology and communication strategy in preparation for undertaking the assurance mapping exercise across all critical services. It is intended the output should be a process for regular management assurance on key risks, and annual assurance for the Audit & Governance Committee

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Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 17 APRIL 2013

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2012/13

Report by the Monitoring Officer

INTRODUCTION

1. In January 2013, the Audit & Governance Committee requested that the Monitoring Officer undertake a review of the effectiveness of Internal Audit. The annual review is a requirement under the Accounts and Audit (England) Regulations 2011.

2. This report outlines the methodology used, and the overall findings and conclusions.

METHODOLOGY

3. The review has been conducted primarily as a desk top exercise through discussion with the Chief Internal Auditor (CIA); by reference to Committee reports on the Council's intranet site from both Internal and External Audit; by reference to progress reports on Internal Audit presented to the Audit Working Group (AWG) and the Audit and Governance Committee (attended by the Monitoring Officer); and by canvassing the views of the extended County Council Management Team by way of a questionnaire.

FINDINGS

4. In 2012/13 the Internal Audit management team has remained unchanged. The CIA and Audit Manager continue to share their time between Oxfordshire County Council, Buckinghamshire County Council and Thames Valley Police.

5. In addition to the Audit Management the collaboration has extended as planned with three new internal audit staff appointed in 2012/13 working across the three organisations.

6. Recruitment has remained an issue in the year, in particular the appointment of a Principal Auditor. That position has been covered in the year through secondments using the call off contract with Deloitte's. It has also been necessary to use the call off contract with Deloitte's to cover some of the key financial systems audits. At the time of writing this report the outcome and performance on the key financial systems work is not known; however, the secondment arrangement has worked very well with the Principal Auditor from Deloitte's contributing a number of high profile audits, and attending the AWG to support the discussion on those reports.

7. It is essential that the Internal Audit Team has good engagement with its clients, both at an operational level and at a Senior Managment / Member level. It is clear that this is being achieved. The CIA has good engagement with Directors, and Audit Managers regularly attend Directorate Leadership Teams and meet with senior managers to understand emerging issues. The

Monitoring Officer, S151 Officer / Deputy S151 Officer and the CIA continue to work closely on governance matters. The CIA is also a member of the Corporate Governance Assurance Group. Maintaining these relationships is essential to ensure that the work of Internal Audit remains focussed on the key risks, and that assurance is being targeted as required.

8. In the 2011/12 report, the CIA was tasked with giving more priority to resourcing counter-fraud work. This action has been delivered and counter-fraud is now embedded as part of the work programme for Internal Audit. In delivering this action, a Senior Auditor is taking the lead within the in-house team, but the CIA has established an arrangement with Wokingham Borough Council Investigations Team to manage the counter-fraud work. It has in part been necessary to do this as the CIA and the Senior Auditor are related, therefore there is a potential conflict of interest, but also as it provides access to an experienced counter-fraud team and network to support him in discharging the work. The Senior Auditor has also recently completed training in data analysis to assist with undertaking future proactive fraud testing.

9. The two areas of internal audit work that have been outsourced, Schools Financial Value Standard (SFVA) audits, and IT Audit have been successful, with delivery of both plans achieved to a good standard. It was agreed at the Schools Forum in February that the responsibility for resourcing the SFVA audits would transfer to Oxfordshire Customer Services (OCS) from 2013/14.

Compliance with CIPFA Code of Practice

10. The Chief Internal Auditor reported no change to the systems and processes adopted by the internal audit team in 2012/13.

11. A new code of practice, "Public Sector Internal Audit Standards" was published in January 2013, produced jointly by the Institute of Internal Auditors and CIPFA. A guidance note on the application of these new standards for Local Government is being produced by CIPFA, and is due out in April 2013. As this is still pending, the CIA reported that he will undertake a self-assessment against the new standards in May, reporting the outcome to the Monitoring Officer through the Corporate Governance Assurance Group, and then to the AWG in June 2013.

External Audit

12. The External Auditors do not report formally on the work of Internal Audit; however, there is evidence that the good working relationship and collaborative approach to undertaking the financial audits achieved with the Audit Commission is continuing to work well with the new External Auditors, Ernst and Young.

Reports to the Audit & Governance Committee

13. Progress reports are produced quarterly for the Audit & Governance Committee, and include executive summaries of all completed audits in the quarter. There is also a restricted area on the Council's Intranet where members of the committee have access to the full internal audit report, including the management action plans.

14. The CIA reports on emerging issues to the AWG, and on the implementation of management actions. The "emerging issues" has included audits not yet completed but where significant issues have been identified and agreed with officers, enabling the AWG to engage with the relevant service managers at an earlier stage to gain assurance that appropriate action is being taken. This approach was adopted in 2011/12 and has continued to work well in 2012/13. In his annual report the Chairman of the Annual and Governance Committee noted as a key success:

"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."

15. In 2012/13 Internal Audit implemented the 4Action management action tracking system. This has resulted in improved reporting to the Senior Managers and AWG on the status of actions.

16. The CIA also takes an annual report to the Audit and Governance Committee.

17. The reports from the CIA are well received and Members are generally satisfied with the levels of information they are receiving.

18. Whilst all reports to the Committee were in the name of the Assistant Chief Executive and Chief Finance Officer, they are presented by the CIA. To protect the independence of the CIA, a protocol has been approved that makes it clear he has direct access to the Chairman of the Audit & Governance Committee should he consider it necessary. This independence is further reinforced through the CIA meeting in private session annually with the members of the Audit and Governance Committee. The last private session was on 8 May 2012, with the next one scheduled for 17 April 2013.

Achievement of Performance Indicators

19. Current performance against the indicators (as at 2 April 2013) is as follows:

Exit meeting within 3x audit days = 54% (previously reported 60%)
Issue of draft report within 15 days of exit meeting = 90% (previously reported 85%)
Issue of final report within 15 days of draft = 71% (previously reported 69%)

As at 28 March the status of actions on the audit tracking system for 2011/12 and 2012/13 are as follows:

708 actions being tracked
521 reported as implemented = 74% (previously reported 71%)
123 not yet due = 17% (previously reported 18%)
25 due but only partially implemented = 3% (previously reported 6%)
35 have now been superseded or are pending ratification.

