



To: **Members of the Audit & Governance Committee**

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

Wednesday, 16 January 2013 at 2.00 pm

County Hall, Oxford, OX1 1ND

Peter G. Clark.

Peter G. Clark
County Solicitor

January 2013

Contact Officer: *Deborah Miller*
Tel: (01865) 815384; E-Mail: deborah.miller@oxfordshire.gov.uk

Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Charles Mathew

Councillors

Roz Smith
Jim Couchman
Roy Darke

Ray Jelf
Caroline Newton
Larry Sanders

Lawrie Stratford

Co-optee

Dr Geoff Jones

Notes:

- ***Date of next meeting: 27 February 2013***

Declarations of Interest

The duty to declare.....

Under the Localism Act 2011 it is a criminal offence to

- (a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
- (b) provide false or misleading information on registration, or
- (c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?

The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

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

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.

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

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

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

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

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

List of Disclosable Pecuniary Interests:

Employment (includes *“any employment, office, trade, profession or vocation carried on for profit or gain”*.), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

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

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

AGENDA

1. **Apologies for Absence and Temporary Appointments**
2. **Declaration of Interests - see guidance note**
3. **Minutes** (Pages 1 - 6)

To approve the minutes of the meeting held on 21 November 2012 (**AG3**) and to receive information arising from them.

4. **Petitions and Public Address**

EXEMPT ITEM

The Committee is RECOMMENDED that the public be excluded for the duration of item 5 in the Agenda since it is likely that if they were present during that item there would be a disclosure of exempt information as defined in Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the item in the Agenda since it is considered that, in all the circumstances of each case, the public interest outweighs the public interest in disclosing the information.

THE REPORT RELATING TO THE EXEMPT ITEM HAS NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS STRICTLY PRIVATE TO MEMBERS AND OFFICERS ENTITLED TO RECEIVE IT.

5. **Leased / Licenced out Council Property** (Pages 7 - 16)

2:10

Report by the Director of Environment & Economy (**AG5**).

At its last meeting, the Audit Committee had requested an update position on Knights Court and other County Council properties which are occupied by third parties where the rent / licence fee is not being collected following a report to the Audit Working Group on 10 September.

This report provides the history of the Knights Court lease; what actions have been taken so far; and what is being done now. This report also provides assurances that internal control measures are in place and matters will be monitored and escalated.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. *Information relating to the financial or business affairs of any particular person*

(including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Committee is RECOMMENDED to note the report.

6. Ernst and Young External Auditors (Pages 17 - 28)

2:30

A representative of Ernst & Young will attend for these items (**AG6**).

- 12/13 Audit Fee letter - Oxfordshire County Council;
- 12/13 Audit Fee letter - Oxfordshire Pension Fund;
- Audit Committee update paper - issues in the sector;
- Audit Progress - verbal update.

The Committee is RECOMMENDED to consider and receive the reports.

7. Annual Governance Statement Process - Annual Review of the Assurance Framework (Pages 29 - 40)

2:50

Report by Monitoring Officer and Head of Law and Governance (**AG7**).

A review of the corporate governance assurance framework has been undertaken by the Monitoring Officer and Head of Law and Governance and the Corporate Governance Assurance Group. The report and revised framework are submitted for the Committee to consider.

The Committee is RECOMMENDED to approve the revised Corporate Governance Assurance Framework.

8. Internal Audit Plan - 2012/13 Progress Report and Quarter 4 Plan (Pages 41 - 80)

3:10

Report by the Assistant Chief Executive & Chief Finance Officer (**AG8**).

This reports presents the Internal Audit progress report and Plan for quarter 4 2012-13 for the approval of the Audit & Governance Committee.

The Committee is RECOMMENDED to note the report.

9. Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14 (Pages 81 - 112)

3:30

A copy of the report to Cabinet on 29 January 2013 by the Assistant Chief Executive & Chief Finance Officer on the Treasury Management Strategy Statement and the Annual Investment Strategy for 2013/14 is attached (**AG9**).

The Committee is RECOMMENDED to consider the report prior to Council.

10. Dispensations for Full Council (Pages 113 - 116)

3:50

Report by the County Solicitor and Monitoring Officer (**AG10**).

The Audit & Governance Committee has the power to grant dispensations to councillors who might otherwise be unable to participate in decision-making by virtue of a disclosable pecuniary interest in the matter under consideration. Failure to register a disclosable pecuniary interest "without reasonable excuse" is a criminal offence under Section 34 of the Localism Act 2011.

