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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Audit & Governance Committee

Notice of a Meeting of the Audit & Governance Committee

Wednesday, 18 November 2015 at 2.00 pm

Rooms 1&2 - County Hall, New Road, Oxford OX1 1ND

P G Clark

Peter G. Clark
Head of Paid Service

November 2015

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Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Sandy Lovatt

Councillors

David Bartholomew	Jenny Hannaby	John Tanner
Yvonne Constance OBE	Nick Hards	
Tim Hallchurch MBE	Roz Smith	

Co-optee

Dr Geoff Jones

Notes:

- ***Members of the Audit & Governance Committee are requested to attend a private meeting with the external auditors, Ernst & Young, during the session preceding the Committee meeting, from 13:00.***
- ***Date of next meeting: 13 January 2016***

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 Glenn Watson on (01865) 815270 or glenn.watson@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 - 12)

To approve the minutes of the meeting held on Wednesday 16 September 2015 (**AG3**) and to receive information arising from them.

4. Petitions and Public Address

5. **Treasury Management Mid-term Review** (Pages 13 - 26)

14:10

The report (**AG5**) sets out the Treasury Management activity undertaken in the first half of the financial year 2015/16 in compliance with the CIPFA Code of Practice. The report includes Debt and Investment activity, Prudential Indicator monitoring and forecast interest receivable and payable for the financial year.

RECOMMENDATION

The Committee is RECOMMENDED to note the report.

6. **Annual Governance Statement - Action Plan Progress** (Pages 27 - 40)

14:30

Audit & Governance Committee approved the Annual Governance Statement (AGS) for 2014/15 in July 2015. The AGS lists six 'Actions' to be carried out in 2015/16. This item (**AG6**) provides a mid-year report on progress. This describes progress and any other plans that we have for each of these Actions.

RECOMMENDATION

The Audit & Governance Committee is RECOMMENDED to note the progress on the AGS Actions.

7. **Ernst & Young - Annual Letter** (Pages 41 - 52)

14:50

Annual Audit Letter for 2014/15 (**AG7**).

A representative from the external auditors, Ernst & Young, will present the Letter.

RECOMMENDATION

The Committee is RECOMMENDED to consider and receive the Letter.

8. Ernst & Young - Progress Report and Sector Briefing (Pages 53 - 72)

15:00

A representative from the external auditors, Ernst & Young, will attend to present the following reports:

- External Audit Progress Report
- Local Government Sector Briefing

9. Future of Adult Social Care in Oxfordshire - Regular Progress update on Implementation Plan

15:15

Kate Terroni, Deputy Director Joint Commissioning, will attend to give a brief presentation to the Committee.

The presentation will update the Committee on the progress of two interlinking projects:

- The Adult Social Care IT Project which will deliver replacement computer systems for Adult Social Care (Swift) and Client Finance (Abacus); and;
- The Adult Services Improvement Programme which is delivering significantly more effective and efficient business processes using LEAN methodologies.

RECOMMENDATION

The Committee is RECOMMENDED to receive the presentation.

10. Update on Hampshire Partnership (Pages 73 - 94)

15:35

The Chief Finance Officer will provide the Committee with an update on the status of the On Boarding Project in respect of the Partnership arrangement with Hampshire County Council.

The report (**AG10**) focusses on the Finance Systems, including, purchasing and income, but does not include HR.

RECOMMENDATION

The Committee is RECOMMENDED to note the report and ask the Chief Finance Officer to report back in February 2016 once the partnership has been operational for six months.

11. Report from the Audit Working Group (Pages 95 - 98)

15:55

Report by the Chief Internal Auditor (**AG11**).

The report summarises the matters arising at the most recent meetings of the Audit Working Group (AWG).

RECOMMENDATION

The Committee is RECOMMENDED to note the report.

12. Audit & Governance Committee Work Programme (Pages 99 - 100)

16:10

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

CLOSE OF MEETING

16:20

An explanation of abbreviations and acronyms is available on request from the Chief Internal Auditor.

Pre-Meeting Briefing
There will be a pre-meeting briefing at County Hall on **Thursday 12 November** at **14:00** for the Chairman, Deputy Chairman and Opposition Group Spokesman in the Members' Boardroom.

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AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 16 September 2015 commencing at 1.00 pm and finishing at 4.05 pm.

Present:

Voting Members:	Councillor David Wilmshurst – in the Chair Councillor Sandy Lovatt (Deputy Chairman) Councillor David Bartholomew Councillor Yvonne Constance OBE Councillor Tim Hallchurch MBE Councillor Jenny Hannaby Councillor Nick Hards Councillor Roz Smith Councillor John Tanner
Non-voting Members	Dr Geoff Jones
By Invitation:	Maria Grindley and Alan Witty (Ernst & Young)
Officers:	
Whole of meeting	Ian Dyson, Chief Internal Auditor, Mr Glenn Watson, Principal Governance Officer, Deborah Miller and Tim Peart (Chief Executive's Office).
Part of meeting	Lorna Baxter (Chief Finance Officer) and Peter Clerk (County Solicitor & Monitoring Officer) – Agenda Item 7 onwards
Agenda Item	**Officer Attending**
5	Stephanie Skivington (Finance)
9	Kate Davies (Trading Standards)

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 and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda, reports and schedule/additional documents, copies of which are attached to the signed Minutes.

54/15 MINUTES
(Agenda No. 3)

The Minutes of the Meeting held on 8 July 2015 were approved and signed.

Matters arising

42/15

Councillor Smith wished it to be made clear that 'in future' the Committee be consulted prior to any/all changes to governance arrangements within the Committee's remit.

55/15 THE FINAL ACCOUNTS 2014/15

(Agenda No. 5)

The Committee had before them the Final Statement of Accounts 2014/15.

Stephanie Skivington, Corporate Finance Manager, introduced the report which set out a number of minor amendments made following the audit of accounts. She pointed out that there were no changes made to the main financial statement, but that the minor changes were set out in the notes and addenda.

Councillor Tanner enquired why the figures in Annex 1 on Page 17 relating to Children and Education Services (CES) for 2013/14 had been amended, since this seemed to be historic. Ms Skivington explained these amendments had been made since the headings for CES had changed for 2014/15 and consequently the figures had to be amended.

Dr Jones queried why the Committee was requested to approve the letters of representation as he suggested that this was the role of Officers of the Council and also questioned whether the Committee could have any meaningful input into the matter.

Maria Grindley, Audit Director, Ernst & Young, explained that in her experience this was what happened across the board and that, in approving the letters of representation, the Committee was effectively telling the external auditors that, in all areas that the external auditors are not able to obtain all the information that they require, there was nothing else that the Committee knows of which it should flag. The Chairman of the Committee was also required to sign the letters.

With regards to Note 28 on Page 22, Councillor Hallchurch queried why £58.5 million was listed as Cash and whether that amount was earning interest. In response, Lorna Baxter, Chief Finance Officer, explained that there was always a need for funds to be held that are readily available should payments be required. She added that the allocation of the cash reserve was determined by the Pension Fund Committee on an annual basis and that, as a percentage, this had not changed. She also explained that the amount listed as Cash was held as deposits in banks and as such would be earning interest.

Mrs Baxter pointed out that the recommendations to the report would need to be amended to give delegated authority to the Chief Finance Officer to make any changes necessary as a result of the finalisation of the Audit and to the accounts themselves.

RESOLVED: to agree the recommendations subject to giving delegated authority to the Chief Finance Officer to make any changes necessary as a result of the finalisation of the Audit and to the accounts themselves.

56/15 LOCAL GOVERNMENT OMBUDSMAN'S REVIEW OF OXFORDSHIRE COUNTY COUNCIL

(Agenda No. 7)

The Committee considered the report on the Local Government Ombudsman's Annual Review (AG7).

Glenn Watson, Principal Governance Officer, in introducing the report, explained that each year the Local Government Ombudsman (LGO) issued an Annual Review Report about each Council in relation to the complaints made to the Ombudsman about that Council in the previous financial year. The report to the Committee informed members about the LGO's Annual Review Report for Oxfordshire County Council for the year 2014/15.

Mr Watson explained that in previous years the Ombudsman issued more detailed Annual Reports with a commentary on each authority's performance. However, following changes to the LGO's investigations procedures, this was no longer the case.

Mr Watson also added that the information in the report should come with a warning in that that information did not reflect the information held by the Local Authority with regards to the number of complaints upheld and that the LGO were currently not likely to correct their figures.

With reference to Paragraphs 8 and 9, Mr Watson pointed out that the subject areas for which Oxfordshire County Council had attracted the most referrals to the LGO reflected national trends.

Mr Watson then drew attention to Paragraph 13 of the report which gave a summary of the complaints upheld by the LGO. He explained that, contrary to the LGO's report which stated that of the 17 complaints investigated by the LGO 7 complaints were not upheld and 9 were upheld, in fact 9 complaints were not upheld and 7 were upheld. He also informed the Committee that, generally speaking, the action or remedy required of the Local Authority in those cases that were upheld was not substantial.

To put this into a broader context, Mr Watson explained that during 2014/15 the Council had received 131 complaints relating to Adult Social Care, 104 relating to Children and Education Services and 282 Corporate Complaints. The relatively small number of complaints that reach the LGO demonstrated the robustness of the Council's own complaints procedure. However, he added that lessons will continue to be learned and that complacency would not become an issue.

Peter Clark, County Solicitor and Monitoring Officer, added that he agreed that the Council had a robust system in place in order to handle complaints and pointed out that there were no common themes of mistakes being repeated in the report.

Dr Geoff Jones pointed out that more than half of the complaints received by the LGO regarding Oxfordshire County Council were referred back to the Council and should not be regarded as signed off as the Council would still have had to investigate those complaints.

A number of Members expressed their concern that, although they had confidence in the Council's complaints procedure, the fact that the figures in the LGO's report were inaccurate meant that the Council should use caution when assessing its own performance against them.

The Committee noted that it would be the last meeting for Peter Clark as Monitoring Officer. The Chairman and members paid tribute to Mr Clark and wished him well in his new role as Head of Paid Service.

RESOLVED: to note the report and to request that Peter Clark, County Solicitor and Monitoring Officer, write to the LGO to express the Committee's dissatisfaction with the accuracy of the information provided by the LGO in its Annual Review.

57/15 ERNST & YOUNG - ANNUAL RESULTS

(Agenda No. 6)

Maria Grindley, Audit Director, Ernst & Young, introduced the external auditor's Annual Results reports for the year ending March 2014. She highlighted that there was still outstanding work to be completed before the Annual Results could be signed off, but that this was likely to be completed during the week following the Committee meeting. She added that a notice would be circulated to the Committee once this was completed.

Ms Grindley drew attention to Pages 20-21 of the addenda which highlighted significant value for money risks. She added that additional work with regards to assessing value for money risks had been carried out in response to the County Council's decisions on the position of the Chief Executive.

Councillor Lovatt questioned whether the recommendation at the bottom of Page 21 of the addenda with regards to the Council's decision to join the Integrated Business Centre (IBC) partnership with Hampshire County Council, indicated that the external auditor had major reservations about the decision.

Ms Grindley explained that it was not for the external auditors to provide an opinion on whether the decision to join the IBC was a good one or not. Rather, the recommendation reflected the concerns that Ernst & Young had regarding the lack of market testing that was carried out by the Council before the decision was made to join the IBC.

Lorna Baxter, Chief Finance Officer, added that this was a lesson to be learned, but emphasised that the decision of the Council was to join a partnership to provide back office functions, rather than outsource those functions completely. However, she accepted that the Council could have done more to tease out what other authorities may have been able to offer.

Dr Jones added that the report read as though it was advocating that those back office functions should be privatised within the next 5 years and that the Council would be criticised were that not to happen.

With regards to Page 20 of the addenda, Councillor Hards queried whether it was possible to give an overall view of risks associated with securing financial resilience since certain risks can be imposed upon the Council from outside of the organisation.

Ms Grindley answered that, as external auditors, Ernst & Young would require assurance that the Council was taking into account everything that it was aware of and being realistic with its medium term financial planning. Ernst & Young would comment on how well the Council assessed the likelihood and impact of such external risks.

Ms Grindley informed the Committee that, as it was a necessity of her role as an external auditor with Ernst & Young to rotate between organisations following a period of time, this would be her last meeting with the Committee and that, as of the next meeting of the Committee, Mr Mick West would attend as a representative of Ernst & Young. Ms Grindley took the opportunity to say thank you to the Committee.

RESOLVED: to note the report and to thank Maria Grindley, Ernst & Young, for her work with the Committee.

58/15 INTERNAL AUDIT 2015/16 PROGRESS REPORT

(Agenda No. 8)

The Committee had before them a report (AG8) which provided an update on the Internal Audit Service including; resources, completed and planned audits, and an update on counter-fraud activity.

Ian Dyson, Chief Internal Auditor, in introducing the report, explained that the proposed restructuring of the current resources of the Internal Audit Service had been completed and that consequently three distinct teams had been created with the following responsibilities; to protect the role and independence of the Internal Audit function; to provide a strategy and resource for the management of Counter-Fraud; and to create capacity to manage the corporate responsibility for Risk-Management and a new Business Assurance function.

Mr Dyson explained that a recruitment process was still underway within the team and that the team has also commissioned Zurich, the Council's insurers, to provide 100 days of assurance assistance.

Mr Dyson also told the Committee that conversations with Oxford City Council were at an advanced stage in respect of counter-fraud support within the Customer Service Centre and with regards to Blue Badges.

With reference to Paragraph 13 on Page 51, Councillor Bartholomew queried the severity of the case of counter-fraud that had been passed to the Police and questioned at what stage the investigation was at. In response, Mr Dyson explained that the case had been discussed at the meeting of the Audit Working Group and that, while the financial element of the case was below £10,000, there were other significant implications. Mr Dyson added that he was hesitant to go into detail about the case as it was a current open investigation. Councillor Bartholomew stated that he was satisfied that the Audit Working Group was looking into the case.

Mr Dyson explained that the Audit of the disposal of ICT equipment was highlighted as ‘Red’ due to concerns over possible losses of data. He told the Committee that a Senior Manager had been requested to attend the next meeting of the Audit Working Group in order to address these concerns.

Mr Dyson added that a number of counter-fraud investigations were on-going and that details of these investigations would be reported to the October meeting of the Audit Working Group.

With regards to the National Fraud Initiative (NFI), Mr Dyson explained that the matches of the 2014/15 exercise had been released and that a process to allocate reviews of over 6000 ‘priority one’ matches was under way. He added that this was not an unusual amount of matches to be returned.

Looking forward, Mr Dyson explained that he anticipated that matters arising from the recent implementation of IBC processes, specifically relating to the file upload system for payments, will need to be examined by the Internal Auditors. He added that flexibility had been left within the team’s workload to look at such matters.

Councillor Smith stated that her concern regarding the issue of payments through the IBC was that the Council did not have a policy in place to address and rectify the problems that late payments on the part of the Council could cause to smaller organisations.

Mr Dyson stated that he believed the problems to be ‘teething problems’ as opposed to complete failures, but acknowledged that teething problems could have significant impacts and reiterated the need of assurance on action being taken.

Dr Jones queried whether, given the current work load of the Internal Auditors, Internal Audit work was still at a level that the Committee was happy with and that that function was not diminishing.

Mr Dyson responded that he understood the concern that true Internal Audit work could be seen as being diluted. He added that he believed that the team had become a ‘go-to unit’ due to its good work and that too much of the team’s work involved offering advice and support. Mr Dyson was concerned about the need to protect the independence of Internal Audit. He added that a move towards systems-based compliance checking was separate to Internal Audit work.

Councillor Bartholomew queried whether the audit review of the Highways Contract with Skanska (P.57) had started. Mr Dyson replied that it had started but that it was at a very early stage. Mr Dyson added that terms of reference had been agreed and that the target was to update the Committee on that audit at the January meeting.

Councillor Hallchurch questioned who carried out the audits relating to ICT, to which Mr Dyson answered that a qualified ICT Auditor was contracted to undertake that work.

Councillor Constance enquired as to why the E&E Planning Audit had been rescheduled and when it was due to start. Mr Dyson explained that the Audit had to be rescheduled due to staffing matters and that, while he was unable to say in which Quarter the audit work would be carried out, it would be done this year.

Councillor Hannaby stated that she now felt that Officers were doing excellent work with regards to Planning and that she would be happy for other audits to be given a higher priority. Mr Dyson responded that, while information from Officers provided a degree of assurance, this did not provide real assurance that control systems were in place.

RESOLVED: to approve the Q3 Internal Audit Plan.

59/15 REPORT ON THE AUTHORITY'S POLICY FOR COMPLIANCE WITH THE REGULATION OF INVESTIGATORY POWERS ACT 2000 AND USE OF ACTIVITIES WITHIN THE SCOPE OF THIS ACT

(Agenda No. 9)

The Committee had before them a report (AG9) which provided an overview of the use of activities falling with the Regulation of Investigatory Powers Act 2000 by Oxfordshire County Council in the period from April 2014 to March 2015.

Kate Davies, Team Leader, Trading Standards, introduced the report and explained that the Regulation of Investigatory Powers Act 2000 (‘the ACT’) regulated the use of covert activities by Local Authorities. It created the statutory framework by which covert surveillance activities may be lawfully undertaken. She added that the Act was in place to ensure that Authorities comply with the Human Rights Act.

Ms Davies explained that the use of covert surveillance under the Act was subject to the approval of a Magistrate who must take into account the necessity of the action to be taken, the proportionality of the action and the potential for collateral intrusion into the privacy of others not related to the investigation before granting approval.

The Committee heard that during 2014/15 the Council authorised covert surveillance on 4 occasions, three of which were related to investigations carried out by Trading Standards and one relating to an internal investigation. Ms Davies also informed the Committee that the Council had collected subscriber details on 22 occasions but that these all related to the same case.
Members took the opportunity to congratulate the Trading Standards department on its work.

Dr Jones pointed out that the Policy attached to the report stated that the Committee would receive a quarterly report on the use of the Act, but that, although the Committee had delegated that function to the Audit Working Group (AWG), as Chairman of that group he had never received such a report.

Ian Dyson, Chief Internal Auditor, answered that if there were any actions to report, they should be reported to the Chairman of the AWG and if it is deemed necessary they should then be put on the agenda for the AWG. However, since there was often little to report, it was likely that this had lapsed.