20. In the 2011/12 "review of effectiveness" report it was concluded that "Significant improvement is required in the timeliness of reporting on audit

assignments". The main concern was the turnaround of draft reports and then final reports, where the performance was 67% and 57% respectively. The current performance shows a marked improvement on 2011/12 in these areas; however, in 2012/13 the performance on exit meetings being completed within 3X the audit days has seen a decrease from 71% to currently 54%.

21. The CIA reports that whilst the performance on the turnaround of fieldwork when measured against the target is not good, this is a reflection of the complex audits that are now being delivered. Supported by evidence of the audit reports presented to the AWG, the audits of operational risk areas require a wider understanding of the audit area to be able to evaluate the risks effectively and ensure audit findings are balanced in terms of materiality. By investing more time in the audit is delivering a better output which is being more readily accepted by Management, as demonstrated by the improved performance in the turnaround of draft and final reports.

22. The CIA has identified that improved performance monitoring information is required and will be introducing a new time recording/ audit tracking process in Q1 2013/14.

Annual Survey

23. Questionnaires were sent out to 18 senior managers, (Extended Management Team), to obtain feedback on the internal audit service. The response rate of 100% provides a real measure of how effective Internal Audit is for the Senior Management in the Council.

24. A full analysis of the results is attached as appendix 1 to this report. Overall the results are very favourable, with three areas in particular to highlight that demonstrate overall effectiveness and the impact of Internal Audit:

   - *94% (100%*) of respondents tended to agree or strongly agreed that the Service was proactive in giving adequate information about its role/purpose*

   - *100% (97%*) tended to agree or strongly agreed that the Service was independent*

   - *94.5% (97%*) tended to agree or strongly agreed that the Service consulted them on key risks or critical systems in their area*

   - **A further 100% (93%*) tended to agree or strongly agreed that the Service was effective in delivering improvements to the control environment.**

   * last year's figures

25. The survey asked three open questions of participants: specify things they would like Internal Audit to start doing, stop doing and continue doing. The results of these are set out at Appendix 1. There appears to be no significant or consistent issues of concern raised. There is a general issue of communication being raised and Internal Audit may wish to look at how they communicate with their Client Groups to better explain the role they play and the work they undertake. Overall, there was very positive general feedback

emphasising the fact that Internal Audit do listen and take on board feedback and concerns on issues but recognising that they will not be unduly influenced. There was no issue whatsoever with regards to questioning the integrity or capability of any of the Officers of Internal Audit and the general comments tend to support the fact that they are highly regarded by Services.

"I find Audit to be invaluable in supporting me to do my job as a Senior Manager. I also find the staff open to feedback and reasonable in their approach – they won't be unduly influenced but they will always listen".

CONCLUSION

26. The Internal Audit Service overall continues to be effective. There are no significant issues to report, but there are three actions for the CIA:

- Complete a self-assessment against the Local Government guidance for Public Sector Internal Audit Standards, reporting to CGAG in May and AWG in June 2013.

- Implement a new time recording and audit tracking process. Significant improvement is required in the timeliness of reporting on audit assignments.

- To consider a communications strategy designed to heighten awareness of the role undertaken by Internal Audit.

RECOMMENDATION

The Committee is RECOMMENDED to approve the Monitoring Officer's assessment of the effectiveness of the system of Internal Audit 2012/13.

PETER CLARK
Monitoring Officer and Head of Law & Governance

Contact Officer: Peter Clark

April 2013

Review of the Effectiveness of Internal Audit 2012/13

Summary of Results

Questionnaires were sent out to 18 Senior Managers (Extended CCMT) to obtain feedback on the internal audit service. The response rate was 100%. The survey provides a real measure of how effective Internal Audit is for Senior Managers in the Council.

I have been given adequate information on the role and purpose of Internal Audit.

Strongly Agree	83% (15)
Tend to Agree	11% (2)
Tend to Disagree	6% (1)
Strongly Disagree	0% (0)

I am consulted by Internal Audit on the key risks and critical systems in my area.

Strongly Agree	78% (14)
Tend to Agree	16.5% (3)
Tend to Disagree	5.5% (1)
Strongly Disagree	0% (0)

I am satisfied that Internal Audit is independent.

Strongly Agree	83% (15)
Tend to Agree	17% (3)
Tend to Disagree	0% (0)
Strongly Disagree	0% (0)

I am given an opportunity to comment on Internal Audit's work plans.

Strongly Agree	89% (16)
Tend to Agree	5.5% (1)
Tend to Disagree	5.5% (1)
Strongly Disagree	0% (0)

I can discuss the relevance of the planned audit activity throughout the year, and I have the opportunity to request other areas to be looked at where assurance is required.

Strongly Agree	83% (15)
Tend to Agree	11% (2)
Tend to Disagree	6% (1)

Strongly Disagree   0% (0)

On individual audit assignments, where appropriate, I have an opportunity to provide input to the planning of Internal Audit work.

Strongly Agree   83% (15)
Tend to Agree   11% (2)
Tend to Disagree   6% (1)
Strongly Disagree   0% (0)

Internal Audit reports are timely, practical and support Managers in the management of their key risks.

Strongly Agree   61% (11)
Tend to Agree   33% (6)
Tend to Disagree   6% (1)
Strongly Disagree   0% (0)

Internal Audit is effective in delivering improvements to the control environment.

Strongly Agree   61% (11)
Tend to Agree   39% (7)
Tend to Disagree   0% (0)
Strongly Disagree   0% (0)

Please list the things that you would like Internal Audit to start doing:

Early engagement on scoping of an audit with managers (and staff rep's) to get a rounded understanding of issues to focus on

Focus more strongly on preventive interaction at the start of programmes and changes. This is much better than it was but still room to do more.

Provide assurance that the corporate approach to risk, performance and project management is robust (as changes are made to approach/systems) and that the directorates compliance to the corporate approach is adequate.