This report addresses the question as to whether a dispensation is required for County Councillors in the setting of the Council's budget where a member holds "any beneficial interest in land which is within the area of the relevant authority" (Relevant Local Authorities (Disclosable Pecuniary Interests) Regulations 2012). It concludes that no such dispensation is required because, in the view of the Monitoring Officers of all of Oxfordshire's principal councils, the holding of such a beneficial interest is not a disclosable pecuniary interest under the Localism Act 2011. Therefore no dispensation is necessary.

The Committee is RECOMMENDED to consider the advice in this report and to agree that no dispensation is required with regards to the setting of the Council budget and that County Councillors be advised accordingly.

11. Procure to Pay Project - Update

4:10

There are a series of workshops happening this month regarding the Procure to Pay Project. Sean Collins and Paul Ashby will attend the meeting to update the Committee in the light of those workshops and outline the next steps of implementation of the project.

12. Audit Committee - Draft Work Programme 2013/14 (Pages 117 - 118)

4:25

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

CLOSE OF MEETING

4:30

Pre-Meeting Briefing

There will be a pre-meeting briefing at County Hall on Thursday 10 January 2013 at **2.00 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

Agenda Item 3

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 21 November 2012 commencing at 2.00 pm and finishing at 4.50 pm.

Present:

Voting Members: Councillor David Wilmshurst – in the Chair
Councillor Charles Mathew (Deputy Chairman)
Councillor Roz Smith
Councillor Jim Couchman
Councillor Roy Darke
Councillor Larry Sanders
Councillor Lawrie Stratford
Councillor Tony Crabbe (in place of Councillor Ray Jelf)

By Invitation: Mary Fetigan and Maria Grindley, Ernst & Young

Officers:

Whole of meeting S. Scane, Assistant Chief Executive & Chief Finance Officer; I. Dyson, Chief Internal Auditor; D. Miller, Chief Executive's Office

Agenda Item	Officer Attending
8	C. Phillips, Senior Policy & Performance Officer
9	H. Doney, Financial Manager – Treasury Management

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports,, copies of which are attached to the signed Minutes.

22/12 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apology From	Substitute
Councillor Ray Jelf	Councillor Tony Crabbe
Councillor Ian Hudspeth	
Dr Geoff Jones	
Caroline Newton	

23/12 MINUTES
(Agenda No. 3)

The Minutes of the meeting held on 19 September 2012 were approved and signed.

24/12 CERTIFICATION REPORT FOR 2011/12
(Agenda No. 5)

The Committee considered a report by the Audit Commission on certification work carried out to provide assurance to government departments and grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable.

Mrs Scane introduced the report on behalf of the Audit commission which summarised the outcomes of the completed certification work on the Council's 2011/12 claims and returns.

RESOLVED: to receive the Certification Report for 2011/12.

25/12 ERNST AND YOUNG EXTERNAL AUDITORS
(Agenda No. 6)

Maria Grindley and Mary Fetigan gave a brief presentation to the Committee on behalf of the Council's new External Auditors, Ernst & Young.

Maria Grindley in introducing the item gave assurances that the transition from the Audit Commission had gone smoothly and that the Council could expect the same auditing standards with some added benefits of improved technology.

Most of the team that had served the Council under the Audit Commission had transferred to Ernst & Young and all staff had gone through training. The Audit Code remained the same. New technology would enable the team to work more economically and to analyse data in different ways which in turn would enable them to provide greater reassurances to the Committee.

The Committee welcomed Mary Fetigan and Maria Grindley in their new roles as the Ernst and Young Management Team.

RESOLVED: to note the report.

26/12 AUDIT WORKING GROUP REPORT
(Agenda No. 7)

The Committee considered a report (AG7) which summarised the main business items arising at the most recent meeting of the Audit Working Group on 21 November 2011, which were as follows:

SAP Roles
Risk Management
Internal Audit Reports
Accounts Payable/Procure to Pay Project

Annual Governance Statement Process – External Inspection Reports Work Programme

In relation to AWG4 (Internal Audit Report) Mr Dyson provided an update of the four outstanding actions for Knights Court. Written procedures were now in place and members of staff were now working with the staff in Environment & Economy to embed processes.

Staff had also sought legal advice on the collection of rent income in instances where lease agreements had expired, and the strong advice from legal was that there was no viable alternative. The outstanding lease agreement at Knights Court is not yet resolved. Heads of terms had been issued last week, so the Council were yet to receive any payment.

|

The Committee noted with alarm that the priority 1 actions arising from Knights Court audit were not yet complete, with the implementation dates being changed with each report. They further noted that it was now nearly 24 months since the original lease agreement expired. The Committee resolved to write to the Deputy Director to question why this situation had gone on for so long, how the situation had occurred in the first place, what monitoring had taken place over the last 24 months and to report back on what processes and steps had been put in place to ensure that this situation never occurred again.