Peter Clark, County Solicitor and Monitoring Officer, stated that this needed to be reinstated and added that, since the Monitoring Officer would authorise requests for a Magistrate's approval for use of the Act, the Monitoring Officer should report to the Chairman of the AWG after each instance.

Councillor Bartholomew enquired why the use of routine test purchases was not reported. Ms Davies explained that intelligence regarding underage sales had to be responded to as appropriate and that this may include a visit to the trader or a report to the Police. She added that the Code of Practice only enabled the use of covert surveillance after overt action had failed. However, she added that this guidance had recently been amended to enable Authorities to consider the use of covert actions at an earlier stage and that the Council was planning to carry out underage test purchases in the near future.

Mr Clark concluded that the use of covert surveillance needed to be carried out with a clear intention and that the results of each investigation must be disclosed whatever the findings.

Following a question relating to the investigation set out in Paragraph 11 of the report, Ms Davies confirmed that the sentencing of those found guilty of offences under consumer protection legislation was now scheduled for the end of September 2015.

RESOLVED: to note the periodic and annual use of RIPA by Oxfordshire County Council subject to receiving an Annual Update report.

60/15 GOVERNANCE ARRANGEMENTS

(Agenda No. 10)

The Committee had before them a report (AG10) which was submitted in response to the Committee's request at its last meeting for assurance that the Council's corporate governance arrangements would continue to be fully managed. This was in response to the impending departure of the current Chief Executive at the end of September 2015, the Council's intention to appoint Mr Peter Clark as the Head of Paid Service and, consequently, to appoint Mr Nick Graham as the Council's Monitoring Officer.

Glenn Watson, Principal Governance Officer, in introducing the report, explained that the changes in the coverage of responsibilities were set out in the table on Pages 81 – 82 of the agenda. He added that the Head of Paid Service was not legally permitted to fulfil the role of Monitoring Officer. As such, Mr Nick Graham, the current Deputy Monitoring Officer, would fulfil that role. Mr Watson assured the Committee that he did not believe that there was a reduction in the Council's robust governance arrangements and that, in some areas, this had been strengthened.

Councillor Tanner expressed his concern that there appeared to be no timeframe set with regards to the Senior Management Review that would be taking place following the departure of the Chief Executive and that this could lead to a period of uncertainty. Mr Clark assured the Committee that the County Council Management Team (CCMT) would be working closely together with Members to discuss the shape of the Council and its management structure and that this would commence shortly. However he added that it would not be easy to give a timeframe but hoped that a review would have been carried out before Christmas and a structure proposed within the following two months.

Dr Jones stated that his concern was that he had not got a sense of whether the CCMT was working performing well or not. Mr Clark responded that the paper was not presented in order to give details on the performance of the Council. He explained that the Performance Scrutiny Committee continually assessed the performance of the Council and that, as far as he was aware, the Council was performing at the same level that it had been in the previous 12 months. Mr Clark added that as a consequence of the Chief Executive leaving the Council, there was a need to take stock and produce working arrangements as to how the Council will move forward. As far as performance was concerned, Mr Clark stated that the same structures were in place.

Councillor Hannaby explained that she was anxious that Councillors and politicians were not involved with the proposed governance arrangements and Senior Management Review.

Mr Clark reiterated that as Head of Paid Service, his role would not be that of the Chief Executive. He stated that he was there to lead the CCMT through the uncertain times and ensure that the Council remains held together. He added that taking on the role of Head of Paid Service was not a back door method to become Chief Executive and that, personally, he had given up a lot of what he valued in his profession in accepting the role. However, it was a necessity.

With reference to the function of the Head of Paid Service as outlined in Page 80, Councillor Constance queried how the role of the Head of Paid Service differed to that of the Chief Executive and also whether, in agreeing to the recommendations, the Committee was pre-empting the future management structure.

In response Mr Clark explained that the Chief Executive was charged with a complete leadership role to effect change, irrespective of views. Whereas the Head of Paid Service must ensure that others are acting properly and that the Council's functions are discharged effectively. He added that the Committee was not pre-empting an early decision as the appointment of the Monitoring Officer and Head of Paid Service was for Full Council to determine.

Referencing the function of the Constitution outlined in Page 81, Councillor Bartholomew moved, and Councillor Smith seconded, to charge the Monitoring Officer to look for a sensible way forward within the Constitution with regards to large reports being attached to the Council's agendas. This came following the recent Full Council meeting where the agenda contained over 1000 pages. It was proposed that such large reports be made available on request only. Following debate, the motion was put to the vote and it was:

RESOLVED: (nem con) to:

(a) note the limited amendments to senior officer responsibilities for governance outlined in paragraph 10 of the report;

(b) that in future large committee reports should not be appended to the Agenda sent to Members of the Committee, but be available upon request.

61/15 COUNTY RETURNING OFFICER APPOINTMENT

(Agenda No. 11)

(Peter Clark, Chief Legal Officer and Head of Law and Culture, left the room for the duration of this item)

Glenn Watson, Principal Governance Officer, in introducing the report, explained that, as a result of the current Chief Executive leaving the Council at the end of September 2015, it is a legal requirement for the Council to appoint a new County Returning Officer. The Council is required to appoint a County Returning Officer under Section 35(1) of the Representation of the People Act 1983. The Returning Officer is responsible for the arrangement of elections to the County Council.

Mr Watson told the Committee that under the Council's Constitution, the Audit & Governance Committee retained delegated responsibility for appointing the Council's Returning Officer and that it was for the Committee to appoint a suitably qualified person to fulfil the role. Mr Watson explained that the responsibilities of the post were set out in Paragraph 4 of the report.

Mr Watson added that Mr Peter Clark, having also served as Deputy Returning Officer, had significant legal and managerial experience of overseeing the Council's elections and that on the basis of his experience the Committee was recommended to appoint Mr Clark as the County Returning Officer.

Councillor Smith enquired who was responsible for appointing the Deputy Returning Officer. Mr Watson explained that it is the Returning Officer who made that appointment.

Councillor Lovatt asked to whom the Returning Officer was directly responsible. Mr Watson explained that as the Returning Officer was personally responsible for election matters, the Returning Officer was responsible to the Electoral Commission.

A number of Members stated that, while they were happy for Mr Clark to be appointed to the role, they were concerned that the recommendation to the report did not make clear that the appointment was on an interim basis until the review into the senior management structure of the Council was concluded.

Mr Watson added that it was for the Audit and Governance Committee to appoint and reappoint to the post as it felt fit. However, Members stated that they were keen for the recommendation to reflect that the appointment to the post should reflect the outcome of the review into the senior management structure of the Council.

RESOLVED: to appoint Mr Peter Clark, the current Chief Legal Officer, as the interim County Returning Officer for the Council, with effect from the cessation of the current Chief Executive's employment with the Council until the conclusion of the Senior Management Review.

62/15 UPDATE ON HAMPSHIRE PARTNERSHIP

(Agenda No. 12)

Lorna Baxter, Chief Finance Officer, gave an update to the Committee on the implementation of the Partnership arrangement with Hampshire County Council for the provision of HR and Finance Services through the Integrated Business Centre (IBC).

Mrs Baxter told the Committee that the implementation of IBC services was a significant business change and that, during the first two weeks after the go-live date, more than 17,000 users had signed in to the system, 2,000 invoices had been added and 4,000 travel expenses had been claimed through the system.

Mrs Baxter added that adopting the new processes had been particularly challenging for schools since there was only a short opportunity for schools to process their payroll following the end of the summer holidays. Despite this, Mrs Baxter stated that she stood by the decision to delay the go-live date and added that a significant amount of support was being provided for schools. This included 15 help sessions in June with a further 70 arranged to provide one to one support.

Mrs Baxter explained that there were still issues that needed to be resolved but that her view remained that it would take around 6 months for the new system to completely bed in. She added that the processes provided by the IBC were functioning as they should. However issues arose when processes at Oxfordshire County Council were not followed correctly.

Councillor Hards stated that issues involving payments for schools were of a critical concern and queried where schools should turn for advice. Mrs Baxter stated that the Council was working closely with schools to provide a significant amount of information on where to direct issues.

Councillor Hards added that when issues are raised with the IBC, as far as the user could tell, nobody was dealing with them. Mrs Baxter stated that it had been fed beck to Hampshire County Council that customer service and times were not as expected.

The Committee received the presentation.

63/15 REPORT FROM THE AUDIT WORKING GROUP

(Agenda No. 13)

Ian Dyson, Chief Internal Auditor, introduced the report on the September meeting of the Audit Working Group (AWG). He informed the Committee that no material issues had arisen from the item on the Oxfordshire Fire and Rescue Service Risk Register.

With reference to the Internal Audit Update, Mr Dyson explained that one Priority One Action had not been met and that the Senior Manager had been requested to attend the next meeting in order that the AWG understand the reasons why the Action had not yet been met and to determine whether the delays were appropriate to the level of risk.

Councillor Smith thanked Mr Dyson and Dr Jones, Chairman of the AWG, for the in-depth meeting and stated that she was pleased to note that Deputy Directors would attend the meeting to answer probing questions.

Members expressed their concern that the audit of the disposal of ICT equipment had resulted in a Red opinion. They expressed doubts as to whether the Council knew where all of the equipment is and stressed the importance of such matters to the Council's reputation.

Mr Dyson explained that it was difficult to get absolute assurance as to the location of all ICT equipment, but stressed that there were restrictions on email accounts, on the content of emails and on who and what could be accessed on the ICT Network. He added that the ICT policy ensured that there was personal responsibility over the use of ICT equipment.

Councillor Hallchurch added that the only way of ensuring that all ICT equipment was disposed of safely was to destroy the Hard Drive of the devices.

The Committee **AGREED** to note the report.

64/15 AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

(Agenda No. 14)

The Committee had before them the Committee's Work Programme for 2015.

The Committee **AGREED** the Work Programme for 2015, subject to the following additions:

18 November 2015

- Special meeting of the Audit Working Group – 1:00 – 2:00 pm, for a private session with the External Auditor.
- SCS LEAN and IT system update.

.... in the Chair

Date of signing 2015

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 18 November 2015

TREASURY MANAGEMENT MID-TERM REVIEW 2015/16

Report by Chief Finance Officer

Introduction

1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (Revised) 2011 recommends that members are informed of Treasury Management activities at least twice a year. This report ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The following annexes are attached

Annex 1	Lending List Changes
Annex 2	Debt Financing 2015/16
Annex 3	PWLB Debt Maturing
Annex 4	Prudential Indicator Monitoring
Annex 5	Arlingclose Quarter 2 Benchmarking

Strategy 2015/16

3. The approved Treasury Management Strategy for 2015/16 was based on an average base rate forecast of 0.625%.

4. The Strategy for borrowing continued to provide the option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing.

5. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

External Context – Provided by Arlingclose

6. As the year began, economic data was largely overshadowed by events in Greece. Markets' attention centred on the never-ending Greek issue, which stumbled from turmoil to crisis, running the serious risk of a disorderly exit from the Euro. The country's politicians and the representatives of the 'Troika' of its creditors - the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) – barely saw eye to eye. Greece failed to make a scheduled repayment to the IMF on 30th June, in itself not a default until the IMF's Managing Director declares it so. Prime Minister Tsipras blindsided Greece's creditors by calling a referendum on 5th July on reform proposals which by then were off the table anyway. The European Central Bank froze liquidity assistance provided to Greek banks and capital controls within the country severely restricted individuals' and corporates' access to cash.

7. On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

8. The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

9. **UK Economy:** The economy has remained resilient over the last six months. Although economic growth slowed in Q1 2015 to 0.4%, year/year growth to March 2015 was a relatively healthy 2.7%. Q2 2015 GDP growth bounced back and was confirmed at 0.7%, with year/year growth showing slight signs of slowing, decreasing to 2.4%. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's projections for inflation remained largely unchanged from the May report with them expecting inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

10. The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

11. The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and

construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

12. **Market reaction:** Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

Treasury Management Activity

Debt Financing

13. Oxfordshire County Council's debt financing to date for 2015/16 is analysed in Annex 2.

14. The Council's cumulative total external debt has decreased from £399.38m on 1 April 2015 to £394.38m by 30 September 2015, a net decrease of £5m. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2016, after repayment of loans maturing during the year, is £393.38m. The forecast debt financing position for 31 March 2016 is shown in Annex 2.

15. At 30 September 2015, the authority had 66 PWLB[1] loans totalling £344.38m and 10 LOBO[2] loans totalling £50m. The combined weighted average interest rate for external debt as at 30 September 2015 was 4.50%.

Maturing Debt

16. The Council repaid £5m of maturing PWLB loans during the first half of the year. The details are set out in Annex 3.

Debt Restructuring

17. There has been no restructuring of Long Term Debt during the year to date.

[1] PWLB (Public Works Loans Board) is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.
[2] LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.

Investment Strategy

18. The security and liquidity of cash was prioritised above the requirement to maximise returns. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

19. During the first half of the financial year short term fixed deposits of up to 12 months have been placed with banks and building societies. Deposits over twelve months have been made with other local authorities, the primary purpose of which was to provide diversification away from bank and building society deposits.

20. The Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 included the use of external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds).

21. The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio. The TMST will keep pooled funds under review, including ensuring appropriate diversification and the consideration of alternative investment and fund structures, to manage overall portfolio risk.

The Council's Lending List

22. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List was updated during the period to incorporate additional counterparties. Changes were reported to Cabinet on a bi-monthly basis. Annex 1 shows the amendments incorporated into the Lending List during the first half of 2015/16, in accordance with the approved credit rating criteria.

23. All three credit ratings agencies have reviewed their ratings in the first six months of the year to reflect the loss of government support for most financial institutions and the potential for varying loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

24. Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). Despite this, Lloyds Banking Group received a one notch upgrade.

25. Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, Goldman Sachs International, HSBC, Coventry Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

26. Standard & Poor's (S&P) reviewed UK and German banks in June downgrading Barclays' long-term rating to A- from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

27. At the end of July, the council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank also being included as a new recommended counterparty.

28. In the six months to 30 September 2015 there were no instances of breaches in policy in relation to the Council's Lending List. Any breaches in policy will be reported to Cabinet as part of the bi-monthly financial monitoring.

Investment Performance

29. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16.

30. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £331.75m. The Council achieved an average in-house return for that period of 0.76%, exceeding the budgeted rate of 0.70% set in the strategy. This has produced gross interest receivable of £1.25m.

31. Temporary surplus cash includes; developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average three month London Interbank Bid (LIBID) rate.

32. The Council uses the three month inter-bank sterling bid rate as its benchmark to measure its own in-house investment performance. During the first half of 2015/16 the average three month inter-bank sterling rate was 0.45%. The Council's average in-house return of 0.76% exceeded the benchmark by 0.31%. The Council operates a number of call accounts and instant access Money Market Funds to deposit short-term cash surpluses. The average balance held on overnight deposit in money market funds or call accounts in the 6 months to 30 September was £57.5m or 17.3% of the total in house portfolio.

External Fund Managers and Pooled Funds

33. The Council continued to use pooled funds with variable net asset value. Weighted by value pooled fund investments produced an overall annualised return of 0.74% for the period. These investments are held with a long-term view and performance is assessed accordingly.

34. Gross distributions from pooled funds have totalled £0.14m in the six months to 30 September. This brings total income, including gross interest receivable to £1.39m for the period.

35. In September 2015 the TMST approved the decision to sell approximately one quarter of the Council's £20m initial investment in the Threadneedle Strategic Bond Fund, due to a decrease in the size of the fund. The sale resulted in a realisable gain of £0.26m, which represents an annualised return of 3.29% since the initial investment.

36. Having reviewed further investment options the TMST approved the decision to invest a further £5m in the CCLA Local Authorities' Property Fund in September 2015.

Prudential Indicators for Treasury Management

37. The position as at 30 September 2015 for the Prudential Indicators is shown in Annex 4.

38. As at 30 September 2015 the Council exceeded the prudential indicator for the upper limit on fixed interest rate exposure for net debt. Actual fixed interest rate exposure was 153.63%, exceeding the 150% limit set out in the 2015/16 Treasury Management Strategy.

39. The indicator is calculated using the following formula:

$$\frac{\text{Fixed debt} - \text{Fixed deposits}}{\text{Total debt} - \text{Total deposits and investments}}$$

40. The reason for exceeding the limit lies predominantly with an increase in the proportion of the Council's investment portfolio held in investments and deposits with variable interest rates, which has subsequently reduced the proportion of deposits with fixed interest rates. This was a deliberate decision taken by the Treasury Management Strategy Team in order to further diversify the Council's investment portfolio.

41. At 30 September 2015, 32.5% of total investments and deposits held were at variable interest rates. The Treasury Management Strategy Team are comfortable with this level of variable rate investments and deposits and do not believe that exceeding the fixed interest rate exposure limit poses a risk to the Council.

42. The Treasury Management Strategy Team will review the suitability of existing interest rate exposure indicators as part of the 2016/17 Treasury Management Strategy. A move away from existing indicators towards the use of local indicators where these are more appropriate will be considered, as encouraged in the CIPFA Treasury Management Code of Practice 2011.

External Performance Indicators and Statistics

43. The County Council is a member of the CIPFA Treasury and Debt Management benchmarking club and receives annual reports comparing returns and interest payable against other authorities. The benchmarking results for 2014/15 showed that Oxfordshire County Council had achieved an average investment return of 1.15% compared with an average of 0.77% for their comparative group of 40 members.

44. The average interest rate paid for all debt during 2014/15 was 4.54%, with an average of 4.23% for the comparative group of 40 members. It should be noted that all of Oxfordshire

County Council's debt is long-term, whereas the averages for the comparators include short-term debt which has a lower interest rate and so reduces the averages. Oxfordshire County Council had a higher than average proportion of its debt portfolio in PWLB loans at 87% compared to 74% for the all member group. Oxfordshire County Council had 13% of its debt in LOBO loans at 31 March 2015 compared with an average of 17% for the comparative group.

45. Arlingclose also benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 2 benchmarking to 30 September 2015 are included in annex 5.

46. The benchmarking results show that the Council was achieving higher than average interest on deposits at 30 September 2015, when compared with a group of 121 other local authorities. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.

47. Oxfordshire had a higher than average allocation to external funds, fixed and local authority deposits when compared with other local authorities in the benchmarking exercise. Oxfordshire also had a notably lower than average exposure to money market funds, call accounts and certificates of deposit.

Training

48. Individuals within the Treasury Management Team continued to keep up to date with the latest developments and have attended a number of external workshops and conferences.