It would be of benefit to the directorate if Internal Audit focused on areas that officers were not already actively undertaking investigative work/improvements (ie known issues there were being managed).

Explain their role to more junior managers/staff.

Supporting project development in an embedded way.

I have no suggestions here. I last met with Internal Audit today, and they were happy to accommodate all my requests.

Circulate a list of planned Audit's (and times) to Tier 3s at the start of the year

Further develop their general awareness of the scope and nature of the business of this Directorate

More open and general discussion about the key areas of concerns that the manager has about their area of work and where the priority focus should be for the audit...

Making people more aware about how issues can be referred to internal audit

To look at the following areas: Safeguarding practice in CEF; Children's Centres and Early Years; and school improvement services. All these areas have already been discussed with Internal Audit and agreed for inclusion in future programmes of work

Please list the things you would like Internal Audit to stop doing:

No adverse comments. I have found the IA function to be professional and very helpful.

Relying on a single template and vocabulary for audit reports that is not always wholly appropriate.

Nothing comes to mind at this time - very happy with both what IA are doing and how they go about their business.

Sometimes they hone in on an issue that is nor proportionate - depends on the individual experience of the auditor but this is well moderated by more senior staff in Audit.

I have not experienced anything in the last 12 months that I would want them to stop doing.

Again, I have no suggestions. Not all of their activity is comfortable, but it is well directed and gives key assurance.

Given the scale of change to the structure and nature of the business that has taken place over the course of recent years there is a need for greater pragmatism in closing off/down actions from previous audits

Stop using assessment terms that have a different plain English meaning - 'adequate' in most people's eyes is NOT a positive.

Please list the things that you would like Internal Audit to continue doing:

Continue to fully engage with the senior managers of the council so that we can identify areas where their input can add value and ensure compliance.

Happy with programme and approach to date

Good engagement at the start of major programmes when requested. Consultation on priorities

Getting involved during significant service changes (as provided during the procurement of the Property and Facilities Management Contract)

Keep being accessible, customer friendly, professional, consultative and engaging.

Operating as now - consulting with me and the service at the appropriate time; agreeing audit plans and discussing outcomes in a consultative manner.

I find audit to be invaluable in supporting me to do my job as a senior manager. I also find the staff open to feedback and reasonable in their approach - they won't be unduly influenced but they will always listen.

I am happy with the current approach

Providing pragmatic support and working with me to help strengthen our services.

I value the way they are increasingly looking not just at individual and discrete settings, but also thematically and across the Council's activity, so picking up issues across directorates eg safeguarding across children's services and into E/E looking at Transport.

Discussing issues with us, checking back for understanding, raising risks

Continuing with the challenging approach to identify through the audits areas of weakness in internal controls

Continue the close working relationship in terms of planning audit activity and the development of briefs for particular streams of work

open dialogue on the issues and listening to the concerns about practicality of implementing recommendations

Dialogue very good, keep informed of issues and supportive. Appears to be more focused and strategically planned.

We value the 'arms length' analysis of what we do; the way in which Audit colleagues keep us up to date with progress and outcomes of audits; and the opportunity to suggest areas of activity.

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Division(s): All

AUDIT & GOVERNANCE COMMITTEE – 17 APRIL 2013

RISK MANAGEMENT FRAMEWORK

Report by the Assistant Chief Executive & Chief Finance Officer

PURPOSE

1. The purpose of this paper is to introduce a proposal for a Risk Management Framework to be adopted across Oxfordshire County Council.

BACKGROUND

2. The Council have implemented a risk management process that is well implemented and widely used. Last year, Zurich carried out a health check on our processes and procedures. Included in the report were recommendations to refresh the corporate strategy and to further embed risk management, together with business management and monitoring, across the organisation.

3. The refreshed Risk Management Framework sets out how the Council will continue to mature and embed its risk management approach.

4. We have worked with Directorate Risk Leads to develop the Framework in a user friendly format that addresses the recommendations made in the Zurich Health Check and other issues identified by staff.

5. The proposal outlined in this report was discussed by the Corporate Governance and Assurance Group on 1 March 2013 and their comments have been incorporated into the draft presented in this report.

KEY ISSUES

6. The Risk Management Framework is the basis from which we set corporate standards and work with directorates to ensure risk management is carried out properly. It is also a tool to identify areas where additional support and development is needed. It is presented in three distinct, but related, parts. Firstly, an overarching strategy; followed by comprehensive corporate level guidance. It will then be supported by the development of directorate level guides, or toolkits that reflect the particular needs of each business area. The Framework is designed to be an interactive tool to support the continual use of risk management within the workplace.

7. To this end, once the Framework has been approved, the current intranet guidance will be updated to reflect the new contents. We will also continue to support directorate risk leads to develop and implement risk management

through the creation of toolkits, quarterly challenge and bespoke 'risk road shows' within directorate teams who would like additional support.

RECOMMENDATION

8. **The Audit & Governance Committee is RECOMMENDED to agree the draft Risk Management Framework for use across Oxfordshire County Council.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Contact Officer: Alexandra Bailey Tel (01865) 816384
                     Research and Major Programmes Manager

April 2013

Oxfordshire County Council

Risk Management Framework

Oxfordshire County Council

Risk Management Framework

Introduction
The risk management framework sets out how risk management should be embedded across the Council. An effective risk management framework will support the Council to maximise its opportunities and minimise its exposure to risk. Fully embedded risk management will support the Council to achieve its corporate objectives and service delivery to the communities of Oxfordshire. Risk management is integral to good governance. Together they help to reduce risk, stimulate performance, enhance services, improve leadership and demonstrate transparency and accountability. Through this framework officers and councillors can manage and respond to risk in a systematic and documented way; identifying the uncertainties which surround us and dictating the impact they have on our organisation.

Benefits of a Risk Management Framework
This risk management framework sets out how risk management is implemented and embedded throughout Oxfordshire County Council. It will support the Council to achieve the objectives set out in the Corporate Plan and Business Strategies by

- ensuring that there are fewer shocks and unwelcome surprises
- supporting proactive problem solving
- reducing pressures associated with reactive problem solving
- providing greater focus on shaping effective strategies
- more efficient use of resources.