The Committee further asked that the Director carry out a check immediately to ensure that there were no other expired leases.

RESOLVED:

- (a) note the report;
- (b) receive a progress update on the Procure to Pay project at the meeting on 16 January 2013;
- (c) agree the Corporate Governance Assurance Group should maintain an overview of external inspections and reports throughout the year; reporting any governance issues to the Audit & Governance Committee at the earliest opportunity;
- (d) request that all Directors include full details of any external inspections received in their regular update reports to Scrutiny Committees;
- (e) ask the Deputy Director of Environment & Economy to provide a written report back to all Members of the Committee by the end of November:
 - giving a full explanation of the history of the lease of Knights Court, including any issues and how they are to be resolved;
 - describing what steps are to be put in place to ensure that this issue does not reoccur;

and request that the Deputy Director and Deputy Leader of the Council attend the next Meeting of the Audit Committee to give a full explanation of what has happened.

27/12 ZURICH RISK MANAGEMENT HEALTH CHECK

(Agenda No. 8)

The Committee considered a report (AG8) which outlined the findings of the County Council's recently commissioned 'health-check' of the Council's approach to risk management.

Ms Phillips reported that the 'health check' was carried out by Zurich's Risk Management division and that their findings were set out in an Annex to the report. The findings of the health-check would enable the Council to reflect on our approach to risk management and consider how to take it forward during 2013.

The past year had seen development in the way that risk is managed at directorate level. The Joint Commissioning Service had been created across Children, Education and Families and Social & Community Services. The Performance and Information Team was now responsible for performance and risk management. The same was true in Environment & Economy where support to Oxfordshire Customer Services and Environment & Economy was consolidated with a single team supporting services.

This development had led to an increased understanding of the business, of current performance and the ability to challenge areas of risk. This was beginning to show through in the more mature approach to identifying performance measures and risks.

The alignment had also enabled better intelligence and reporting up from teams to directorate leadership teams, then through to CCMT and Informal Cabinet.

CCMT were currently reviewing the level and format of information brought to them to ensure effective management of priorities, including moving towards a more risk based approach with performance of key indicators and projects being reported regularly with other risks or issues on an exception basis. This would enable greater focus on the key deliverables and enables directorates to take responsibility for the operational management of their services.

The Zurich health-check report focused on four enabling categories; strategy and process, leadership and management, risk handling and assurance and people. Leadership was considered to be a strength but the majority of the recommendations related to improving our strategy and processes. Clarity and consistency over our guidance would be a large step to improving in this area and communicating better across all levels of the organisation.

CCMT had considered the report last week and were broadly happy with the findings of the report. The next steps would be to work with directorates to agree how to take forward the recommendations made by Zurich in the coming year particularly in regard to current resources and existing planned activity.

Members noted that the report was 'light touch' and expressed the importance of embedding processes, providing adequate training to ensure that it became the Ethos of the Council.

RESOLVED: to note the report.

28/12 TREASURY MANAGEMENT MID TERM REVIEW 2012/13

(Agenda No. 9)

The Committee considered a report (AG9) which set out the Treasury Management activity undertaken in the first half of the financial year 2012/13 in compliance with the CIPFA Code of Practice, including Debt and Investment activity, Prudential Indicator monitoring, changes in Strategy, and forecast interest receivable and payable for the financial year.

RESOLVED: to note the report, and to **RECOMMEND** Council to note the Council’s Mid Term Treasury Management Review 2012/13.

29/12 AUDIT COMMITTEE WORK PROGRAMME - UPDATE/REVIEW

(Agenda No. 10)

The Committee considered its Work Programme (AG10).

RESOLVED: to adopt the Work Programme subject on 16 January 2013 to add:

- Dispensations for Full Council;
- Procure to Pay Update
- Briefing of Knights Court
- Audit Plan

..... in the Chair

Date of signing 2013

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of the Local Government Act 1972.

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of the Local Government Act 1972.

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Sue Scane
Assistant Chief Executive and Chief Finance Officer
Oxfordshire County Council
County Hall
New Road
Oxford
OX1 1ND

14 December 2012

Tel: 07769 932604

Email: mgrindley@uk.ey.com

Dear Sue

Annual Audit Fee 2012/13

We are writing to confirm the audit work that we propose to undertake for the 2012/13 financial year at Oxfordshire County Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2012/13. The audit fee covers the:

- ▶ audit of the financial statements;
- ▶ value for money conclusion; and
- ▶ Whole of Government Accounts.

Our fee has been set by the Audit Commission as part of the recent 5-year procurement exercise and consequently is not liable to increase in that period without a change in scope.