Financial and Legal Implications

49. Interest payable and receivable in relation to Treasury Management activities are only two parts of the overall Strategic Measures budget.

50. The 2015/16 budget for interest receivable is £2.06m. The forecast outturn for interest receivable and returns on investments is £2.72m, giving net forecast excess income of £0.66m. The increased forecast is due to a combination of higher average cash balances and higher average interest rates than originally forecast. In addition to stronger distributions from pooled funds than originally forecast.

51. Interest payable is currently forecast to be in line with the budgeted figure of £18.2m.

RECOMMENDATION

52. **The Committee is RECOMMENDED to note the report.**

LORNA BAXTER
Chief Finance Officer

Contact officer: Lewis Gosling – Financial Manager (Treasury Management)
Contact number: 01865 323988
November 2015

Annex 1

Lending List Changes during 2015/16

Counterparties added/reinstated

Counterparty	Lending Limit	Maximum Maturity
Santander 95 day notice a/c	£15m	6 mths
Bank of Scotland	£15m	9 mths
Barclays current a/c	£15m	100 days
Barclays 100 day notice a/c	£15m	100 days
Danske Bank	£15m	100 days

Counterparties suspended

Counterparty
Goldman Sachs International Bank

Lending limits & Maturity limits increased

Counterparty	Lending Limit	Maximum Maturity
Close Brothers Ltd	£15m	6 mths*
Coventry Building Society	£15m	6 mths*
Nationwide Building Society	£15m	6 mths*
Santander UK PLC	£15m	6 mths*
Landesbank Hessen-Thuringen	£20m	6 mths*
Lloyds Bank Plc	£25m	9 mths*
HSBC Bank Plc	£25m	364 days*
Rabobank Group	£25m	364 days*
Svenska Handelsbanken	£25m	364 days*
Bank of Montreal	£25m	364 days*
Bank of Nova Scotia	£25m	364 days*
Canadian Imperial bank of Commerce	£25m	364 days*
Royal Bank of Canada	£25m	364 days*
Toronto-Dominion Bank	£25m	364 days*

*Indicates limit changed.

Lending limits & Maturity limits decreased

No Counterparty limits have been decreased between 1 April 2015 and 30 September 2015.

Annex 2

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2015/16

Debt Profile		£m
1. PWLB	87%	349.38
2. Money Market LOBO loans	17%	50.00
3. Sub-total External Debt		399.38
4. Internal Balances	0%	-27.31
5. Actual Debt at 31 March 2015	**100%**	**372.07**
6. Government Supported Borrowing		0.00
7. Unsupported Borrowing		12.55
8. Borrowing in Advance		0.00
9. Minimum Revenue Provision		-15.60
10. Forecast Debt at 31 March 2016		**369.02**
Maturing Debt		
11. PWLB loans maturing during the year		-6.00
12. PWLB loans repaid prematurely in the course of debt restructuring		0.00
13. Total Maturing Debt		**-6.00**
New External Borrowing		
14. PWLB Normal		0.00
15. PWLB loans raised in the course of debt restructuring		0.00
16. Money Market LOBO loans		0.00
17. Total New External Borrowing		**0.00**
Debt Profile Year End		
18. PWLB	87%	343.38
19. Money Market LOBO loans	13%	50.00
20. Sub-total External Debt		393.38
21. Internal Balances	0%	-24.36
22. Forecast Debt at 31 March 2016	**100%**	**369.02**

Line

1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2015). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.

6 'Government Supported Borrowing' is the amount that the Council can borrow in any one year to finance the capital programme. This is determined by Central Government, and in theory supported through the Revenue Support Grant (RSG) system.

7 'Unsupported Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.

8 'Borrowing in Advance' is the amount the Council borrowed in advance to fund future capital finance costs.

9 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.

10 The Council's forecast total debt by the end of the financial year, after taking into account new borrowing, debt repayment and movement in funding by internal balances.

11 The Council's normal maturing PWLB debt.

12 PWLB debt repaid early during the year.

13 Total debt repayable during the year.

14 The normal PWLB borrowing undertaken by the Council during 2015/16.

15 New PWLB loans to replace debt repaid early.

16 The Money Market borrowing undertaken by the Council during 2015/16

17 The total external borrowing undertaken.

18-22 The Council's forecast debt profile at the end of the year.

Annex 3

Long-Term Debt Maturing 2015/16

Public Works Loan Board: Loans Matured during first half of 2015/16

Date	Amount £m	Rate %
30/04/2015	4.000	9.75%
13/07/2015	0.500	2.35%
31/07/2015	0.500	2.35%
Total	**5.000**	

Public Works Loan Board: Loans Due to Mature during second half of 2015/16

Date	Amount £m	Rate %
13/01/2016	0.500	2.35%
29/01/2016	0.500	2.35%
Total	**1.000**	

Annex 4

Prudential Indicators Monitoring at 30 September 2015

Authorised and Operational Limit for External Debt

Authorised limit for External Debt	£490,000,000
Operational Limit for External Debt	£480,000,000
Capital Financing Requirement for year	£406,298,000

	Actual 30/09/2015	**Forecast 31/03/2016**
Borrowing	£394,382,618	£393,382,618
Other Long-Term Liabilities	£40,000,000	£40,000,000
Total	**£434,382,618**	**£433,382,618**

Fixed Interest Rate Exposure

Fixed Interest Net Borrowing limit	150.00%
Actual at 30 September 2015	153.63%

Variable Interest Rate Exposure

Variable Interest Net Borrowing limit	25.00%
Actual at 30 September 2015	-62.74%

Sums Invested over 365 days

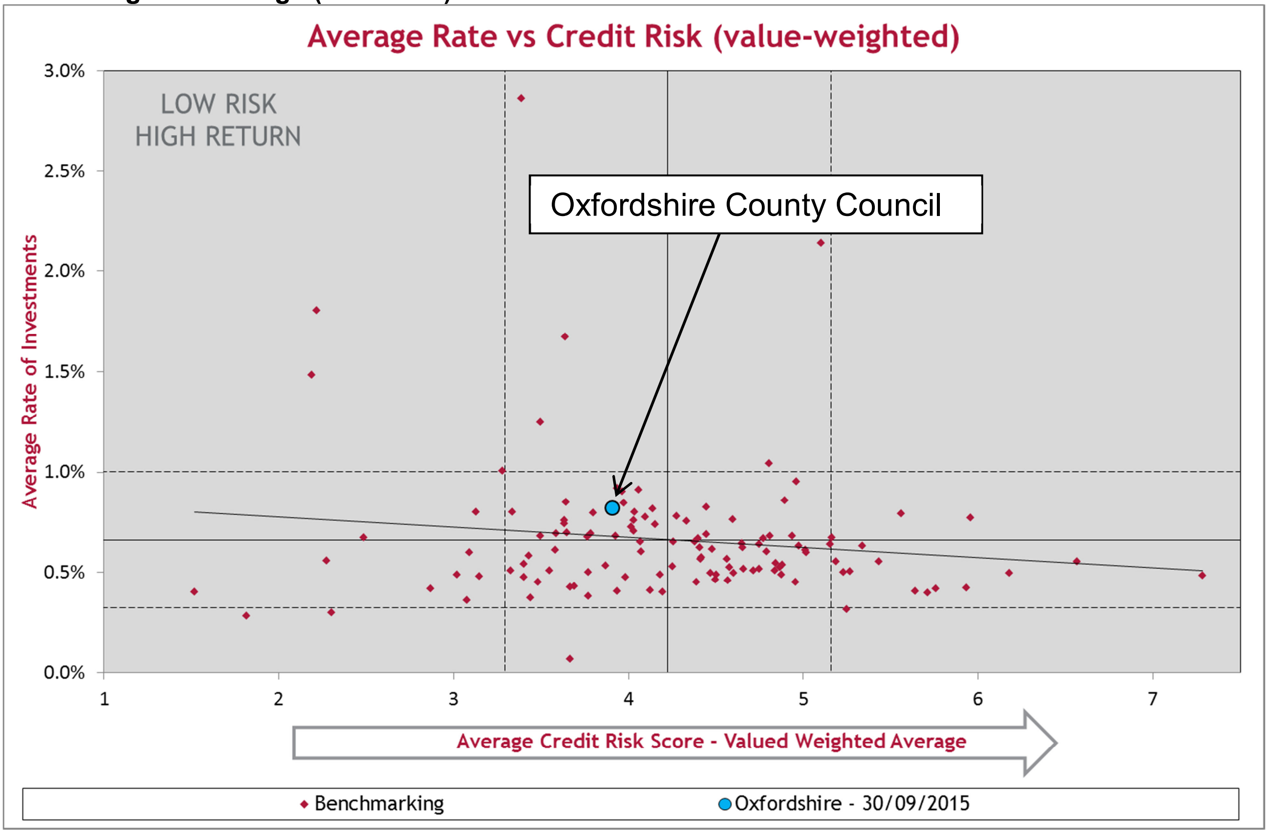
Total sums invested for more than 364 days limit	£150,000,000
Actual sums invested for more than 364 days	£ 59,000,000

Maturity Structure of Borrowing

	Limit %	**Actual %**
Under 12 months	0 - 20	7.86
12 – 24 months	0 - 25	2.28
24 months – 5 years	0 - 35	17.50
5 years to 10 years	5 - 40	11.66
10 years +	50 - 95	60.70

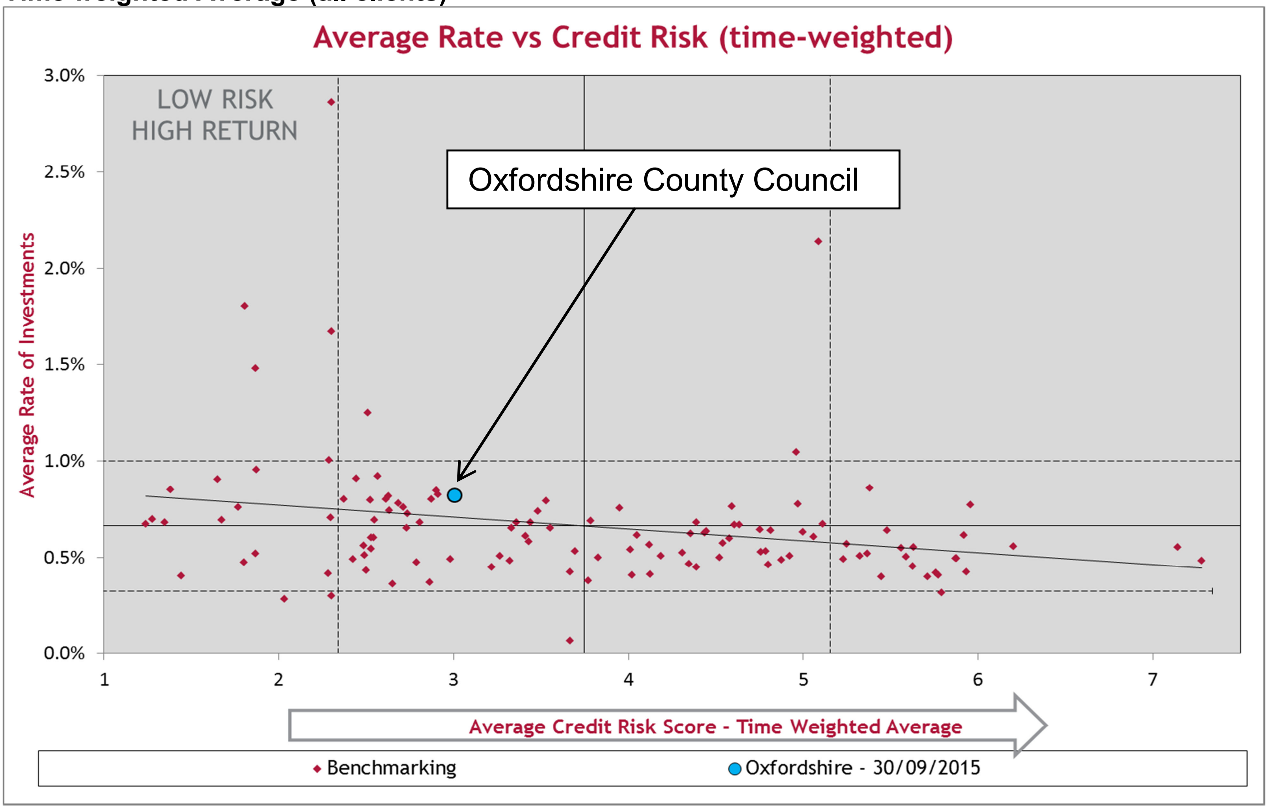
Annex 5

Value weighted average (all clients)



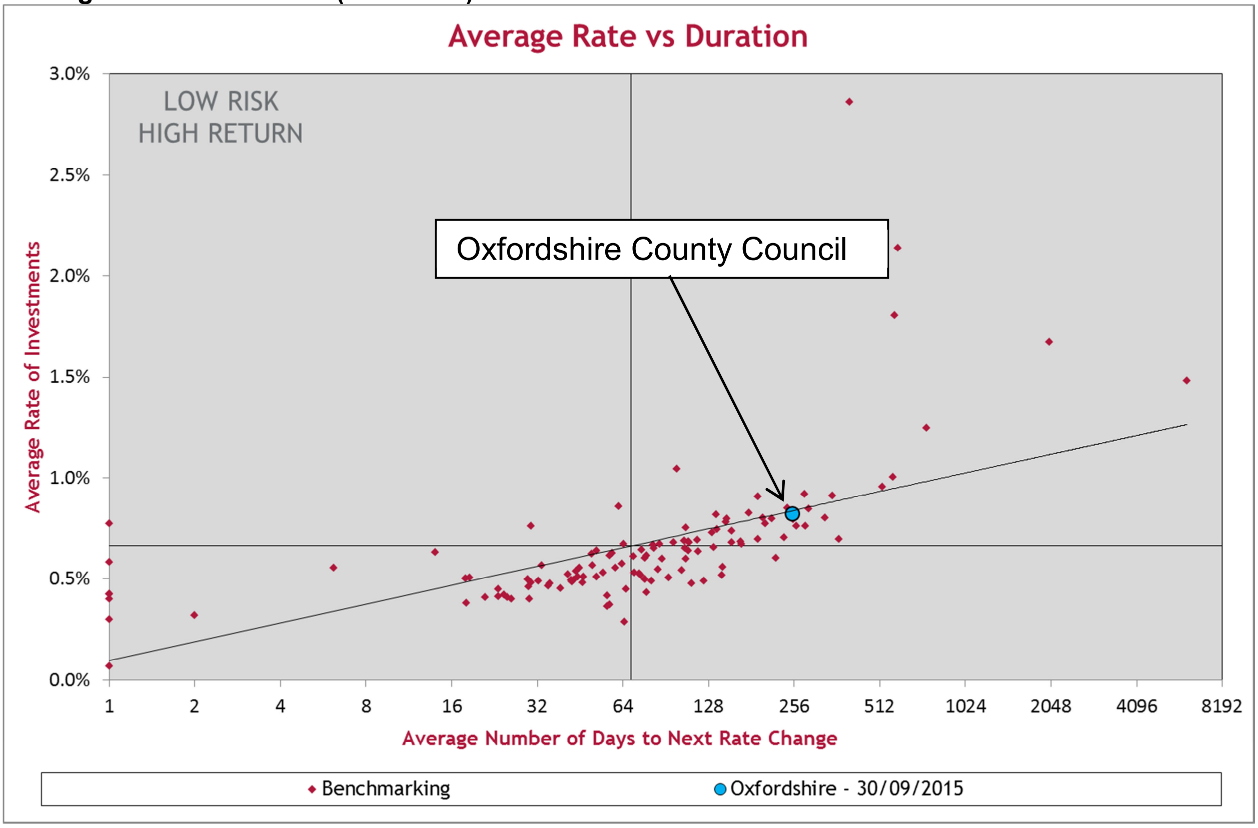
This graph shows that, at 30 September 2015, Oxfordshire achieved a higher than average return for lower than average credit risk, weighted by deposit size.

Time weighted Average (all clients)



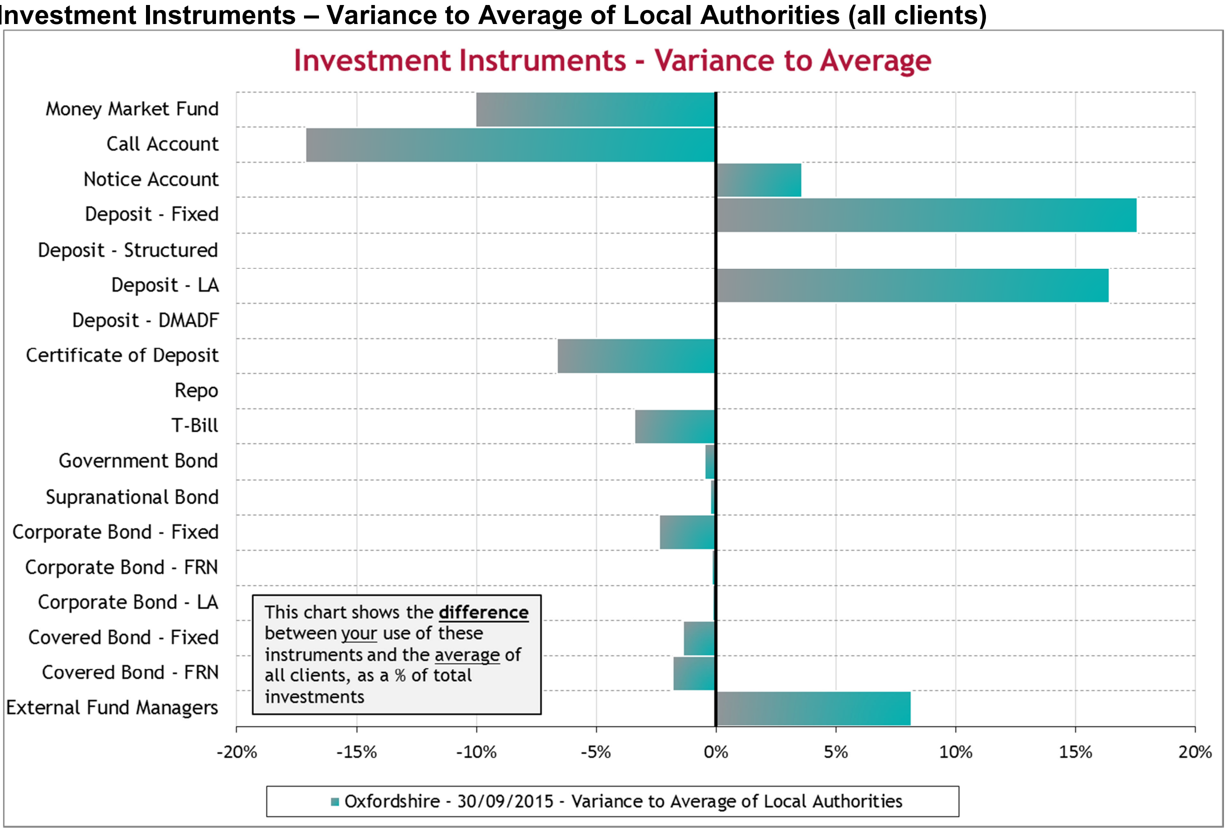
This graph shows that, at 30 September 2015, Oxfordshire achieved higher than average return for lower than average credit risk, weighted by duration.