Elements of the Risk Management Framework
There are three distinct elements within the risk management framework which must be read and used in conjunction with one another.

1. *Strategy*
   The overarching strategy sets out the way in which risk management will be carried out across Oxfordshire County Council and can be found in Section 1.

2. *Process Guide*
   The process guide can be found in Section 2. It provides advice and information about how risk management activities should be carried out within Oxfordshire County Council. This creates a consistent standard, whilst allowing directorates to apply the process in a manner suited to their business area.

3. *Directorate Approach*
   Each directorate will develop its own policy for implementing the strategy and process. Each policy will demonstrate how the strategy and process will be implemented for that business area.

The risk management strategy and process guide, as outlined in this framework document, will be available for all staff to view on the intranet. As development of each directorate approach matures, they will also be able to be viewed in this way.

Oxfordshire County Council

Section 1:   Risk Management Strategy

Introduction

The purpose of this strategy is to set out the way in which risk management will be carried out across Oxfordshire County Council. However, the arrangements for managing risk across the Council do not stand alone. An embedded risk management process underpins the planning, performance and decision making of an organisation.

Embedded Risk Management
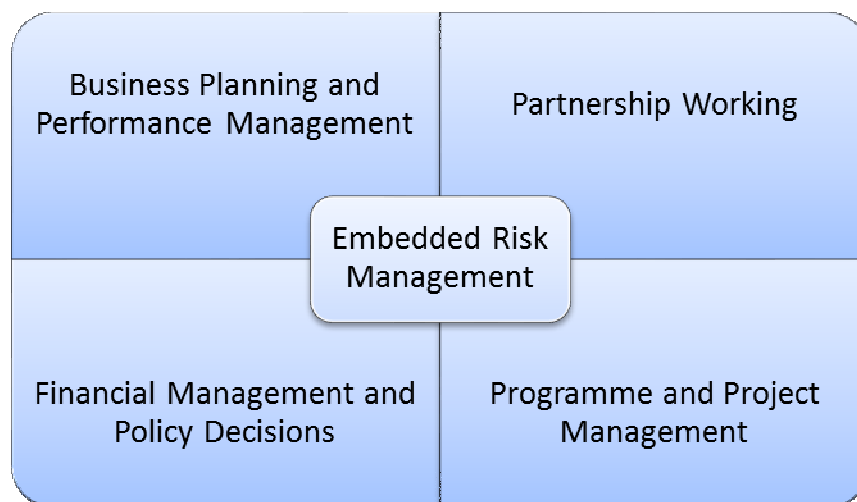
The risk management arrangements are part of an integrated approach to business management. Risk and performance are reported in tandem to allow senior leaders a holistic view of both the performance of the organisation, the threats to that performance, and the opportunities for the organisation to explore.

Risk is also managed through the variety of projects and change programmes running across Oxfordshire County Council. The risk management strategy creates a framework for reporting risk alongside other organisational risks to establish a clear picture of the risk landscape.

Risk is also considered as part of financial planning and at other key policy and decision making points. This ensures that a holistic view of the impact of a policy can be considered before a decision is made.

In many service delivery areas Oxfordshire County Council is committed to working in close partnership with other public sector and voluntary organisations. The Council is also increasing the amount of service commissioning across the organisation. In

all shared delivery and commissioning scenarios risk management arrangements need to be part of the governance for strong partnership and commissioning arrangements.

Overall, the principles of the risk management strategy are to:

- Align risk management with organisational objectives
- Ensure the process fits the context
- Communicate with stakeholders and make allowance for differing perceptions of risk
- Provide clear guidance to stakeholders
- Inform decision making across the organisation
- Facilitate continual improvement
- Create a supportive culture the recognises uncertainty and encourages considered risk taking

Risk Appetite and Capacity

Oxfordshire County Council's objectives are outlined in the Corporate Plan and Business Strategies. Directorates, projects and programmes will have additional objectives relevant to their context. Risks that are identified either strategically, operationally within directorates or at project / programme level should be assessed for their effect on the objectives. Based on the potential impact and likelihood of each risk on the objectives a traffic light rating is selected and a mitigation plan implemented. Risks that have a low impact and likelihood will be tolerated, while those with greater impact and likelihood will be avoided, reduced or transferred. The Council's overall appetite for managing risk will be continually reviewed in the light of the available capacity to deal with the identified risks.

Risk Tolerance Thresholds

A risk tolerance threshold represents the level of exposure at which some form of response is triggered. The risk tolerance thresholds for Oxfordshire County Council are shown in the following diagram.

Risk Tolerance Thresholds

Strategic (CCMT) Level	Directorate Level	Deputy Director Level
Strategic and long term risks that impact across the council	Service, project or performance risks that impact on directorate priorities or performance	Risks impacting on service priorities
Specific risks escalated from service areas	Service, project or performance risks that impact on more than one service across the directorate	Risks impacting on several projects or operational areas across the service
Risks and opportunities in key policy decisions	Specific risks escalated from service risk registers	Risks that cannot be managed by the individual projects or operational teams

Roles & Responsibility

The roles and responsibilities of officers and members with regard to risk management are detailed in the annex to this document.

Risk Management Process and Risk Reporting

The risk management process that is implemented throughout Oxfordshire County Council describes an overarching process for embedding risk management and reviewing risk. The process has four elements: identify, assess, plan and implement. These elements form a continuous learning and review cycle with the process of gathering and reporting information at the heart of the cycle.