Average Rate vs Duration (all clients)



This graph shows that, at 30 September 2015, Oxfordshire achieved a higher than average return by placing deposits for longer than average duration.

Investment Instruments – Variance to Average of Local Authorities (all clients)



This graph shows that, at September 2015, Oxfordshire had notably higher than average allocation to external funds, fixed and local authority deposits when compared with other local authorities. Oxfordshire also had notably lower exposures to money market funds, call accounts and certificates of deposit.

Division(s): ALL

AUDIT & GOVERNANCE COMMITTEE – 18 NOVEMBER 2015

PROGRESS REPORT ON THE ACTIONS IN THE 2014-15 ANNUAL GOVERNANCE STATEMENT

Report by the Head of Law & Governance

Introduction

1. Audit & Governance Committee approved the Annual Governance Statement (AGS) for 2014/15 in July 2015. The AGS lists six 'Actions' to be carried out in 2015/16. This report is the mid-year progress report on these 'Actions'.

The Progress Report

2. Annex 1 (and the related Annex 2 and 3) sets out the 'Progress Report on each of the six AGS Actions' for 2015/16. Just over half way through the financial year, reasonable progress has been made on all of the six AGS Actions.

Financial and Staff Implications

3. There are none.

Equalities Implications

4. There are none.

RECOMMENDATION

5. **The Audit & Governance Committee is RECOMMENDED to note the progress on the AGS Actions.**

NICHOLAS GRAHAM
Head of Law & Governance

Background papers: The Annual Governance Statement 2013/14, which is at the back of our Annual Statement of Accounts for that year
https://www.oxfordshire.gov.uk/cms/sites/default/files/folders/documents/aboutyourcouncil/counciltaxandfinance/auditandaccounts/StatementofAccounts2014-15.pdf

Contact Officer: David Illingworth, Senior Financial Advisor (01865) 323972

Annex 1 - Progress Report on the Six AGS Actions

Action	**Progress**
1. Data Quality (ongoing from 2013/14) For each major or critical database held by the Council, identify what are the necessary, realistic and affordable features that there should be to ensure that an appropriate level of data quality is reached. Check if these features are in in place and effective. Then if possible make changes so that any features that are missing or weak are put in place or improved. Then report back on this process. List any remaining changes that need to be implemented and whether, when and how this will be possible.	See Annex 2 for a comprehensive report on this complex issue. Annex 2 presents information about the scale of this problem. For example, the Council has 7,786 Microsoft Access databases, hundreds of thousands of Excel spreadsheets and millions of electronic documents. Annex 2 then sets out a proposed approach to improving our data quality. This will take at least two years. Two detailed plans, for the period up to March 2016 and then for the period beyond March 2016 are set out.
2. Commercial Services Board (ongoing from 2013/14) 1. Communicate the role of the Commercial Services Board and ensure that its requirements are fixed in place in the Council. 2. Implementation of the Contract Management Framework 3. Development of the County Procurement Team including resources to support the ongoing work of the Commercial Services Board and implementation of the contract management framework. 4. Tackling instability arising out of the externalization agenda and	1. The role of the CSB and its membership will be reviewed and re-affirmed within the context of wider organisational changes. In the meantime the Board continues to meet and review key commercial indicators and practices and recommend and implement necessary changes. 2. Work has focussed on the skills development program and ‘passport to practice’ accreditation. 91 Contract managers have been engaged in the program and 56 have been awarded accreditation. An options paper and business case for a contract management system has been developed and will be presented to the CSB in November and CCMT before Christmas.

Action	Progress
the effect on SAP governance and control mechanisms	This will provide an important platform for contract managers and council oversight. 3. The corporate procurement team has been created though recruitment for all posts is not yet complete. Resource utilisation has been dominated by Hampshire/IBC transition issues. But this is expected to be re-focussed on CSB support/contract management by the end of '15. 4. A range of transition issues have been identified and are being assessed and resolved with close working between OCC and HCC. This work is being co-ordinated by the new DD Finance. Currently, this 'Action' is managed by the Interim Corporate Procurement Manager. However he is leaving at the end of November, but will be replaced by another senior manager/deputy director in Finance.
3. Business Continuity (BC) (ongoing from 2014/15) 1. Increase awareness and scrutiny of BC when buying in or outsourcing activity 2. Ensure that flexible and agile working takes account of the need for BC 3. Improve links between Directorates and the BC Steering Group 4. Improve the Priority 1 exercise programme 5. Improve awareness of BC across the organisation 6. Use the good practice guide to improve BC generally	See Annex 3 for a comprehensive report on this complex issue. Annex 3 comments on all of the seven issues mentioned by this 'Action'. Only one of them is considered to be 'off target' at this mid-year stage – issue 6.

Action	Progress
7. Scrutinise the BC resilience of new projects. Notably the Integrated Business Centre (run by Hampshire) and the Joint Fire Control, to support bedding in for the first year.	
4. Externalisation of Human Resources and Finance Services (ongoing from 2014/15) Setting up, implementing and fixing in place our new operating model includes extensive working with another public body and other work. This work continues as Hampshire take on this role in July 2015.	A separate report on this Audit & Governance Committee agenda covers this issue in detail.
5. Strategic Risk Register The Strategic Risk Register to be refreshed and agreed by CCMT, with a quarterly review, including management assurance on the effectiveness of the mitigation for the Strategic Risks	We have commenced a full review of the Corporate Risk Register, and in November have a risk workshop with CCMT to "identify" and "assess" the corporate risks. Following that exercise the risk register will be produced and mitigation plans developed, owned by CCMT, facilitated by the Business Assurance Team. The risk register will be operational by the end of December 2015, and included as part of the quarterly business management reporting process from January 2016.
6. Supported Transport for Children To ensure full implementation of the children's safeguarding standards framework for the transport service and the provision of assurance that these arrangements are effective.	The Supported Transport Governance Group monitors the delivery of the detailed management action plan, and is reporting into CCMT. In their recent report, approved by CCMT, progress has been made in developing the safeguarding infrastructure of standards, policies, legal framework, procedures, training etc.

Action	Progress
	Critical actions regarding partnership working, governance and information sharing with the OSCB and District Councils are complete and ongoing work over the next few months will strengthen these arrangements. Significant progress has been made with the management actions and there is clarity about additional work required to improve our Safer Transport system. We have also identified the complexity of the system and its individual parts and as such are clear that the initial deadlines set were inappropriate. For actions still in progress, the agreed target date has been revised to be fully complete by April 2016.

Annex 2 – Data Quality Strategy

Introduction

Following the introduction of the Data Quality Policy late in 2014, staff from the ICT Information Services Team have been working on a variety of initiatives to improve and embed the principles of Data Quality and Information Management into the Council's culture.

As a reminder – we are using the following as our guiding principle of what Data Quality means to us. *Good data quality is data being accurate, up to date, relevant for business use and meeting record retention requirements*.

Over the past 12 months, there have been a number of notable improvements in terms of Data Quality. These include:

1. **Information Asset Registers** - All known databases and data sources have been recorded on an Information Asset Register for each Directorate. This asset register identifies what data the Council has and will now enable us to identify and prioritise our Data Quality improvement work.

2. **Information Asset Owners -** Each Information Asset has an Information Owner (IO) identified in the Directorate Information Asset Registers. One responsibility of an Information Owner is to now act as 'data quality champion' for each of their business systems.

3. **Automated Data Quality Checks** – Some business systems now include automated data checking for some data fields. For example: the new Liquidlogic Adult Social Care System (LAS) checks that a date of birth is in the correct format and not in the future when entered. Where errors are detected, the staff member using the system will not be able to progress until a correction is made. We will be looking to see how further automated checks can be introduced in other business systems where they are not already implemented.

4. **Identifying the scale of the current Data Quality issues –** ICT has now scanned the network and has identified the following number of databases currently stored on the Council's network:

Database Type	Number of Databases
Microsoft Access	**7786**
Microsoft SQL	**1277**
Oracle	**17**
IBM DB2	**80**
MySQL	**82**
Total	**9242**

In addition we have hundreds of thousands of Excel spreadsheets, millions of electronic documents and the same number of paper documents. At present, there is a significant risk to the Council as a substantial amount of this data is unstructured information which is stored outside of the major business systems (such as Shared Drives or within e-mail).

5. **Making Data Quality a personal responsibility** – Agreement has been given by the Chief HR Officer to include text regarding Data Quality in all Job Descriptions. Our aim is to make data quality a personal responsibility and we will set out what that means in a suitable on-line training course, similar to that of the existing Acceptable Use Policy (AUP) training.

6. **A regular and consistent approach to Data Quality Reporting** – During our work, we have identified that some areas of the organisation already produce data quality reports for their business systems. These are then used to identify and correct any data quality errors found. Our aim is to work with the staff currently undertaking these tasks and set out a consistent approach for the organisation.

7. **The publication of regular headlines on the Intranet –** So far this year, there have been 10 headline articles produced to cover a variety of Information Management topics. Once we have understood and prioritised the information assets that will be subjected to a central 'Data Quality regime' we will create and publish our plans to improve and monitor via this method.

Our Proposed Approach & Improvement Timeline

Our current estimate is that it will take at least 2 years to complete our work and Data Quality will only start to improve as we embed a change of culture across the Council. All members of staff have to be trained to consistently 'Think Quality' and asked to avoid storing data outside of the major corporate systems where it cannot be, found, managed or maintained.

In terms of our improvement timeline, we are currently prioritising our efforts in the following areas –

- The work that we can successfully complete or make good progress on before the end of March 2016.

- The more strategic work that will be delivered between March 2016 and March 2018.

Data Quality Improvement Plan to March 2016

Over the remainder of the Financial Year 2015/16, we will be looking to complete or have made significant progress in the following areas:

1. **Areas for Data Quality Improvement** – Given the scale of the work involved, we will have to categorise and prioritise areas for improvement. We will use a combination of the information gathered from the Information Asset Registers

along with the business systems priorities (as defined by the Business Continuity Stakeholders Group (BCSG) to set out an approach and publish an appropriate timeline.

2. **Category Action Plan** – For each of the categories identified in point 1, we will devise an appropriate standard, identify areas that require improvement, and then devise a suitable implementation plan with support from the Information Governance Group.

3. **Data Quality on Priority 1 Systems** – As stated earlier in this report, some of the Council's Priority 1 systems already have mechanisms for data quality built in. We will ask for advice from the suppliers of the priority systems to find out what is available and then introduce changes where it is appropriate to do so and with support from the Directorates.

4. **Spot Checks** – Working with our Directorate colleagues, our aim is to introduce a regime of 'spot checks' on a regular basis for all Priority 1 systems using the standard Data Quality Principles as set out in the Data Quality Policy. Once we have collected the data, we will then publish regular reports on our findings.

5. **Communication** – We will continue to produce intranet headlines and articles on Information Management and Data Quality. We will also devise a short online training course that outlines the personal responsibilities to ensure Data Quality and then report on the number of staff that have completed the course.

Data Quality Improvement Plan beyond March 2016

As previously stated, embedding a culture of Data Quality across the organisation is likely to take about 2 years to complete. The Council has a substantial amount of data and with the increasing number of 'commissioned services' keeping the Council's information safe, secure and of good quality is a real challenge.

Therefore, looking at improvements that could be introduced post March 2016, we are currently reviewing and evaluating the following:

1. **Information Asset Identification** - The current known Information Assets are recorded on the Information Asset Registers. Work will be done to continue to identify what information we have, where we get it from, what we do with it, what we need, where are the gaps, who we provide it to, how are we providing it, where we store it.

2. **Duplication Removal** – The Council stores a substantial amount of Data (almost 200Tb). We know that data is duplicated across and in some cases, within systems so we will, where possible remove the duplication of collection and storage as much as possible; this will be done on the basis of the COUNT principle. (Collect Once, Use Numerous Times)

3. **Data Quality on Priority 2 & 3 Systems –** Following on from the work on Priority 1 systems, we will look to see what automated Data Quality controls are in place on Priority 2 & 3 systems.

4. **Digitalisation, Business Applications Rationalisation & Consolidation** - The Council currently operates 284 business applications each with its own data set or data sets. Future Corporate Programmes and Projects will enable us to review, rationalise and consolidate business applications and data which will reduce the management overhead and give us the chance to improve Data Quality. A recent example of this is the new Adult Social Care system. Within that project, the team achieved an automated 98% accuracy in the data that was integrated between the legacy Swift and Abacus systems.

5. **Business Systems Data Quality Initiative –** For each Business System (starting in priority order) we will create a Data Quality improvement plan. Some systems, such as Frameworki and LAS already benefit from automated data quality checking functions. As we maintain and upgrade the Council's business systems, we will look to see what can be improved at each opportunity.

6. **Improve Document & Records Management** – The Council has recently invested in a new Document and Records Management System (Microsoft SharePoint). We will look to ensure that all business systems have robust records management processes.

7. **Good Data Quality Practice –** We will continue our plans to instil good data quality practices across the organisation, but ensure that those practices are managed in a supportive and pragmatic way.

8. **Communication** – We will create an effective Data Quality Communications Campaign alongside the one we are using to promote Information Management. With a combination of briefings, training, changes to job descriptions and intranet headlines (along with the possibility for specific appraisal objectives) we should be able to report good progress on data quality improvements.

MARTYN WARD
Head of ICT Business Delivery

CAROLINE PARKER
ICT Information Services Manager

Annex 3 – Business Continuity

The recent ICT server problems on Friday 25th September through Wednesday 30th September should be highlighted, both for the good incident response and for the learning to draw upon.

1. Increase awareness and scrutiny of BC when buying in or outsourcing activity:

- This Action will continue to need attention due to the changing shape and function of local government: increasingly placed within a supply chain of customers, service users and public, and of contractors and commissioned services in delivery.
- Work has progressed for example around incorporating BC into procurement training, and aligning BC closely with the risk management approach in contracting and commissioning.
- Resilience around health and social care commissioning remains the headline risk with the changing care market following the Care Act 2012.
- Involvement in a project with the local government think-tank LGiU on care provider failure has provided best practice guidance to be shared in our area.
- Work with Zurich to analyse our care supply chain should also provide better appreciation of continuity risks.
- Major contracts should not be overlooked: a BC exercise has been conducted with Skanska, and we are improving our BC collaboration with our platinum contracts.
- There is work to be done raising the profile of supply chain BC as a critical part of wider organisational resilience.
- This Action is currently on target, but should be expected to remain an Action into the next AGS with new budgetary pressures and commissioning activity.

2. Ensure that flexible and agile working takes account of the need for BC:

- Confidence increases in BC around agile working.
- There are BC benefits from agile working, but it also presents other BC issues itself. These are becoming better understood, however “agile” cannot be an assumed BC solution in every case without robust impact assessment.
- David Stubbington presented to the Business Continuity Steering Group (BCSG) which gave the Group the opportunity to examine agile working and asset utilisation and provide BC perspectives from across the organisation.
- Greg Stacey has attended Senior Leadership Teams across Directorates with BC Reps to provide updates and reinforce BC issues around agile working. Most recently attending Strategy & Infrastructure Leadership Team in Environment & Economy placed BC into the “business planning” mechanism at the initiation of projects and programmes, and there is positive work to progress here.
- This Action is on target.

3. Improve links between Directorates and the BC Steering Group:

- With significant levels of change and reshaping across the organisation, focus must remain to ensure Directorates maintain BC as part of change management. Part of this challenge includes ensuring the value of the BCSG for the business, and ensuring valuable issues reach the BCSG from the business. This has been best demonstrated by the number of real incidents which have activated and tested our BC arrangements and proved the value of the Group.
- Progress has been made by promoting BC at Senior Leadership Teams and by examining realistic business threats, e.g. security, supply chain issues, reputation management, cyber threat, fire risk, malicious attack. All of these have seen real incidents that make them timely considerations.
- BCSG ratified that BC Plans are to be signed off no lower than Tier 3 management which also raises the profile of BC within Directorates.
- Directorate level BC exercises continue, with CEF and SCS yet to complete within 2015/16 to give a full complement; exercises are already distilling down to Service/Team level beneath this.
- There is work to do to improve the Directorate Registers to provide better clarity of BC gaps and enable the BCSG and Directorate management to pick these up and mitigate them.
- This Action is on target.

4. Improve the Priority 1 exercise programme:

- As mentioned above, Directorate level BC exercises continue, with CEF and SCS yet to complete within 2015/16.
- In addition, exercises have been conducted within Directorates, and in November there will be a Communications & Media exercise to examine our continuity arrangements and planning assumptions around a major incident – this exercise has both BC and emergency response angles.
- In October, Skanska undertook a BC exercise with scenarios around two major works schemes, one directly within their works and one supporting a wider emergency incident. And in November, Carillion will also conduct a BC exercise. We will look to engage in this more often as part of contractual arrangements, which will help to scrutinise and satisfy as per Action 1.
- There is a continuing need to move toward cross-service exercises which will help to identify and share vulnerabilities in service delivery that might affect more than one Service or Directorate.
- The E&E Directorate exercise in January 2015 was a good model for this in bringing together key functions across the Directorate, and this model should be repeated across the Organisation.
- A review of the BC Priority Services system is also underway and this will help to identify where testing is most needed and where collaborative cross-service testing can be achieved.
- The greatest exercise, however, has been the significant number of live incidents or neighbouring incidents that have tested our BC arrangements or assumptions. A live incident does count as an exercise and should refresh the

BC planning lifecycle – this is the case with the ICT major incident in September.

- Equally important is learning from incidents and exercises alike and adjusting BC arrangements accordingly. We recently supported South Oxfordshire & Vale of White Horse DC in producing a very successful learning day about the Crowmarsh fires which provided many lessons for ourselves and resilience delegates drawn from across the UK.
- This Action is on target but with Directorates and P1 Services yet to test in 2015/16.

5. Improve awareness of BC across the organisation:

- Real incidents and disruptions beyond and within OCC have undoubtedly raised awareness of BC across the organisation.
- The key has been to capture improvements from incidents, and "lessons learned" have been useful in raising awareness, e.g. refreshing secondary locations following Crowmarsh fires.
- BC surgeries were held across Council sites during Business Continuity Awareness Week (BCAW).
- BCAW was observed for the first time in OCC in March 2015; it will happen in May 2016 and this better date beyond financial year end should improve the event.
- Reshaping, rationalisation, office moves and new systems and ways of working have all introduced BC challenges, but also raised awareness as teams have identified BC issues in their new arrangements.
- This Action is on target, but should be expected to maintain through to BCAW 2016 and with adoption of new organisational initiatives and programmes.

6. Use the Good Practice Guide (GPG) to improve BC generally:

- Important elements of GPG such as strategy and framework are present, and threat analysis and horizon scanning have been introduced, but other key elements such as Business Impact Assessments are still required.
- BCSG now follows an agenda and an auditing pattern that follows the Six Professional Practices of the GPG: policy & programme; embedding culture; analysis; design; implementation; validation (audit).
- The "lifecycle" approach of the GPG has become better understood with the real incidents experienced kick-starting checks and reviews of BC arrangements.
- This Action is currently off target until the programme to embed GPG initially into Corporate and Directorate level BC planning commences later in 2015/16.

7. Scrutinise the BC resilience of new projects (notably IBC and Joint Fire Control) to support embedding for the first year:

- This Action will continue through 2015/16 following the progress of IBC and Joint Fire Control in particular, but also new projects and applications in OCC.

- OFRS covered issues through their project team and Operational Support Room, and recently tested secondary measures with their “buddy Control” North Yorkshire FRS.
- IBC issues included first payroll, mis-payments in OFRS, and communication issues around planned and unplanned maintenance and disruptions.
- Work is continuing to examine BC options available to OCC in the event of a major BC issue with IBC and the communications surrounding that.

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Oxfordshire County Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP

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The Members
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1 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate to the Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of Oxfordshire County Council.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report for Oxfordshire County Council and its Pension Fund to the16 September 2015 Audit and Governance Committee representing those charged with governance. We do not repeat those detailed findings in this letter.

The matters reported here are the most significant for Oxfordshire County Council.

We would like to take this opportunity to thank Oxfordshire County Council's staff for their assistance during the course of our work.

Yours faithfully

Maria Grindley
Executive Director
For and on behalf of Ernst & Young LLP
United Kingdom

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Contents

1. Executive summary

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 April 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Authority reports publically on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Oxfordshire County Council and its Pension Fund for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 22 September 2015 we issued an unqualified audit opinion. On 18 September 2015 we issued an unqualified audit opinion in respect of the Pension Fund
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 22 September we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 23 September 2015.
Consider the completeness of disclosures on the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:	
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit results report for Oxfordshire County Council and its Pension Fund was issued on 16 September 2015 to the Audit and Governance Committee.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 24 September 2015.

2. Key findings

2.1 Financial statement audit

The Authority's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the 2014/15 Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 22 September 2015.

Our detailed findings were reported to the 16 September 2015 Audit and Governance Committee. The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

Our key findings are:

- we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. No issues were identified.
- we reviewed accounting estimates for evidence of management bias. No issues were identified.
- we evaluated the business rationale for any significant unusual transactions. No issues were identified

Significant risk 2: Revenue and expenditure recognition

To address this risk:

- we evaluated the types of revenue and expenditure and the associated risks;
- we evaluated the selection and application of relevant accounting policies by the Council;
- we obtained an understanding of the systems relevant controls; and
- our testing focused on the areas we identified with the highest risk: Adult Social Care and Children's Education Services.

No significant issues were identified.

Other risks: Oxfordshire County Council resources

The accounts were produced to the statutory deadline of 30 June 2015 but were produced later than planned due to staff leaving and the need to back fill with contract staff. Capital was a particular problem area and we agreed to delay our work in this area to enable working papers to be prepared.

Other risks: Accounting for schools' non-current assets

Our review confirmed that the Council had not taken a "blanket" approach to the accounting treatment and have considered each on its own merits and have concluded our work in this area. We concluded that the disclosure was appropriate.

Other key findings:

We had to delay the completion of the audit by a week due to the difficulty the Council had in providing us with supporting evidence for our test samples.

We had to delay our completion of Whole of Government Accounts by a further day due the need to correct errors in the initial submission.

2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 22 September 2015.

We undertook work and in the following areas:

Significant VFM risk - We identified one significant risk under criterion 1 arrangements for securing financial resilience.

We have reviewed the process that the Council has in place for preparing and monitoring budgets and the action taken by the Council during 2014/15.

Our conclusion is that the Council has taken steps to close the gap in the current year and has clear plans for the coming year or two, however there are continuing financial pressures and the Council needs to take action to ensure that the financial position is manageable in the coming years.

The quarterly Business Management and Monitoring reports include financial and operational information and provide a good summary of the performance of the Council. They are however not produced until nearly the end of the next quarter and early production would help decision making.

Significant VFM risk - We identified one significant risk under criterion 2 arrangements for securing economy, efficiency and effectiveness - Back office out-sourcing

We have reviewed reports and held discussions with the S151 officer to understand the process that the Council went through. Our main issue is that the Council had not considered any provider other than Hampshire and had not tested the market more robustly. We recognise that savings will be made from joining the partnership and that further opportunities exist to include more services in the partnership. We also have reviewed calculations provided to the Council from external consultants that show that the savings achieved from the partnership fall within a range that would be expected from market testing. Therefore we are able to conclude that the difference in value between the partnership arrangement and any other contract would not be significant enough to adversely impact on our value for money conclusion.

We recommend that in future consideration is given to a more robust market testing to enable the Council to clearly demonstrate that it is achieving value for money.

Other VFM risk - We identified the following risk under criterion 2 arrangements for securing economy, efficiency and effectiveness – Departure of the Chief Executive

We have reviewed the reports produced by the Council and the actions taken and concluded that this does not affect our vfm conclusion. However, the Council has identified learning points from this process which it will take forward.

Other VFM risk - We identified the following risk under criterion 2 arrangements for securing economy, efficiency and effectiveness – Serious case review

We reviewed the reports and actions taken by the Council in response to the Serious Case Review and as a result of our work and the actions already taken we are satisfied that there are no matters affecting our value for money conclusion from this issue. The Council will need to ensure that the lessons learned from this review are applied across its activities and in particular areas where cross working with other key organisations in similar circumstances is in place.

2.3 Whole of Government Accounts

We reported to the National Audit office (NAO) on 23 September 2015 the outcomes of our review of your WGA return conducted under instructions issued by the NAO. A number of amendments were required to the Council's submission.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified one issue where further disclosure on the need to update the strategic risk register was required to reflect the position at the Council. The Council amended the annual governance statement to include this area.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required using powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit and Governance Committee on 16 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

3. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council’s financial statements.

4. Fees

Our fee for 2014/15 has not yet been finalised. This is due to extra fee applying in respect of the additional value for money risks and related work along with additional work required this year for our audit. The final fee has been discussed and agreed with the Chief Finance Officer and is currently being reviewed by the Public Sector Audit Appointments (PSAA) who are responsible for setting audit fees.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£TBC	£146.610	£146.610	£146.610
Total Audit Fee –Certification of claims and returns	£0	£0	£0	£4,541
Total Audit Fee	£TBC	£146,610	£146,610	£146,610
Non-audit work	£49,000	£0	£0	£6,000

Delivered by the audit team:

Assurance report on Teachers Pension £10,000

Delivered by the wider EY team:

Financial analysis for payment mechanism for Ardley E/W Facility £6,000

High level review of the potential for unitary status £33,000

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Audit Progress Report

Oxfordshire County Council

18 November 2015

Ernst & Young LLP

Building a better
working world

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Audit and Governance Committee
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18 November 2015

Dear Audit and Governance Committee Members

Audit Progress Report 2015/16

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Audit and Governance Committee with an overview of the stage we have reached in your 2015/16 audit and ensure our audit is aligned with the Committee's expectations.

Our audit 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 brought our Audit Fee Letter to the April 2015 Audit and Governance Committee.

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

Mick West
Director
For and behalf of Ernst & Young LLP
United Kingdom

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Contents

1. Planned work

2015/16 Planning

We are just about to start our 2015/16 planning. To update our assessments of risk as we carry out our interim work, this will include review of in year financial performance and walkthrough of key financial systems to identify any other issues that we need to take account of. A finalised plan is scheduled for January 2016.

We are discussing with Hampshire County Council and audit colleagues for that Council how best to audit the IBC to ensure we are able to complete our work on a timely and efficient basis.

We are currently finalising work on the audit of the Teachers Pensions return and will complete our work prior to the 30 November deadline.

Meetings

We will continue to meet regularly with key officers as part of our ongoing audit process.

We have met with staff from the Council on the 4 November to discuss issues arising from the 2014/15 audit and to examine ways to enhance the audit process for the 2015/16 accounts.

Audit and Governance Committee

We will continue to bring our sector briefings to Audit and Governance Committee meetings and discuss key issues with the Committee.

If members of the Audit and Governance Committee have any particular issues they want to discuss with us we would be pleased to discuss these with you.

2014-15 Audit Fee

We have agreed additional fee with the Chief Finance Officer and are waiting for approval from PSAA before we are able to confirm what the final fee will be.

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 2015/16 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 an Annual Audit 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	Deliverables
High level planning:	**April 2015**	Fee Letter taken to the Audit and Governance Committee in April 2015
Risk assessment and setting of scopes	**December 2015/January 2016**	Audit Plan to be taken to the Audit and Governance Committee in February 2016
Update on work completed to date	**July 2016**	Progress report
Value for money conclusion	**January/September 2016**	Ongoing
Year-end audit	**July – September 2016**	Report to the Audit and Governance Committee in September 2016 including - Audit report (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). - Audit completion certificate - Whole of Government Accounts certification
Reporting	**November 2016**	Annual Audit Letter

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.

Planning discussions

We will update our planning throughout the course of our audit.

Appendix A Audit Progress

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	April 2015	Completed	Reported to Reported to the Audit and Governance Committee April 2015
Progress report	November 2015	Completed	Reported to the Audit and Governance Committee November 2015
Audit Plan	January 2016	Not due yet	
Report to Those Charged with Governance	September 2016	Not due yet	
Audit Report (including opinion and vfm conclusion)	September 2016	Not due yet	
Audit Certificate	September 2016	Not due yet	
WGA Certificate	October 2016	Not due yet	
Annual Audit Letter	November 2016	Not due yet	

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Local government audit committee briefing

Contents at a glance

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business.

This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

Building a better working world

Government and economic news

EY item club summer 2015 forecast

In its latest forecast, the EY Item Club highlights the continuing impact on the UK economy of world events, with those in Greece and China being of particular concern. Despite this, domestic demand remains buoyant and activity has increased since winter. They forecast GDP growth of 2.7% for this year and next, and inflation, as measured by CPI, well below target.

The latest data shows consumer expenditure remaining strong, and set to continue into next year, with the strong pound and weak commodity prices keeping inflation low. With manufacturing 'stuck in the slow lane', the economy is seen to be becoming increasingly unbalanced. The forecast goes on to predict that interest rates are unlikely to move above 3% until 2019.

Commenting on the Summer Budget, the Club sees the new surplus target as very challenging, meaning a significant increase in household taxes and a massive squeeze on welfare payments. It comments that, if the public sector is to move from heavy deficit into surplus, the private and overseas sectors must move in the opposite direction. As it sees households as being reluctant to move further into deficit, it will be up to companies to increase investment and exports to make the Budget strategy work. Alternatively, to swing the balance of payments and government accounts back into surplus, growth and imports will have to slow down.

National living wage

In the recent Budget the Chancellor announced that, from April 2016 workers aged over 25 will be entitled to a National Living Wage significantly higher than the current minimum wage of £6.50 which applies to those aged over 21. Those entitled to the 'living wage', will get £7.20 and that will rise to at least £9 an hour by 2020. This is expected to boost the income of approximately six million workers, covering all full and part-time workers, and those in public and private sectors. Whilst the government announced changes in corporation and employment taxes which it said would offset the additional costs to employers, the former will not apply in the public sector, and many comments have been made about the significant impact on employers from bodies such as the Local Government Association and the UK Homecare Association. The EY Item Club (in its Summer Forecast) commented that **"The Chancellor has effectively passed the prime responsibility for supporting low income working people over to employers and this poses a clear risk to hours and employment"**.

Government and economic news

All bodies will need to carefully consider the impact of the changes on their finances in the short and medium term. The impact is not liable to be limited to the additional employment costs of those employees currently on the minimum wage, but include:

- Employment costs relating to employees currently earning above minimum wage but below the National Living Wage
- Pressure on supplier contract prices arising from their increased costs (particularly in relatively low paid sectors such as care)

Whilst the increase is to be phased over a number of years, there will be a potential impact from 2015/16.

Creating a better care system

A new report by EY, commissioned by the Local Government Association, suggests the development of a new sustainable health and social care system, backed by establishment of a £1.3 billion a year transformation fund until 2019/20. It states that the fund should focus on keeping people independent and preventing complex and long-term conditions, and should be supported by:

- A pooled health and social care budget
- Devolved powers for health
- Reformed incentives

It outlines four key areas of focus as follows:

- **Put people in control** – including expanding integrated personal commissioning across health and care, increasing the number of personal health and care budgets by 250,000 in the next five years
- **Integrate and devolve commissioning powers** – including greater local control and freedom over pooled budgets to better respond to local needs and outcomes and allow local innovation
- **Fund services adequately and in an aligned way** – including aligning social care and health funding settlements over a five year period
- **Free the system from national constraints** – including replacing the tariff in the NHS with capitated accounting and payment mechanisms

Accounting, auditing and governance

The 2016/17 code of practice on local authority accounting in the United Kingdom: Invitation to Comment (ITC)

Each year CIPFA issue various Invitations to Comment (ITCs), setting out the proposed changes to the Code of Practice (the Code) for the following financial year and requests responses to the specific proposals. This year the ITC also requests comments on standards that are not expected to lead to changes within the Code until later years The ITC this year has a closing date for responses of 9 October 2015.

The main changes proposed in the ITC are set out below:

Highways network asset

This proposal introduces the requirements for the measurement of this asset at Depreciated Replacement Cost (DRC) from 2016/17 onwards. In the ITC, CIPFA/LASAAC proposes, for the first time, that the separately identified items in the Transport Infrastructure Assets Code are classed as one asset for financial reporting purposes. It is proposed that Highways Network Asset is a separate class of asset and will be shown separately in the balance sheet.

This change is fully retrospective and will require:

- A third balance sheet as at 1 April 2014
- Fully restated comparatives for 2015/16

The ITC also confirms that an annual condition survey will be required.

As outlined in the June 2015 Audit Committee Briefing, this change will have major implications for highway authorities and non-highway authorities who have material transport infrastructure assets. We have already run a number of successful workshops for accountants and engineers at highway authorities during the summer to discuss how this fundamental change will impact on the accounts closedown and audit. As a result we will be running additional separate events for highway and non-highway authorities going forward.

Review of accounting and reporting by pension funds

This review coincides with the publication of Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015). The ITC:

- Proposes minor changes to the Fund Account and to the Net Assets Statement to improve presentation and mirror the updated SORP
- Adapts the reporting requirements of IFRS 13 to include fair value disclosure requirements for pension fund investments in the 2016/17 Code
- Recognises that under IAS 26, three options as to how to disclose the actuarial present value of promised retirement benefits are allowed and seeks views on the option to use
- Sets out a new recommended disclosure for transaction costs

Narrow scope amendments

These are amendments to International Financial Reporting Standards (IFRS), largely around clarification of individual standards.

Accounting, auditing and governance

The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (English Authorities)

The ITC updates the specific references within the Code to reflect these legislative changes. In addition it:

- Considers that a full interpretation of section 3.1 of the Code will fully meet the requirements to produce a Narrative Report
- Highlights the additional guidance provided to enable the requirement that the Narrative Report **"must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year"**

Telling the story: consultation on improving the presentation of local authority financial statements

The financial statements are a vital part of the accountability framework of local authorities. CIPFA/LASAAC considers it vital that the user can relate the information contained within the financial statements to the funding the local authority receives and the promises made about how money will be spent.

Over the past couple of years CIPFA/LASAAC has been developing an approach to both streamline the financial statements and improve accessibility to users. The two publications Financial Statements; *A Good Practice Guide for Local Authorities* and the updated *How to Tell the Story*, have both sought to remove clutter from the financial statements and focus on material items.