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Risk Management Process
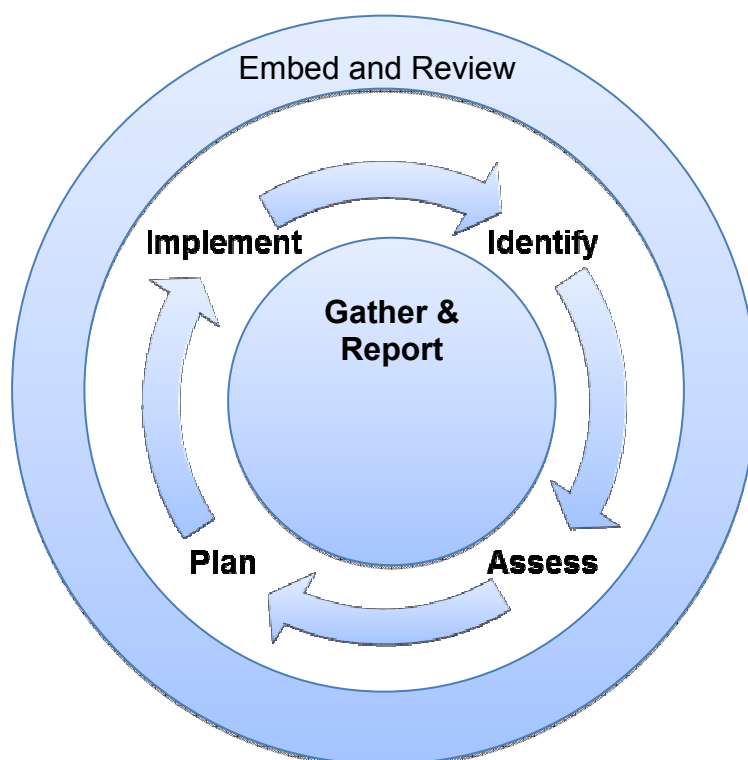
The same process is used at service, project and programme level; as well as for the management of strategic risks.

The strategic risk register is managed and maintained by the Research and Major Programmes Unit on behalf of the organisation. It is reviewed by directorates and any progress against the mitigating actions reported to the County Council Management Team as part of the quarterly process.

Service, project and programme risk management is a continual process but should be reviewed and reported quarterly. Risk management reporting happens concurrently with business management reporting. This allows managers to take a holistic view of progress towards objectives. The following diagram illustrates the holistic reporting process.

The continual flow of information is crucial to a mature risk management process. The result of risk discussions at quarterly meetings should be communicated back to risk owners so that, going forward, risks can be accurately monitored and reported.

The risk management process is considered in more detail in Section 2. It provides guidance on how to identify and assess risk, the creation of a mitigation plan, how risks should be recorded on a risk register, and how the risk register should be maintained.

Risk Management & Business Management Reporting Process

Performance for previous quarter published	Risk review meeting	Risk register completed	Risk Report to Directorate Leadership Team	Risk Register submitted to Chief Executive's Office	Risk Report to County Council Management Team
• Perforamce indicators act as an early warning for risk movement.	• Analysis of performance and risk movement	• Performance Report Completed	• Performance report to Directorate Leadership Team	• Performance Report submitted to Chief Executives Office	• Performance Report to County Council Management Team

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Early Warning Indicators

Performance and risk have an integral relationship. Our risk management is performance based. As part of the risk identification it should be clear where the realisation of the risk will impact on our objectives. Poor performance against priority indicators serves as early warning that the risk management processes are failing and this will trigger a review of risk by the organisation.

Quality Assurance and Annual Review

On a quarterly basis directorate risk registers will be subject to review. The corporate risk lead is responsible for challenging risks for which there is no update or movement, where there are not current employees recorded as responsible officers, where the target risk has not been recorded, and instances where they believe the information recorded is not robust.

A similar review and challenge process should also be established within directorates to maintain the quality of the risk management process.

The Risk Management Process Guide sets out a common structure and provides a template for risk registers. Each quarter the risk register submitted to the Chief Executive's Office should be signed off by the Director. Risks escalated to CCMT will be signed off by the Chief Executive and also subject to quarterly review.

The County Council's Risk Management Framework will be reviewed on an annual basis and recommendations for development made. The corporate risk lead will be responsible for the continual development of the framework.

Oxfordshire County Council

Section 2:   Process Guide

Introduction

Guidance on the process of risk management is provided on the intranet. The purpose of this section is to signpost users to what information is available and to detail the current reporting and escalation processes being used within the Council.

What is Risk Management?

Risk Management is the process of identifying and assessing risk to the objectives of the Council and then planning and implementing responses to those risks. The process has four elements: identify, assess, plan and implement. These elements form a continuous learning and review cycle with the process of gathering and reporting information at the heart of the cycle.

Risk Management Process

The same process is used at service, project and programme level; as well as for the management of strategic risks.

Service, project and programme risk management is a continual process but should be reviewed and reported quarterly.

What does it mean for me?

The ability to manage risk effectively is a key competency for managers. It should be seen as a core element to a managers role, and be part of business as usual.

Information about risk is used to support business management decisions. In order that decision makers are aware of risks to the organisation a service risk register should be used to record the risk management that is carried out in each area. Templates can be found on the intranet and in the annex to this framework.

Individual projects and programmes should use a project/programme risk register to record the risks to the objectives of that specific project. Templates can be found on the intranet and in the annex to this framework.

To ensure risk information can be used to influence key policy decisions officers have to complete the Report Submission Form for all Cabinet papers, which includes a section on risk management. This is to help councillors understand whether the decision or options being presented have any risk implications for the council. The level of risk assessment and detail included in the report will depend on the size of the project or scope of service change being discussed, however as a minimum there should be a summary of the key risks and how they would be managed.

Risks related to working in partnership with others, and through commissioned services should also be reported within the council through the relevant service.

As a minimum, risk management should be carried out at a service level and project/programme level. However, due to the nature of the work of some teams directorates may establish the use of risk registers at all levels of the organisation.

The risk register is a record of all identified risks that have a significant impact on objectives, including their status and history. It is a live document which should be continually reviewed and updated in response to change. Risk must be reported each quarter.

How do I identify risks?

A risk is an uncertainty which if occurs would have a negative or positive affect on the objectives or targets of the service area, project, programme or piece of partnership work. You only need to consider uncertainties that would affect objectives significantly. There is no value in identifying every possible risk that could happen if it does not impact on objectives

There are many tools that can be used to identify risks. There are links to information about the following methods on the intranet:

- SWOT analysis
- Sources of risk from project assessment
- Risk questionnaire
- Assumptions analysis
- Benchmarking
- Risk workshop
- Risk interview

The risk workshop is simple and effective method to use to complete the risk identification process. The other tools are useful to get a list started for a risk workshop.