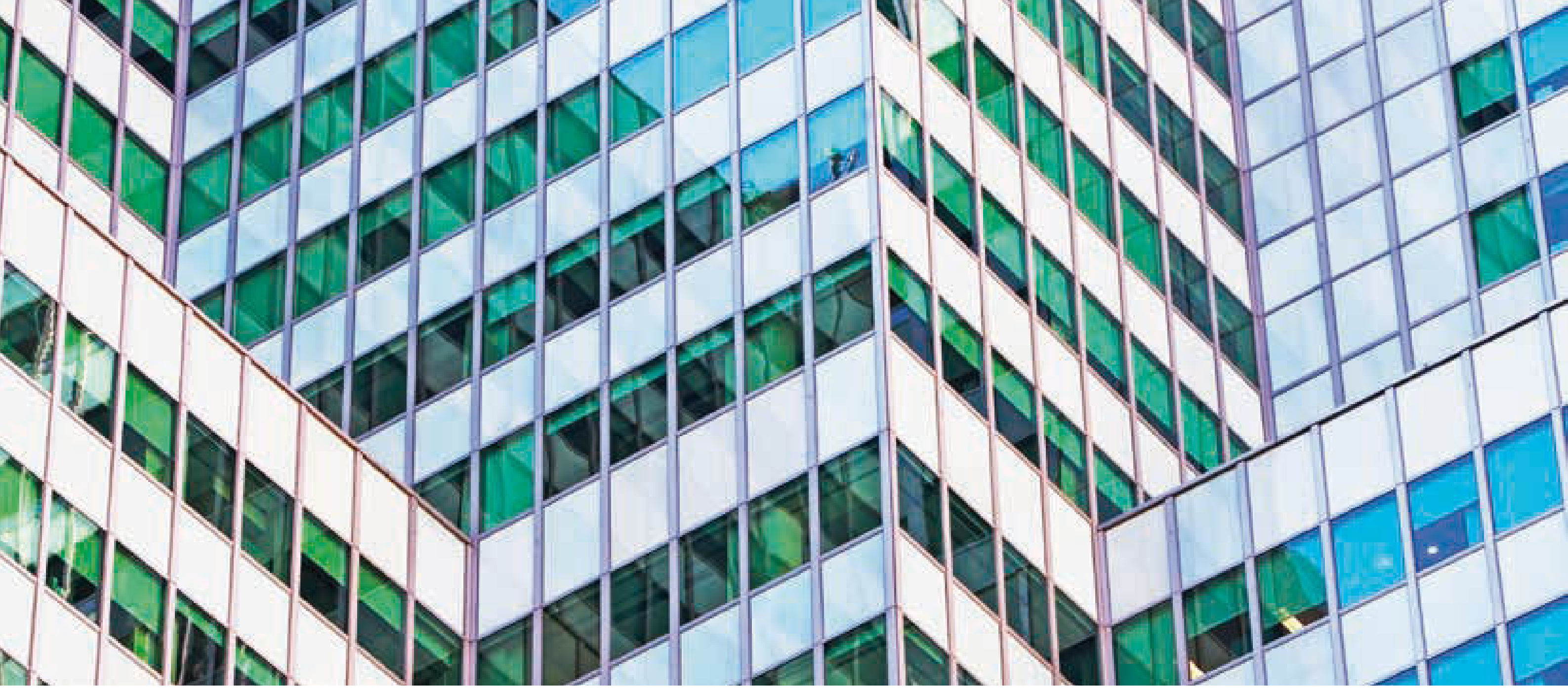
The next stage was seen to be how to adapt the IFRS based accounts to improve the accessibility of information for the lay user with the benefits and improvements in reporting that IFRS has brought being retained.

The Invitation to Comment (ITC) sets out the recommended proposals for change, seeking views on whether they are considered to be the preferable option. The key strands of the proposal are that:

- To allow local authorities to report on the same basis they are organised by rather than in an analysis set out by Service Reporting Code of Practice (SeRCOP)
- To introduce a new Funding Analysis as part of the narrative report which provides a direct reconciliation between the way local authorities are funded and budget and the CIES in a way that is accessible to the lay-reader

It is important to note that the Service Reporting Code of Practice (SeRCOP) analysis used for Government returns will continue. Thus the revised approach will not, at this stage, lead to a single financial reporting regime.

The ITC also seeks views on the timing of the proposed changes and the practical effect of introducing this change in financial reporting on authorities. The closing date for responses is 9 October 2015.



Accounting, auditing and governance

EY digital innovation programme

In the digital age organisations are expected to be innovative and tech savvy to support the way they deliver services. As well as making services more accessible, embracing digital offers cost saving potential, and enables organisations to be forward thinking, faster and fitter.

EY has launched a Digital Innovation Programme, a new awards initiative designed to recognise and celebrate digital innovation in health and social care. Its aim is to help share best practice, and recognise and celebrate the patients, carers and citizens who, through their innovative use of digital platforms, have made a positive difference to society.

It is linked to the EY Startup Challenge which is an intensive six-week innovation programme focused on accelerating technological solutions for tomorrow's business problems. Participants will receive:

- Mentoring and coaching
- Access to the EY firm and client network
- Training and support workshops
- An understanding of how to access funding

Nominations close in November 2015 and the programme culminates in a national recognition ceremony in June 2016. More details can be found at http://www.ey.com/UK/en/Industries/Government---Public-Sector/EY-Digital-Innovation-Programme.

Cap on public sector exit payments: consultation

The government announced in May that it intended to end six figure exit payments for public sector workers.

Exit payments help to unlock substantial reductions in staff costs in the medium to longer term and help authorities to meet the challenge of reduced funding available. However, given the scale of the costs associated with exit payments it is vital that they offer value for money to the taxpayer.

The government already has in place, for 2016, legislation to prevent highly paid individuals who return to the public sector within 12 months of exit from retaining their full exit payment.

Following on from this the government believes that it is right to ensure that public sector workers do not receive disproportionately large exit payments in the first instance. In particular the government is concerned about the number of public sector workers who are receiving exit payments of six figures. In 2013-14 alone, nearly 2,000 public sector employees received exit payments costing more than £100,000.

The government has proposed to introduce a cap of £95,000 on the total value of exit payments and HM Treasury launched a consultation on the proposed cap which ended in August 2015.

The current proposal has indicated that compensation payments in respect of death or injury attributable to the employment, serious ill health and ill health retirement will not be in the scope of the cap.

Regulation news

PSAA annual regulatory compliance and quality report

Public Sector Audit Appointments (PSAA) have released their Quality Review Programme annual reports for the 2014/15 audit season. There are individual reports on the seven principal audit firms and an overall summary report that compares all firms. The two main categories auditors are monitored for are audit quality and regulatory compliance.

PSAA have used a Red, Amber, Green (RAG) system throughout their reports. EY were one of two firms that received Green for the combined regulatory compliance and audit quality performance rating with the remaining five audit firms receiving an Amber rating.

For the second year in a row EY have received the highest Audit Quality score improving from 2.49 in 2014 to 2.55 in 2015 compared to a 2015 average of 2.19. Similarly for the financial statement audit work EY topped the table with a score of 2.36 compared to an average of 2.07.

As well as obtaining Green ratings for the two above categories, EY received a Green rating for Whole of Government Accounts work, VFM Conclusion work, Housing Benefit work, Regulatory Compliance, and Client Satisfaction.

The PSAA report on EY states:

"The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. The firm has maintained its performance against the regulatory compliance indicators since last year, with all but one of the 2014-15 regulatory compliance indicators scored as green. The firm's overall weighted audit quality score has increased from last year and the satisfaction survey results show that audited bodies are satisfied with the performance of EY as their auditor."

Based on this review, PSAA state:

"We are satisfied that the risks of audit failure remain low; that all firms are meeting PSAA's regulatory requirements; and that all firms are continuing to produce work to an acceptable standard."

Auditors' work on value for money arrangements

The Local Audit and Accountability Act 2014 provided the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. This was a role previously undertaken by the Audit Commission.

Regulation news

This guidance is issued in the form of Auditor Guidance Notes (AGNs) and the 2014 Act requires auditors to comply with this guidance.

The NAO is currently consulting on a draft AGN regarding auditors' work on value for money arrangements. The consultation closes 30 September 2015 in advance of the guidance being issued in November 2015. EY and other audit suppliers are currently coordinating their responses to the draft guidance which would apply to audits from 2015/16 onwards.

A short guide to the NAO's work on local authorities

The NAO is publishing a suite of short guides relating to each government department and some cross-government issues. Although the main purpose of these guides is to assist House of Commons Select Committees, the guide on local authorities provides a useful overview for elected members. It includes arrangements for funding, major recent developments, the pressures faced by local authorities, and developments that are on the horizon.

Care Act first-phase reforms: local experience of implementation

Under its powers in the Local Audit and Accountability Act 2014, the Comptroller and Auditor General has published a report concerning the Care Act.

The Care Act 2014 puts new legal responsibilities on local authorities in England and requires them to cooperate with local partners to meet them. The NAO have previously reported that only a fraction of care is publicly funded, with the majority of support and care being provided by unpaid family, friends and neighbours. Many adults pay for all or a proportion of their care. Despite this, adult social care continues to be one of the biggest areas of spending for many local authorities. For 2014/15, the NAO estimates that net spend on adult social care in 2014-15 for local authorities is £14.4 billion.

This further report follows the NAO's report on central government's approach to the Care Act First-phase reforms, and provides examples from local case study areas which show how different authorities are addressing risks arising from uncertainty in demand from carers and self-funders.

Key questions for the audit committee

What questions should the Audit Committee ask itself?

Has the authority considered the impact (both direct and indirect) on its finances of the National Living Wage?

Are there any patients, carers or citizens that we wish to nominate for the EY Digital Innovation Programme?

Are we aware of our responsibilities under the Care Act 2014, and have we considered what changes we may need to make in order to fulfil our responsibilities whilst maintaining affordability?

Find out more

EY item club summer 2015 forecast

For details of the EY Item Club's latest forecast, see http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

National living wage

Sources include:

BBC – http://www.bbc.co.uk/news/uk-politics-33437115

Local Government Association – http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/7386419/NEWS

UK Homecare Association – http://www.ukhca.co.uk/downloads.aspx?ID=473

Creating a better care system

Find out more details and a copy of the report at http://www.local.gov.uk/web/guest/publications-list/-/journal_content/56/10180/7350693/PUBLICATION

2016/17 code of practice ITC

For details about the CIPFA Invitation to Comment on the 2016/17 Code of Practice, see http://www.cipfa.org/policy-and-guidance/consultations/201617-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment

'Telling the Story' ITC

More information about CIPFA's consultation on 'Telling the Story' can be found at http://www.cipfa.org/policy-and-guidance/consultations/telling-the-story-improving-the-presentation-of-local-authority-financial-statements

EY digital innovation programme

Details of the programme and how to nominate can be found at http://www.ey.com/UK/en/Industries/Government---Public-Sector/EY-Digital-Innovation-Programme

Cap on public sector exit payments: consultation

The details of the Government's consultation on capping public sector exit payments can be found at https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap

PSAA annual regulatory compliance and quality report

The PSAA's Audit Quality webpage can be found at http://www.psaa.co.uk/audit-quality/, the annual Regulatory Compliance and Quality Review Programme report is at http://www.psaa.co.uk/wp-content/uploads/2015/07/Annual-Regulatory-Compliance-and-Quality-Review-Programme-2015-Final.pdf, and the report specific to EY is at http://www.psaa.co.uk/wp-content/uploads/2015/07/EY-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf

Auditors' work on VfM arrangements

The consultation document is available at http://www.nao.org.uk/keep-in-touch/wp-content/uploads/sites/11/2015/08/Vfm-arrangements-auditor-guidance-consultation-document.pdf

A short guide to the NAO's work on local authorities

To access the interactive guide see http://www.nao.org.uk/wp-content/uploads/2015/08/A-Short-Guide-to-the-NAOs-work-on-local-authorities2.pdf

Care Act first-phase reform

The full report is available at http://www.nao.org.uk/report/care-act-first-phase-reforms-local-experience-of-implementation/

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AUDIT & GOVERNANCE COMMITTEE – WEDNESDAY 18 NOVEMBER 2015

HAMPSHIRE PARTNERSHIP – THREE MONTHS' POST GO LIVE STATUS

Report by the Chief Finance Officer

1. Introduction

1.1 The Audit & Governance Committee has been kept informed of progress towards Go-Live of the Hampshire partnership and since Go-Live. Given we are now into three months post Go-Live, it seems an appropriate juncture to provide the Committee with a further update.

1.2 This report focusses on the Finance Systems, including, purchasing and income, but does not include HR.

1.3 Cabinet took the decision to join the Hampshire Partnership in June 2014 following a strategic business case and the evaluation of various options available. It was decided that joining the Partnership would realise significant collective benefits through sharing resources, investment and capacity.

1.4 Implementation occurred in July 2015, one week later than originally scheduled and we have now completed the first three months of post Go-Live. Although there are still a number of issues to be resolved, we are broadly on a positive trajectory. An IBC Services to OCC – three month Stabilisation – Gateway Review report has been prepared by the Hampshire County Council's (HCC) Head of Shared Services for Senior Officers in OCC. This report is attached at **Annex 1** and provides the Committee with issues identified to date, proposed solutions and the achievement of performance metrics, as agreed for measuring project success.

1.5 A number of arrangements have now been put in place with HCC to expedite the resolution and escalation (as appropriate) of issues. Although some are in the early stages, they are proving to have a positive impact. The expectation has always been, and has been communicated to both this Committee and Cabinet, is that stabilisation and embedding of the new arrangements would be expected to take six months. This would be in January 2016 and at this point it would be expected that there were minimal key issues remaining.

2. Benefits of the Partnership

2.1 Oxfordshire joined the Hampshire Partnership which is successfully providing shared Corporate Services for HCC, Hampshire Fire and Rescue and Hampshire Constabulary. Once stable, the partnership will deliver significant savings for the Council as well as providing a modern self-service framework. In addition to the financial benefits, a number of non-financial benefits will be achieved. These include; maintaining resilience and enabling front-line transformation through automation and the adoption of best practice processes.

2.2 All partners will benefit from future investment and a programme of enhancement is currently underway with an upgrade scheduled for November 2015. Further developments around reporting and mobile technology are scheduled for 2016.

3. Governance Arrangements

3.1 Strong and joint governance arrangements have been put in place to monitor the transition since July, covering the first three month period of stabilisation. This has included; the Project Board (jointly attended by Hampshire and Oxfordshire), a Professional Leads Stabilisation group reporting to the Project Board, also jointly attended by senior Hampshire officers and Oxfordshire Professional Leads for Finance, Purchasing, HR and Schools. An Oxfordshire Externalisation Board has also remained in place with senior management representation across all the outsourced areas which met monthly, and which I chaired.

3.2 Governance arrangements have been put in place for the six month stabilisation period. These are shown in **Annex 2**. In addition, Oxfordshire will sit on the Strategic Partnership Board as the operational partner representative. The Chief Finance Officer will represent Oxfordshire. This Board will meet bi-annually. Although Oxfordshire's Externalisation Board has now ceased, it will be replaced by an operational board, the Hampshire Partnership Board, which will meet monthly until at least mid-2016 and consist of the Professional Leads and chaired by the Chief Finance Officer to ensure that issues continue to be identified and resolved.

4. Stabilisation Issues

4.1 A number of issues occurred during the stabilisation period and these were managed by the Professional Leads Group which had oversight of an Issues Log for the three month period, to prioritise actions and mitigate associated risks.

4.2 In summary, these issues consisted of:

- First time events:
  - Pre Go-Live purchase orders unable to be converted to “new” ones;
  - School suppliers in estore not initially open for use;
  - Inconsistency in the set-up of schools;
  - Multiple Employment arrangements (directorates and schools) resulting in access issues;
  - Bulk upload adjustments for HR and pay rather than relying on self-service;
  - Inability of the IBC BPC system to roll-over narrative and deliver drill-down functionality;
  - Staffing cost reports unable to be run.
- Gaps in data/understanding:
  - Requirement to set up teachers with a secondary record;
  - Complexity of resolving bursar access;
  - Duplicate payments batch file, requiring recovery from suppliers;
  - Bank mandates for direct debits and direct debit runs;
  - Levels of unallocated cash;
  - Loading of “old” OCC vendor numbers;
  - Lack of engagement on some new processes such as submission of first petty cash claims.
- Process and system issues:
  - Slow responses to IBC enquiries;
  - Flexi-time recording issues;
  - Minor data breaches.

4.3 Most of these issues have either been resolved or are in the process of being resolved through current IBC processes, OCC change of process or a change request which will be implemented in November/December. Over the coming months we will continue to capture any new issues, resolve outstanding issues and ensure resolved issues do not resurface. Overall, processes need to become part of business as usual over the next three months.

5. Impacts of Issues on the Council

5.1 The issues identified above have had some impact on the business. The key ones are listed below:

- Duplicate payments - we are aware that there have been some duplicate payments to suppliers since the Hampshire Go-Live and have arrangements in place to recover these. At present, we cannot be sure of the totality of these overpayments and Hampshire is working to provide us visibility of this as soon as possible. We have requested that this metric is included in the P2P (Procure to Payment) Dashboard and they are currently investigating this option or will be discussing a suitable alternative.

- Late payments to suppliers where Purchase Orders are not migrated. This has been particularly problematic for payments to Social Care agency staff. We have undertaken a complete review of these invoices and discussed these with the relevant suppliers. Many of the issues have been around the format of the invoice when it is submitted to the IBC and supporting documentation. Payments are now progressing.
- Late/incomplete Direct Debit runs. This has been largely an issue in Adult Social Care. There were two direct debit runs where all payments were not collected from the IBC. This is looking to be rectified in the mid-November direct debit run. We receive rejection reports after each run to monitor progress.
- Aged-debtor information – We have been unable to obtain an Aged Debtor report since Go-Live. This will mean that we have been unable to manage and recover any potential outstanding debts. We expect this information to become available once the O2C (Order to Cash) Dashboard goes is in production from end November/early December.
- Pensions issues (MARS returns) – There have been issues regarding the quality of the information provided to OCC. The issue pertains to lack of quality assurance over the data provided which should be a function of OCC as the employer and owner of the OCC data. We are currently working to identify where this activity should reside in OCC.

6. Arrangements for Ongoing Resolution of Issues

6.1 We have put in place a number of arrangements to more quickly and effectively capture, identify and resolve issues, these include:

- A structured process for capturing issues across the Council, with a nominated person in each directorate gathering issues and meeting fortnightly with Professional Leads to either resolve immediately or identify a solution and report back. A comprehensive log of all issues and resolutions will be kept by each nominated person. This process will not include schools as there is a separate process in place managed by the Schools Transition Team;
- Working Groups, consisting of HCC and OCC staff, which meet monthly to rectify income and purchasing related issues;
- The Schools Transition Team will have visited every school by year-end providing hands-on-training on the new processes and formulating an understanding the difficulties encountered by schools and how they can be resolved. This is supplemented by “shadowing” sessions for schools for finance and HR, run by the IBC. Take up of all sessions has been good and these are starting to deliver dividends;

- The roll-out of a comprehensive programme of "Bitesize" training covering; finance, HR and purchasing, being delivered at various locations across the County. This programme has already commenced and is due to continue until at least January 2016. Early feedback has proven to be very positive. This training will continue to be delivered on an ongoing basis as a refresher programme and for new OCC starters;
- A broad suite of guidance ("How To") material and top-tips on the intranet on all IBC outsourced services. This has recently been reviewed and enhanced;
- Gathering precise information on qualitative aspects of responses by the IBC is difficult, however we have in place a number of mechanisms which should facilitate this including:
  - a "mystery shopper", whereby an independent caller will contact the call centre anonymously with a fictitious query to test the how well the IBC solves the issue or escalates, combined with their attitude and approach to the caller;
  - HCC have instituted forums for collecting information on customer interaction;
  - An OCC representative from schools and HR will be listening in to some queries taken live at the call centre.
- The Business Data Upload (BDU) system was designed as an interface between OCC feeder systems and the IBC SAP system. It was also agreed that is could be used for one-off vendor transactions. Since Go-Live it has transpired that there are significantly more users who have access to this system and are regularly using it much more than originally envisaged. The controls around this system are very weak. We have put in place a BDU Project whereby OCC staff will form an understanding of the types of transactions uploaded and work with HCC to improve OCC processes so they can use an established, standard route with the requisite controls.
- Hampshire is currently testing a P2P and O2C Dashboard, which will provide key metrics of purchasing/payments and income activities. This is due go-live end November/early December.

7. Performance Metrics

7.1 A number of performance measures were agreed between HCC and OCC at the inception of the project which would indicate its success, covering finance (purchasing, invoicing, payments, banking and tax), operational finance (BPC) and HR (recruitment, DBS, pay, expenses). However, these are all quantitative. There are currently no qualitative measures such as customer service. Generally, indicators are showing a stepped improvement over the three month period and these are expected to continue to improve over the next three months.

RECOMMENDATION

The Committee is RECOMMENDED to note the report and ask the Chief Finance Officer to report back in February 2016 once the partnership has been operational for six months.

LORNA BAXTER
CHIEF FINANCE OFFICER

November 2015

Contact Officer: Lorna Baxter 01865 323971

Title:	IBC Services to OCC – 3 Month Stabilisation – Gateway Review		
Date:	1 November 2015		
Report From:	Gary Westbrook, Head of Shared Services		
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1. Introduction and context

1.1 The purpose of this paper is to provide an overview of the first three months operation of the shared service arrangement between Hampshire and Oxfordshire County Council, from July to end of September 2015. The paper sets out the aspects of the programme of change which have gone well, the challenges that have been addressed and what still needs to be done to complete stabilisation.

1.2 OCC Cabinet took the decision to join the Hampshire partnership in June 2014 following a comprehensive strategic business case and the evaluation of various options available. It was decided that joining the Hampshire partnership would realise significant collective benefits through sharing resources, investment and capacity. The partnership has been able to invest significantly in upgrading and future proofing technology, and now provides a platform on which to further develop and improve the efficiency and effectiveness of service delivery.

1.3 Hampshire has already experienced on-boarding 3 different organisations and has developed an understanding of the likely issues encountered as well as the barriers to change. Business readiness is never enough, users only start to understand and come to terms with change when they are operating within the changed environment.

1.4 Hampshire very clearly set the expectation that a 3 to 6 month period of stabilisation would be necessary and a jointly agreed stabilisation process was implemented to address issues in a collaborative way. This three month check point provides an overview of the stabilisation achieved to date with a view to considering the achievement of the target operating model by the end of the 6th month, with all stabilisation issues (summarised in Section 3 resolved). Further work is required to continue to evaluate the anticipated strategic non-financial benefits summarised in Section 2.1.

1.5 OCC Directorates had a mature self service model in place prior to joining the shared services partnership, and this has facilitated take up of the new ways of working. This take up is demonstrated by the high transaction volumes being processed.

1.6 Oxfordshire schools did not have the same benefit of being closely engaged in the decision making and realisation of the benefits of change. This has been evidenced by greater resistance to the changes around both real and perceived issues.

1.7 Geographical distance has created a barrier to OCC staff transferring to Hampshire, and has resulted in a significant loss of knowledge. This has left a temporary knowledge gap for staff supporting the new arrangements, and managers in both Hampshire and Oxfordshire are engaging closely to ensure knowledge transfer is taking place quickly and effectively.

2. Strategic achievements/plans

2.1 Oxfordshire County Council have joined the Hampshire Partnership which is providing shared Corporate Services for Hampshire County Council, Hampshire Fire and Rescue and Hampshire Constabulary. As envisaged, the partnership delivers significant savings on Corporate Services as well as providing a modern self service framework supporting public services providing further potential for achieving greater economies of scale from additional future partners. In addition to the financial savings the following non quantifiable benefits were expected to be achieved through the partnership.

Category	Benefit	Measure / Metric	Current Status
Maintaining resilience and skills	Shared access to specialist skills and resources.	Integrated structures for specialist and technical resources.	OCC services are now being delivered through single integrated teams servicing 4 organisations.
	Retain joint capacity of in-scope teams.	Retention of key skill sets within in-scope areas.	Greater size of HCC service centre and single shared SAP system will enable retention and resilience of specialist skill sets.
	Shared knowledge and skills base.	Increased skills base through integrated teams.	OCC specific knowledge is being transferred through regular stabilisation meetings.
Enabling front line	Increased levels of accessible self service	Access to ESS and ESS lite to enable paperless	c59% of all users have registered for mobile

transformation	across the organisation.	self service.	paperless working.
	Improved front line capacity through more effective business process.	Increased front line staff capacity through time saved.	Not currently measured
Best practice processes	Process improvements through best use of new technology.	Rationalisation and automation of internal processes.	16/17 development plan to be shared with OCC through governance channels in late 2015.
	Maintain and improve levels of customer satisfaction.	Customer satisfaction levels.	Not currently measured
	Effective query resolution through self help	Query resolution performance and volumes.	See section 5 of this report. This will be revisited at Month 6.

2.2 The Partnership Governance supported the identification and delivery of enhancements required for OCC in advance of the implementation. This provided a range of adjustments to business processes including the required changes for OCC Schools by removing the requirement to goods receipt.

2.3 All partners will benefit from future investment and a programme of enhancement is currently underway with an upgrade scheduled for November 2015. Further developments around reporting and mobile technology are scheduled for 2016, and will be communicated to OCC through their involvement in the partnership's overall strategic governance arrangements.

3 Stabilisation issues identified/resolved

3.1 A number of issues have occurred during the stabilisation period. These have been managed by a Professional Leads Stabilisation Group which has overseen a stabilisation issues log for the 3 month period to prioritise actions and mitigate associated risks.

First time events:

- Issues experienced with some purchase orders raised prior to go live which could not be 'converted' to new purchase orders. This created complexity, some duplicate deliveries, and delays to payments. There have also been a number of delays in payment to agency social workers, which both HCC and OCC are working to collectively resolve.
- Schools suppliers in the eStore were not initially open for Schools use. This was rectified within the first weeks of go-live.

- Inconsistency with the way OCC schools were set up (on standard hours for all schools) and the instructions provided (which assumed schools worked non standard hours as HCC) resulted in a number of incorrect payments requiring subsequent correction.

- Whilst the majority of Multiple Employment arrangements have worked correctly there have been significant issues with a small number of users in both directorates and schools (less than 50) resulting in access issues. These have required focused individual investigation and the majority have now been resolved.

- As a consequence of the delay to go live (1 week) bulk upload adjustments were made for HR & Pay, rather than rely entirely on Manager Self Service. This addressed the backlog, making a significant number of payments that would not have been input in time. However, a number of issues undermined this process, including: the poor quality of data, inconsistent data standards (hrs/days), duplicate data submissions and the absence of control and ownership of the data submissions. The bulk upload process resulted in a number of underpayments and a few overpayments, and a robust pay advance process was collectively agreed to mitigate any financial impact on individual employees. Such large scale bulk uploads are no longer required now that self service is embedding in the organisation.

- Due to the execution of first time events in the operation of the BPC system a number of issues were raised, including the retrieval of comments by managers and drill through to actuals/budgets. All issues have been investigated and are either resolved, in the process of being resolved or are captured as formal change requests.

- Due to a security restriction OCC Finance staff were initially unable to run staffing cost reports across their organisation. A new security role was built and having been successfully tested and has recently been applied in the live system.

- There was a delay in returning monthly pension information for both OCC and OFRS. OCC pension returns are now being made in an agreed format, and a resolution is in place for returns to commence for OFRS from November 2015.

Gaps in data/understanding:

- The SAP system requires Teachers and contracted staff to be set up with a secondary record as a supply teacher or a casual record for recording any additional hours. This was not fully understood across all OCC schools and therefore additional hours were recorded against the Teaching record, which could not be processed. This created a significant amount of additional effort for schools in the condensed period following go live and prior to the end of the summer term.

- The access and control framework is very complex and incorrect or missing information has created a number of issues for users. In some instances these access issues have masked more complex issues, such as bursars which have taken a number of weeks to investigate and resolve.
- Customer Interaction Centre (CIC) staff are not familiar with some OCC processes, and instances have been identified where incorrect instruction has been given.
- Duplicate processing of payments batch file (OCC user error) requiring recovery of over payments from future payments to suppliers.
- Issues experienced with the bank mandate for direct debits coupled with gaps in the data load delayed the initial direct debit run and omitted some direct debit collections, and a number were omitted over the recurring weeks. These exceptions have now been resolved.
- Significant levels of unallocated cash built up during the initial period, including some debtor accounts not being cleared down. This was expected but has taken longer than anticipated to resolve. Teams from HCC and OCC are working together to share knowledge in this area.
- BW data was amended on two occasions due to omission of back dated transactions following data migration and the loading of “old” OCC vendor numbers. Both solutions were signed off by OCC by 26 August 2015.
- There is a lack of familiarity amongst OCC staff with the new General Ledger coding structure which is resulting in some miscodings. Work is on-going in OCC to transfer knowledge to relevant finance teams and budget managers.
- Initial analysis of petty cash usage in OCC has revealed that 48% of accounts are yet to have their first claim submitted and 35% of accounts are yet to record a transaction using the portal. This highlights an issue of potential concern as it appears that OCC users have not fully engaged with the new process. This analysis has been shared with the OCC Corporate Banking and Strategic Finance managers for escalation within OCC.

<u>Process/system issues:</u>

- Responses to the self service enquiry forms have been slower than expected, given the significant volume of enquiries from new service users. Further data is being captured for the 6 month stabilisation report to better understand response and resolution times for queries.

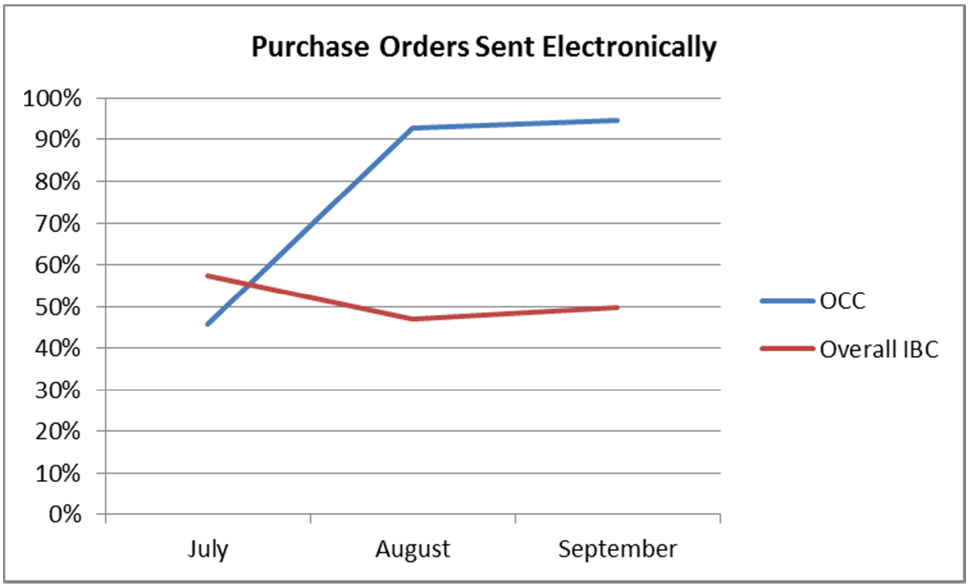
- Flexi time issues have only recently been resolved and a small number of data issues are still to be addressed. Communications have been released to all users confirming how the flexi system should be used and any interim arrangements decommissioned.
- Some minor data breaches have occurred with both customer and employee data. These have been risk assessed and dealt with appropriately through each organisation's respective Information Security Breach Procedures. Formal processes have been put in place to ensure that any future breach is handled effectively.

4 Measures and performance metrics

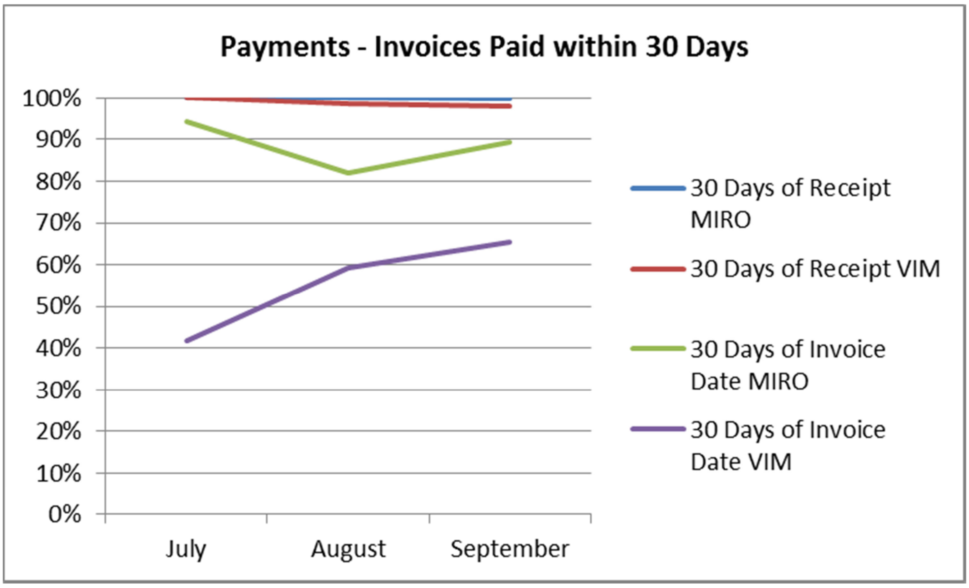
4.1 Whilst the focus on specific performance measures will change over time the initial key performance measures were identified in the "Integrated Business Centre - Oxfordshire County Council On-boarding Project - Benefits Realisation Plan v1.0". The detailed metrics relating to these performance indicators, have been shared with senior stakeholders in OCC.

4.2 The performance metrics that relate to **purchasing** show a positive position and trend, with:

- purchase orders raised via the eStore are running at a consistent monthly level once the overall numbers have been adjusted for schools holidays and the associated fall in volume
- eStore purchases of values up to £250 for non-contracted spend would ideally be made using a P-Card. Metrics to date show a significant number of purchases of this kind being made via the eStore.
- The number of purchase orders being sent out electronically started at 45% in the first month and rose sharply in the second month to 92% and in month 3 has achieved an exceptionally high 94% which is higher than the overall average for other partners. This can partially be attributed to the culture of self service OCC had already achieved in advance of implementation.

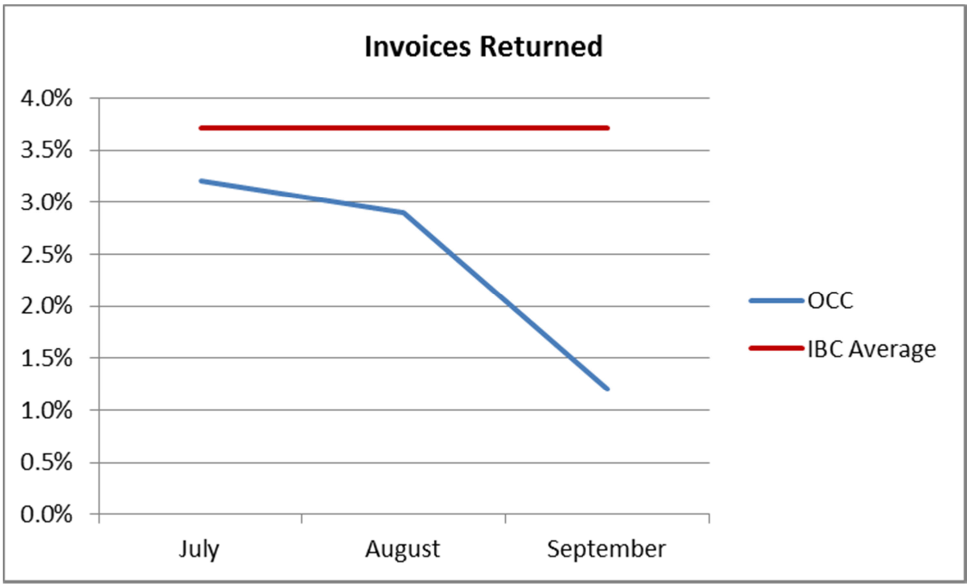


- in the first month of operation none of the invoices were over 30 days old, therefore the number paid within 30 days was expected to drop in the second month. However, it should be noted that the percentage paid within 30 days is still running at over 98%, primarily due to immediate payment terms being employed during the stabilisation period.



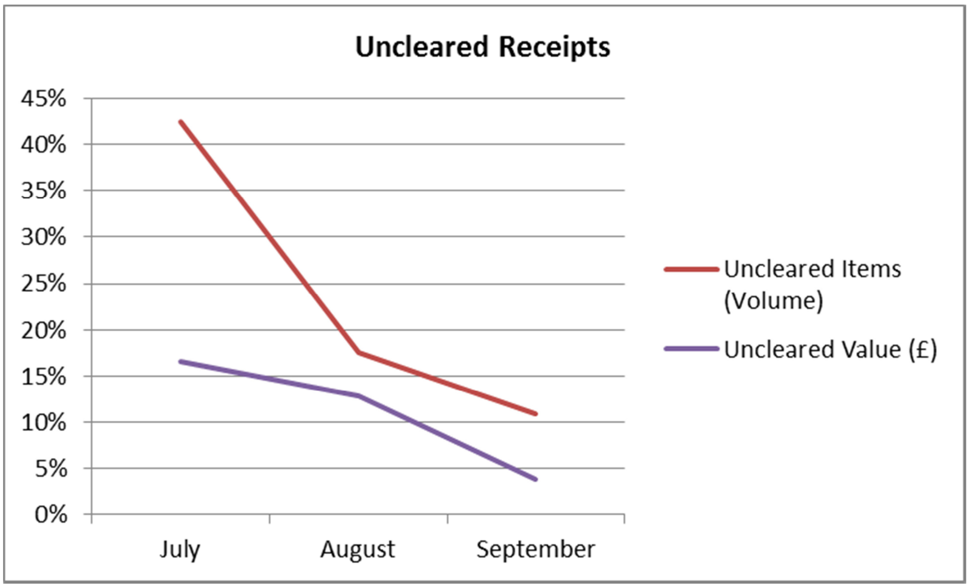
- the number of invoices processed through VIM is increasing which can be taken as an indication of suppliers adopting the new processes.