What is the difference between a risk and an issue?
A risk is an uncertainty, something that has not happened but may occur. An issue is something that has actually occurred and has a significant impact on the objectives. Issues should not be recorded on a risk register or reported through the risk management process. Instead they should be recorded and reported through the business management and monitoring process.

How do I assess risk?

The risk assessment involves three elements.

- Impact assessment - what impact will the risk have on the objectives in terms of time, cost or quality?
- Likelihood assessment - how likely is the risk to occur?
- Risk mitigation status - Is the level of risk remaining acceptable or is further mitigation required?

Tables showing the scores that can be applied to impact, likelihood and risk mitigation can be found on the intranet, the guidance sheets on the corporate risk register template, and in the annex to this framework.

How do I plan risk mitigation?

For some risks there may already be action or controls that are planned or in place to reduce part, or all, of the risks identified. These should be recorded in the Risk Register. However, there should be consideration given to whether those actions or controls are adequate.

It may help to ask the following questions:
- Is it possible to reduce the likelihood of the risk occurring further?
- Is it possible to reduce the impact further?

If the answer to either question is YES, then the options for reducing the risk further should be discussed and where further mitigation actions is agreed this should be recorded in the Mitigation Plan.

Some of the options for mitigating the risk could be:

- *Avoid* - Stop doing the activity or find a different way of doing it, introduce alternative systems/practices

- *Reduce* - Put procedures and controls in place to reduce the chance of a risk happening, or the frequency of it, or the severity of it; or formulating a contingency plan to reduce the impact of the risk where the likelihood is low but the impact is high.

- *Transfer* - Possible where third parties are involved in the project and indemnity clauses can be written into a contract.

- *Tolerate* - In such circumstances the appropriate management action will be to monitor the risk to ensure its potential does not change. It will be tolerated at an acceptable level. Further mitigation may be required further along in the project.

Where the outcome of the risk assessment is that the mitigation status is three or more then a risk mitigation plan is required. This is because further controls need to be determined or the Director needs to decide whether the level of risk is acceptable or not.

Clear guidance on what should be recorded in the various sections of the risk register, including the risk mitigation plan can be found as part of the corporate risk register template. To summarise the information that is required in the mitigation plan is as follows:

- Risk reference number
- Area of risk
- Specific action needed to minimise risk
- The action or controls required to reduce the risk further
- Contingency plan or the response if risk materialises
- Resource implications
- Outcomes and measures of success - how will you know that the risk has been satisfactorily reduced.
- Target impact score - will the impact of the risk change as result of mitigation action.
- Target Likelihood Score - will the likelihood of the risk change as a result of the mitigation action.
- Deadline date by which target impact/likelihood score should be achieved
- Lead Officer - who is responsible for ensuring mitigation action is completed.

What is meant by implement?

Implementing the part of the process where the planned responses are put into action and their effectiveness monitored. Within Oxfordshire County Council the effectiveness of the risk management process is monitored through the reporting and escalation process and the systems in place for review and challenge.

Reporting and escalation process

Throughout the Council risk is reported quarterly alongside performance information. At the end of each quarter information about risk should be gathered. The service, project and programme risk registers should be reviewed and updated to represent progress and changes to the risk landscape.

Risk Management Reporting Process

Any risks which meet the requirements for escalation should be reported to the Directorate Leadership Team. The Leadership team will discuss and agree mitigating action and agree which risks meet the requirements for escalation. Those risks that meet the requirements for escalation will be reported, via a Directorate Risk Register to the Chief Executive's Office for presentation to, and discussion by, the County Council Management Team.

The continual flow of information is crucial to a mature risk management process. The result of risk discussions by the County Council Management Team should be communicated back to risk owners by those present so that, going forward, risks can be accurately monitored and reported.

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Risk Escalation Criteria

IMPACT			Unlikely	Possible	Likely	Very Likely
Most Severe						
Major	4					
Moderate	3					
Minor	2					
Insignificant	1					
			1	2	3	4
			Unlikely	Possible	Likely	Very Likely
			LIKELIHOOD			

Escalation Key

Report to Director & CCMT

Report to Director

Report to Head of Service

Review & Challenge

Directorate risk registers will be subject to review on a quarterly basis. The corporate risk lead is responsible for challenging risks for which there is no update or movement, where there are not current employees recorded as responsible officers, where the target risk has not been recorded, and instances where they believe the information recorded is not robust.

A similar review and challenge process should also be established within directorates to maintain the quality of the risk management process.

Risk Registers

A risk register is the tool used to capture all the information about risk. This would include the identification, assessment, planning and implementation of action. Risk registers should be held at a Service, Directorate and Council level, although Heads of Service may decide to hold them at a team level, where appropriate. The risk

register is an effective way of recording and reporting. However, it is not necessarily the best format for framing a discussion on risk or presenting information about risks to people. Every member of staff has a responsibility to identify and report risk. It would be impractical to hold risk registers down to a personal level. However, 1:1 meetings can be used as an opportunity to discuss risk and any relevant outcomes can be reported to the team or service level and added to the risk register.

Oxfordshire County Council

Section 3:   Directorate Approach

The purpose of the Risk Management Framework is to create a common standard for risk management across the Council. It describes the overall process for risk management and sets a minimum standard. Directorates have the flexibility to introduce risk management procedures, in line with the common standard, that suit their area of business.

As the development of directorate risk management policy becomes more mature they will be published on the intranet together with these documents as a full suite of reference material.

It is envisaged that the following documents will be available:

- OFRS Risk Management Strategy
- Children, Education & Families Risk Management Guide
- Social and Community Services Risk Management Guide
- Economy and Environment Risk Management Toolkit

ANNEX 1
GLOSSARY OF TERMS

Impact Assessment
The level of impact or consequence if the risk occurs.

Issue
A relevant event that has happened but was not expected and required management action. An issue is different to a risk, and should not be recorded on the risk register

Likelihood Assessment
The likelihood or probability of the risk occurring.

Management of Risk
Systematic application of policies, procedures, method and practices to the tasks of identifying and assessing risks, and then planning and implementing responses.

Mitigation
The action or controls taken to reduce or manage the risk.

Opportunity
An uncertain event that would have a favourable impact on objectives if it occurred.

Risk
An uncertain event which, if occurs, will have an impact on objectives.

Risk Assessment
The combination of the likelihood and impact of a risk.

Risk Identification
Determination of what could pose a risk; a process to describe and list sources of risk.

Risk Management Process
The process of identifying, assessing, mitigating and monitoring risks.

Risk Owner
A role or individual responsible for the management and control of all aspects of individual risks, including the implementation of the measures taken in respect of each risk.

Risk Register
The document used to record risks, their assessment and mitigation plans.

Uncertainty
An area of doubt about a plan, project or decision which could lead to different outcomes than the one planned.

ANNEX 2
RISK MANAGEMENT ROLES & RESPONSIBILITIES

Monitoring & Review Roles

Audit and Governance Committee
Monitoring the risks and internal control arrangements of the Council, including approving the risk management strategy

Audit Working Group
Providing detailed challenge and review of the risk management arrangements including the strategic risk register and report to the Audit Committee

Research & Major Programmes Unit
Provide strategic direction and leadership in the development and implementation of the risk management strategy. Report progress to CCMT, Audit Working Group, Audit Committee. Produce annual report.

Internal Audit
Producing a risk based audit plan taking into account all risks identified across the Council. Provide and opinion on the effectiveness of internal control and risk management arrangements.

Deputy Directors – supported by Directorate Risk Management Leads
Ensuring process for monitoring progress is established. Ensure quarterly reviews on risk registers take place and provide effective challenge. Ensure staff are trained and aware of their risk management responsibilities.

Officer & Member Risk Champions
Championing risk management framework wherever appropriate.

Management & Assurance Roles

Chief Executive & the Leader of the Council
Ultimately responsible for ensuring that there is a sound system of internal control and effective risk management. Signing the Annual Statement on Internal Control.

County Council Management Group (CCMT)
Debate and challenge key strategic risks identified in the strategic risk register. Take collective ownership of risks of corporate significance. Promote a culture where risks are managed with confidence at the lowest appropriate level.

Directors
Effective management of key risks to the achievement of priorities. Providing assurance that internal control within the directorate is effective. Promoting the right culture to encourage considered risk taking.

Deputy Directors
Effective identification and management of risks that impact across that service or on service priorities. Escalating risks that have a directorate or strategic impact. Signing annual assurance certificate.

All Managers
Understand and act upon the key risks that could significantly impact on the achievement of their service, team or project's objectives. Encourage staff to be open about risk so they can manage it effectively. Undertake an assessment of risk as part of all key plans, partnerships and projects and record in a risk register.

Supporting Roles

Head of Research & Major Programmes Unit
Support the objectives of the risk management strategy by ensuring that risk management is embedded in the corporate planning, performance monitoring and project management processes

Head of Human Resources
Support the objectives of the risk management strategy by ensuring that risk management is identified as a key competence of all managers. Provide training and support in improving skills.

Head of Law & Governance
Ensure that appropriate governance and processes are in place for the effective management of the organisation.

All Staff
Responsibility for identifying and escalating risks. The 1:1 / supervision process can be an effective way to achieve and embed this practice.

ANNEX 3
SERVICE RISK REGISTER TEMPLATE

		Directorate																												
		Service/team																												
		Quarter and year																												

Risk Ref.	Date	Is risk at target level?	Risk Description			Risk category			Current controls	Starting risk score				Target risk score						Q1 Progress towards target risk	Q1 Current Risk Assessment					Q2 Progress towards target risk	Q2 Current Risk Assessment					Risk to be carried over to next year? Y/N If no, state reason.
			Description of the risk	Description of the trigger that could make the risk happen	Description of the consequences of the risk (positive or negative)	Finance	Service delivery	Reputation	Description of actions already taken or controls in place to mitigate the risk.	Impact	Likelihood	Score	Reporting level	Impact	Likelihood	Score	Reporting level	Target date	Risk Owner	Actions taken: / Actions planned:	Date reviewed	Impact	Likelihood	Score	Reporting Level	Actions taken: / Actions planned:	Date Reviewed	Impact	Likelihood	Score	Reporting Level	

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ANNEX 3
PROJECT / PROGRAMME RISK REGISTER TEMPLATE

Directorate	
Parent Work	
Project	
Project	
Document	
Document	
Document	

Risk Ref.	Date	Risk Description	Risk category			Current controls	Current risk score				Target risk score				Mitigation status	
		Description of the risk (should include cause, event, and impact)	Time	Quality	Costs	Description of actions already taken or controls in place to mitigate the risk.	Impact	Likelihood	Score	Reporting level	Impact	Likelihood	Score	Target date	Further action required?	Risk Owner

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ANNEX 4
RISK ASSESSMENT SCALES

Use this guidance (also available in the risk register excel templates) to assess your risks.

Impact Assessment

Each programme or project will have different objectives in terms of Time, Costs or Quality/Benefits.

For service and directorate risks the assessment scales set out below should be used.

The impact scales need to be adapted to suit each programme or project as what constitutes a Most Severe impact will be different for every project.

To get started it is useful to think about what the minimum delay or cost etc that the project could tolerate and what would be most serious/catastrophic and then the ranges in between can be established.