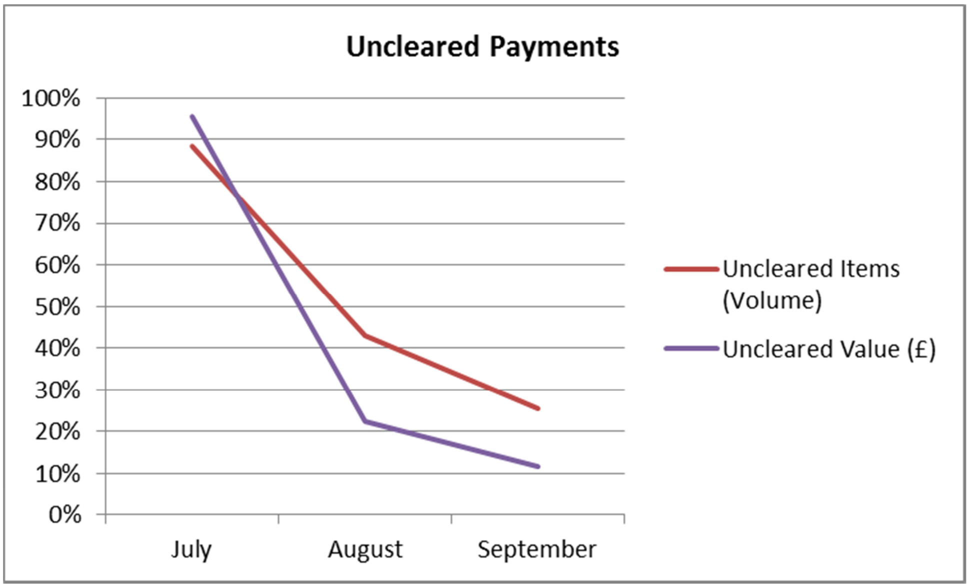
- invoices returned to the supplier under 'no PO no Pay' is reducing and now running at below 5% indicating high level of user compliance with the policy. This correlates with the statistics collected for Hampshire County Council which typically reach between 2% and 5% per month.



4.3 The performance metrics that relate to **finance** show a positive trend, with:

- as anticipated the holding and suspense accounts show a significant level (number and value) of uncleared receipts and payments. Whilst we knew it would take time for the knowledge to build the trend is very positive, illustrating a very steep learning curve for the team following on boarding.





- the average time to apply unallocated cash has fallen significantly and this trend is expected to continue. This matches the performance measured for other partners where any initial high levels are brought down to 3.1 working days, on average, for the same quarter.

- VAT returns are being completed and submitted within 21 working days of the month end.

4.4 The performance metrics that relate to **Operational Finance** also show a positive position and trend with:

- majority of areas achieving 100% and an overall achievement rate for September of over 97%

- a number of virements received in July had to be held for processing until the data migration was complete for the first quarter

- BPC security changes were initially delayed in July due to the planned later launch of BPC to budget managers. Throughout August the team worked with the IT Security team to improve the process and speed up response times.

- response times for creation of cost centres in BPC recently dipped in September due a delay in information required from OCC's Finance team. This was followed up and is not expected to cause any future issues.

4.5 The performance metrics that relate to **payroll** show a positive position and trend with:

- the number of payroll error on final run and overpayments are consistently very low. This mirrors the low percentages recorded for other partners.

- in line with the pay changes required as part of OCC take on the number of pay records where an action is made to a previous month after payroll has run was significant during August, this can be seen to have fallen during September and this trend is expected to continue as the take on issues are resolved. Experience shows that, with previous on-boardings, the number of retrospective changes decreases to a more static level, with the only increases being due to known events – such as backdated pay awards.

- HR and pay transactions completed on time through self service is running lower than anticipated and this indicates an area for further work with the user base.

4.6 Whilst the **travel and expense** claims completed on line through self service is very high, the expectation was that OCC would achieve close to 100% self service. Although some paper claims are expected for high value claims, OCC will need to decide when to address this during the remaining period of stabilisation.

4.7 As yet only a small number of **recruitment** cycles have completed, which gives an unrealistically high percentage being completed within 50 days, and some user feedback identifying some delays due to user familiarity with new systems, slow query response times and contract issuing delays. At present monitoring shows that the number of recruitments in process is running higher than expected by approximately 30%, however at this stage this is assumed to reflect built up demand prior to go live.

4.8 The performance metrics that relate to **DBS Checking** show that DBS checks completed on time via eBulk started low in the first month and are now climbing quickly with about 50% of the volume being counter signed each month.

4.9 The performance metrics for **Master Data** that relate to customer set up are still under development and for new suppliers this shows a good position with over 90% of requests being processed within 5 working days. This remains consistent with the requests of all organisations.

5 User help and support

5.1 The shared service operation is based on self service and a comprehensive framework of user self service help guides exist for the shared service functions. These are tailored for each organisation where different functionality is used.

5.2 User feedback from all partners is consistent in requesting direct access to staff who have the right knowledge as and when the user requires. In order efficient access to the appropriate support, the Customer Interaction Centre (CIC) has a business process to transfer calls based on defined criteria, ensuring that the experts are deployed on the most important issues.

5.3 In addition to the standard user support OCC super users were identified and trained to provide local support for users through the learning curve and transition to the new self service arrangements.

5.4 The key performance metrics are shown below although work is continuing to develop more meaningful information around response times and resolutions to aid continuous improvement.

Contact	Performance Indicators	July	August	Sept
Telephone	- Directorates (inc payments)	1563	1550	1657
	- Schools	405	174	538
	Total calls received in the CIC	**1968**	**1724**	**2195**
	CIC calls resulting in sign posting/guidance/resolved	1098	1047	1350
	CIC calls referred to complete enquiry forms	556	411	401
	CIC calls requiring transfer to experts	286	244	419
	Calls abandoned	28	22	25
	Total calls	**1968**	**1724**	**2195**
Enquiry forms	Enquiry forms received	3752	2741	3825
	Response within 5 days	Reporting in final stages of development for this area		

5.5 In addition the Operational Finance customer contact statistics show that 100% of issues raised via telephone contact have been resolved within five working days (which is the target). In addition a very high proportion of written queries (now standing at 98%) are fully resolved within five working days with a response to all queries being given within 5 days.

6 ESS Lite Registration

6.1 The level of registration for ESS lite remains relatively constant from the initial take on period and is consistent with previous on boarding experiences. It should be noted that office based directorate staff do not need to register for ESS lite as all functionality can be accessed from the desk top. Further contact with those that work remotely would be needed to verify if the current level of registration is appropriate.

6.2 The level of registration for schools staff may be of some concern. If schools based staff have not registered for ESS lite then they will not have access to basic information such as their payslip.

6.3 The current level of OCC user registration for ESS lite is shown below:

ESS Registration	July	August	September
Overall %	54.6%	54.0%	58.9%
Directorates %)	63.6%	60.9%	64.6%
Directorates (Volume)	3,184	3,061	3,349
Schools %	49.8%	50.0%	55.5%
Schools (Volume)	4,615	4,390	4,905

6.4 Future enhancements to mobile self service through ESS Lite with the addition of manager approvals will motivate additional registration to support more flexible working.

7 Change Requests

7.1 There are currently 30 open change requests (plus a further 9 that were drafted in late October which are currently being investigated before formal submission). It is expected in the stabilisation period to have a number of necessary system changes that are identified through first time events.

7.2 Additional controls have been put in place around the change request process, to ensure appropriate ownership and sign off from all sides, as well as the maintaining the integrity and standardisation of business processes across all partners. Those changes relating to a deviation from the standard operating model or are OCC specific will incur a cost outside of the overall cost agreement, and this will be agreed with OCC prior to the final approval.

8 Conclusion and recommended actions

Schools

8.1 The extent of change and both formal and informal feedback indicates that

OCC schools are finding the change difficult. They have moved from a paper based system with a significant level of interpretation as well as support being provided by OCC. Schools are now required to understand the consequences of their direct input and self service, although they still have access to support through the standard self service arrangements.

8.2 In order to provide additional support for the schools OCC set up, with support from HCC EPS and EFS, an extensive programme of face to face training was deployed during September 2015. In addition, shadowing sessions are being provided covering both HR and Payments (approx. 400 in each area) during October which users are able to book specific slots.

8.3 **Recommendation**: During the remaining period of stabilisation OCC will need to determine the additional support, communication and guidance schools may require during this transition to a new operating model.

<u>OCC Directorates</u>

8.4 Despite OCC Directorates having already moved to a culture of self service the extent of change has been significant. Whilst a number of issues have occurred and are identified in Section 3 of this report, most of these have been resolved quickly and work is on-going for those still outstanding.

8.5 The business readiness, took the form of large scale user briefings and communication campaigns via email and the OCC Intranet. This decision was taken as there is evidence to suggest that even where face to face hands on training is provided users do not address the real change until the new systems and processes are live.

8.6 The performance metrics and volumes indicate that the services are being widely used across OCC, with an overall positive trend in many areas. This needs to be set within the context of the more qualitative and quantitative measures.

Recommendation: This will be captured through data from the Customer Interaction Centre by the end of month 6, as well as OCC's evaluation of anticipated strategic benefits including the achievement of significant recurring cost savings and the non-financial strategic benefits detailed in Section 2.

8.7 A number of adjustments to the operating model have been made to support OCC through the transition. It was agreed that car leasing adjustments would be processed for OCC as a transitionary process given that there is no self service functionality for car leasing.

Recommendation Cessation of car leases will need to be planned during the remaining stabilisation period. OCC will also need to develop an approach to increase self service expense claims by the end of the remaining stabilisation period.

8.8 The expense compliance process is yet to be implemented for OCC. This process will provide audit assurance around the self certification of expense claims.

Recommendation: OCC will need to consider the optimum time to deploy this process. It should be noted that when the process is implemented it will sample all expense transactions from implementation creating a peak in workload and time pressure to complete the verification process.

8.9 **Recommendation**: All remaining agreed change requests and defects will need to be addressed during the remaining stabilisation period, ensuring appropriate resource and focus is available to test and deploy approved changes.

8.10 The issue that has been raised with OCC that 48% of all petty cash accounts are yet to have their first claim submitted and 35% of accounts are yet to record a transaction using the portal indicate that further user engagement is needed.

Recommendation: OCC will need to consider what other change and support is required to ensure the new operating model is fully embedded and optimised with the correct business behaviours by the end of the stabilisation period.

Stabilisation Governance – Months 3 – 6

Strategic Liaison
Frequency: Monthly
Attendees: CW, GW, LB, SM, GS

OCC Partner Forum
Frequency: Monthly
Attendees: OCC Professional Leads + HCC Senior Leads
Ownership of issue resolution list

Customer Relationship Manager

OCC User Group
Frequency: Monthly
Attendees: TBC

BAU PMO
Frequency: Weekly
Attendees:

Proposed Go Live Support Framework for Issue Resolution
Guidance / Briefings
Super Users / Champions
CiC (phone and e-form)
OCC Customer Service Group

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AUDIT and GOVERNANCE COMMITTEE – 18 November 2015

REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group has met twice since the last Audit & Governance Committee; 15 October 2015; and, 5 November 2015.

15 OCTOBER 2015
The meeting was attended by:
Dr Geoff Jones – Chairman; Cllr D Wilmshurst; Cllr N Hards; Nick Graham; and Ian Dyson.
Part meeting only; AWG 15.20, Sue Scane, Jim Leivers, Mark Kemp, and Alexandra Bailey; AWG 15.21, Martyn Ward; AWG 15.22, Neil Shovell.

Matters to Report:

AWG 15.20 Management Update - Transport Safeguarding
The Group received a detailed report, presented by the Senior Managers, setting out the actions that have been implemented, and the status of the on-going actions. The Group was informed of the complexity in dealing with the issues highlighted following the internal audit, but noted evidence that the Directorates are working well together agreeing on risk and priority. It was acknowledged that there remains risk in the systems and processes, but that good progress is being made. It was also acknowledged that the information gained from the work undertaken has made it clear the original target dates for completing all actions were too optimistic, and the Group has accepted the management rationale for revising the implementation dates.

AWG 15.21 Management Response - Disposal of ICT Equipment
The Service Manager ICT presented a report highlighting the management action taken following the internal audit of Disposal of ICT Equipment. The manager confirmed that immediate action was taken to cease the arrangements for disposal of ICT equipment, and that tenders are being invited for a new contract. The Group noted that the actions being taken have mitigated the risk exposure highlighted in the audit.

AWG 15.22 Risk Management Update
The Group noted the report, which included risks escalated to CCMT in the Q1 Business Management Report. The Group was updated on the progress with revising the Corporate Risk Register, which is now scheduled for completion by end of December 2015.

5 NOVEMBER 2015
The meeting was attended by:
Dr Geoff Jones – Chairman; Cllr D Wilmshurst; Cllr S Lovatt; Cllr R Smith; Cllr N Hards; Lorna Baxter; Nick Graham; Ian Dyson; and Sarah Cox
Part meeting only: AWG15.26 and AWG15.26, Seona Douglas, Ben Threadgold, Sarah Fogden; AWG 15.30 Belinda Dimmock-Smith; AWG 15.31, Steve Thomas, and Gill Halstead.

Matters to report:

AWG 15.26 Management Update - Client Charging
At the request of the AWG, the Deputy Director provided a report on the outstanding management actions from the 2014/15 internal audit. The Group accepted the explanations provided in the report, noting the actions will be completed and addressed by the implementation of the new social care management system, due to go live in November 2015. The Chief Internal Auditor confirmed an audit of client charging will be undertaken in Q4 that will provide some assurance over the effectiveness of the management actions since the last audit.

AWG 15.27 Internal Audit of Direct Payments
The Audit Manager presented a final draft of the executive summary from the current internal audit of Direct Payments. Although not yet finalised, the overall opinion from the audit is "red". The scope of the audit looked at the systems and processes for the monitoring of Direct Payments, following concerns identified by senior management when reviewing existing direct payment cases. The audit identified weaknesses in the systems and processes, and the management controls designed to provide assurance that direct payments are being used effectively and appropriately. The Group received positive assurance from the Deputy Director and the Finance Business Partner that a number of actions have already been taken, including a panel review of all new direct payment care plans, and existing high value direct payments; however they also noted management comments that the findings in the audit has highlighted a need to improve skills and awareness within the teams operating the systems and processes. The Audit Manager stated that a further audit looking at the end to end processes of the Direct Payments system is to be undertaken in Q1 2016/17. The Group agreed to wait for the outcome of that audit before hearing further from the Deputy Director.

AWG 15.29 Internal Audit Update
The Group noted the report.

AWG 15.30 Corporate Services Risk Management
The Group reviewed a sample of risk registers from Corporate Services and received a report setting out how risks are managed and escalated within Corporate Services. This was the first time the AWG has received this from Corporate Services; they had not receive any reports when previously the Chief Executive's Office. It was noted in the sample of risk registers that different formats are being used, and that it was not easy to see the progress of the risk mitigation. The Group accepted that the process for risk monitoring and escalation at the Corporate Services Leadership Team level is being developed as it is a new management unit. A further review has therefore been scheduled for six months.

AWG 15.31 CEF Risk Register
The CEF Risk Management lead presented the latest risk register. The Group was happy with the risk management process, but queried how cross cutting risks relating to new legislation and requirements on the Council are being reported; for example, female genital mutilation and modern day slavery. The Chief Internal Auditor agreed that these were areas that should be included in risk reporting, but the current practices and procedures lead Directorates to report on their specific

risks rather than cross cutting activity. The Group agreed this needs to be picked up and addressed through the review of the risk management policy and procedures currently being undertaken by the Business Assurance Team in Corporate Services.

RECOMMENDATION

The Committee is RECOMMENDED to note the report.

LORNA BAXTER
Chief Finance Officer

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AUDIT & GOVERNANCE COMMITTEE – 18 NOVEMBER 2015
WORK PROGRAMME 2015 - 2016

2015

18 November 2015
Annual Letter (EY)
Treasury Management Mid Term Review (Lewis Gosling)
Annual Governance Statement – Action Plan Progress
SCS LEAN and IT system update (Kate Terroni)
Update on Hampshire Partnership (Lorna Baxter)

2016

13 January 2016
Treasury Management Strategy (Lewis Gosling)
Internal Audit Plan Update and Progress (Ian Dyson)

24 February 2016

SCS LEAN and IT system update (Kate Terroni)
Audit Committee Annual Report to Council 2015 (David Illingworth)
NFI Audit Committee Checklist (Ian Dyson)
Update on Hampshire Partnership (Lorna Baxter)

20 April 2016
Internal Audit Services – Internal Audit Strategy & Annual Plan (Ian Dyson)
Update on Hampshire Partnership (Lorna Baxter)
Review of Effectiveness of Internal Audit (Nick Graham)
External Auditors Progress Report (EY)
External Auditors Grant Claim Report (EY)

13 July 2016
Annual Governance Statement - 2014/15 (David Illingworth)
Annual Report of the Monitoring Officer (Nick Graham)
Annual Report of the Chief Internal Auditor (Ian Dyson)
Statement of Accounts 2015/16 (Lorna Baxter)
Treasury Management Outturn 2015/16
Fire & Rescue Service Statement of Assurance 2015/16
Progress Report - EY

14 September 2016
Final Accounts 2015/16 (Lorna Baxter)
Local Government Ombudsman's Review of Oxfordshire County Council (Nick Graham)
Annual Results – EY
Internal Audit Plan – Progress report (Ian Dyson)
RIPA (Richard Webb)

Standing Items:

- Audit Working Group Reports
  (Ian Dyson)

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

- Future of Adult Social Care in Oxfordshire – Regular Progress update on Implementation Plan (**Quarterly**)

Other matters

Risk Management Strategy (Annual Report)
Risk Management Annual Report (Ian Dyson)
Appeals & Tribunals sub-Committee – details of recommendations resulting from appeals to the Home to School Transport Appeals, and Pension Benefits sub-Committee at which issues of dismissal and redundancy were decided,
Partnerships – Progress Report