	Impact	Timing	Costs	Quality/Benefits
5	Most Severe	Significant deterioration in performance Significant and sustained disruption to services across the whole Council **For projects:** Significant delay to project completion (x months/years)	Over £1m Increased Costs/loss over £x	Ministerial Intervention Public Inquiry Remembered for years! Key quality deliverables not achieved Adverse national media interest Public/stakeholder loss of trust/confidence Significant opportunity missed
4	Major	Deterioration in service performance results Level of performance across Balance Score Card will be significantly below acceptable level Severe disruption to more than one critical service **For projects:** Delay of key milestone (x months/years)	Between £500k and £1m Increased costs/loss between £x and £x	Adverse national media interest Recurring or sustained local media attention Stakeholder needs not met Recurring or sustained local media attention (1 –3 months)

	Impact	Timing	Costs	Quality/Benefits
3	Moderate	Level of performance individual indicators or basket of indicators will be below acceptable level Directorate Priority will not be achieved Severe disruption to a critical service or several non-critical services **For projects:** Delay of key milestone (x months/weeks)	Between 100k and £500k Increased costs/loss between £x and £x	One off adverse local media interest Stakeholder needs partially not met One off adverse local media interest (less than a week)
2	Minor	Service performance indicators fall below acceptable level Service priority will not be achieved Limited disruption to a critical service or severe disruption to a non critical service **For projects:** Delays less than (x month/week)	Between 10k and £100k Increased costs/loss between £x and £x	A number of complaints but no press interest A number of complaints or dissatisfied stakeholders but no press interest Missed opportunities that could easily be overcome or would not be important to the overall programme
1	Insignificant	Limited impact on service priorities Limited disruption to non critical services **For projects:** Very little impact on programme/project milestones	Under £10k Increased costs/loss less than £x	Minor complaints A few minor complaints

Likelihood Assessment Scales

The following scales should be used in all programmes or projects using Corporate Project Risk Management Template.

4	Very Likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)
2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it is not possible to say that it won't (less than 10% probability)

Risk Mitigation Scales

Each risk in the risk register is likely to have some action or controls listed in the column Risk Mitigation. In some cases the mitigation action will have taken place and some cases the action may be planned but has not actually happened or put in place.

The Risk Mitigation status should reflect whether that mitigation is or will be effective in reducing the risk or whether further action needs to be considered.

Risks identified early on are likely to start at level 3 and move to 2 and 1 as the mitigation progresses or the project plan develops.

Level	Description
3	Level of risk/uncertainty remaining is **not accepted** as: • further action or contingency plans need to be developed OR • the Project Sponsor or Programme Board need to make a decision on action required or level of acceptable risk
2	Level of risk/uncertainty remaining is **not accepted** as: • Defined action in mitigation plan or risk register has not yet been implemented OR • It is too early to tell whether level of risk has been reduced effectively as a result of recent action or controls (as described in risk register) OR • There is not enough information available at the moment and the risk needs to be monitored
1	Level of risk/uncertainty remaining **is accepted** as: • confident that actions taken/controls in place, incl. contingency plans are mitigating risk and uncertainty to an acceptable level OR • It is not cost effective to reduce the risk further OR • The risk cannot be reduced further as it is outside the control of the Council

Risk Scoring Matrix

Use your risk impact and likelihood assessment scores to determine the mitigation scale of your risks by plotting them on this matrix. The mitigation scale also indicates the risk escalation criteria.

IMPACT		1 Unlikely	2 Possible	3 Likely	4 Very Likely
5 Most Severe		5	10	15	20
4 Major		4	8	12	16
3 Moderate		3	6	9	12
2 Minor		2	4	6	8
1 Insignificant		1	2	3	4

LIKELIHOOD

Risk Scoring & Escalation Key		
Escalation Criteria	**Mitigation**	
Report to Head of Service	Mitigation Scale 1	(green)
Report to Director	Mitigation Scale 2	(orange)
Report to Director & CCMT	Mitigation Scale 3	(red)

AUDIT & GOVERNANCE COMMITTEE – 17 APRIL 2013

DRAFT WORK PROGRAMME 2013/14

2013

Tues 14 May

Election of Chairman & Deputy Chairman for the 2013/14 Council Year

Wed 3 July

Annual Report of the Chief Internal Auditor 2012/13
(Ian Dyson)

Internal Audit Plan – 2013/14 Progress Report and Quarter 2 Plan
(Ian Dyson)

Treasury Management Outturn 2012/13
(Sue Scane / relevant officer)

Annual Governance Statement 2012/13
(Peter Clark)

Statement of Accounts 2012/13
(Sue Scane / relevant officer)

Ernst & Young – Progress Report

Wed 18 September

Risk Management Annual Report
(Alexandra Bailey)

Final Statement of Accounts 2012/13
(Sue Scane / relevant officer)

Internal Audit Plan – 2013/14 Progress Report and Quarter 3 Plan
(Ian Dyson)

Local Government Ombudsman's Annual Review of OCC
(Peter Clark)

Ernst & Young – Annual Governance Report – Oxfordshire County Council
Ernst & Young – Annual Governance Report – Oxfordshire Pension Fund
Ernst & Young – Progress Report

Wed 20 November

Treasury Management Mid Term Review 2013/14
(Sue Scane / relevant officer)

Annual Governance Statement – Action Plan Progress
(Peter Clark)

Ernst & Young – Annual Audit Letter

2014

Wed 15 January

Statement on Internal Control – Annual Review of Effectiveness
(Peter Clark & Sue Scane)

Internal Audit Plan – 2013/14 Progress Report and Quarter 4 Plan
(Ian Dyson)

Review of the Process for Reporting on the Effectiveness of the System of Internal Audit
(Ian Dyson)

Treasury Management Strategy
(Sue Scane / relevant officer)

Audit & Governance Committee - Draft Work Programme 2014/15
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

Wed 26 February

Audit & Governance Committee Annual Report to Council 2014
(in accordance with the process adopted by the Committee on 29 November 2006)

Internal Audit Services-Internal Audit Strategy & Annual Plan 2014/15
(Ian Dyson)

Standing Items:

- Audit Working Group Reports
  (Ian Dyson)

- Business Strategy: updates & key extracts from the cabinet Financial Monitoring & Business Strategy Delivery Report
  (Sue Scane)

- Scrutiny - governance & control matters including Scrutiny Work Programme (as available)
  (Alexandra Bailey)

- Audit & Governance Committee Work Programme – update/review
  (Committee Officer/Chairman/relevant officers)

Other matters

Review of new Scrutiny/Governance Arrangements – July 2014

Background Papers   Nil

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