Indicative audit fee

For 2012/13 the Audit Commission has set the scale fee for each audited body. The 2012/13 scale fee is based on certain assumptions, including:

- ▶ the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ the financial statements will be available to us in line with the agreed timetable;
- ▶ working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.



The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the previous year.

	Indicative fee 2012/13 £	Planned fee 2011/12 £	Actual fee 2010/11 £
Total Code audit fee	146,610	244,350	272,500
Certification of claims and returns*	8,300	11,000	18,000

*The indicative fee for 2012/13 and the planned fee for 2011/12 relate to the certification of grant claims and returns for the years ended 31 March 2013 and 31 March 2012 respectively. The certification fees for 2010/11 are the actual fees for the year ended 31 March 2011.

Any additional work that we may agree to undertake (outside the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Our audit plan for the audit of the financial statements will be issued in March 2013. This will show in detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Assistant Chief Executive and Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Billing

The indicative audit fee will be billed in quarterly instalments of £36,652.50

Audit team

The key members of the audit team for 2012/13 are:

David Wilkinson
Partner

dwilkinson@uk.ey.com

Tel: 0117 981 2318

Maria Grindley
Director

mgrindley@uk.ey.com

Tel: 07769 932 604

Mary Fetigan
Manager

mfetigan@uk.ey.com

Tel: 07867 152501

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint

carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Maria Grindley'.

Maria Grindley
Audit Director
Ernst & Young LLP
United Kingdom

cc. Lorna Baxter, Deputy Chief Finance Officer
David Wilmshurst, Chairman, Audit and Governance Committee

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Sue Scane
Assistant Chief Executive and Chief Finance Officer
Oxfordshire Pension Fund
County Hall
New Road
Oxford
OX1 1ND

14 December 2012

Tel: 07769 932604

Email: mgrindley@uk.ey.com

Dear Sue

Annual Audit Fee 2012/13

We are writing to confirm the audit work that we propose to undertake for the 2012/13 financial year at Oxfordshire Pension Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2012/13. The audit fee covers the audit of the financial statements and Annual Report.

Our fee has been set by the Audit Commission as part of the recent 5-year procurement exercise and consequently is not liable to increase in that period without a change in scope.

Indicative audit fee

For 2012/13 the Audit Commission has set the scale fee for each audited body. The 2012/13 scale fee is based on certain assumptions, including:

- ▶ the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ the financial statements will be available to us in line with the agreed timetable;
- ▶ working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the previous year.

	Indicative fee 2012/13 £	Planned fee 2011/12 £	Actual fee 2010/11 £
Total Code audit fee	24,108	39,414	37,678



Any additional work that we may agree to undertake (outside the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Our audit plan for the audit of the financial statements will be issued in March 2013. This will show in detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Assistant Chief Executive and Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Billing

The indicative audit fee will be billed in quarterly instalments of £6,027.

Audit team

The key members of the audit team for 2012/13 are:

David Wilkinson Partner	dwilkinson@uk.ey.com	Tel: 0117 981 2318
Maria Grindley Director	mgrindley@uk.ey.com	Tel: 07769 932 604
Mary Fetigan Manager	mfetigan@uk.ey.com	Tel: 07867 152501

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Maria Grindley
Audit Director
Ernst & Young LLP
United Kingdom

cc. Lorna Baxter, Deputy Chief Finance Officer
David Wilmshurst, Chairman, Audit and Governance Committee

GPS assurance

Local Government Sector

Audit committee briefing First issue introduction

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On 1 November 2012, and as part of the wider abolition of the Audit Commission, Audit Practice staff transferred to Ernst & Young, already an established professional service provider to Government and the Public sector.

The transferred public sector audit specialists now form part of Ernst & Young's national Government and Public Sector (GPS) team and their audit expertise is now supported by a rich breadth of wider support services and professional resources.

We recognise the value in strong local relationships alongside our corporate aim of delivering quality in everything we do and so are looking forward to continuing to support our local clients. The provision of regular briefings to our client Audit Committees on issues which may have an impact upon them, the wider public sector and the audits that we undertake is one of the ways that we hope you will find useful in an environment that is constantly changing and evolving.

We hope that you find this briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Local Government Sector

Government policy

Draft Local Audit Bill

On 24 October the Department for Communities and Local Government (DCLG) published the Draft Local Audit Bill: Summary of consultation responses. The document summarises the one hundred and sixty-two responses received to DCLG's consultation on the Draft Local Audit Bill.

The Draft Local Audit Bill ad-hoc Committee has published the uncorrected transcripts from the evidence sessions on 30 October and 6 November. Evidence sessions are continuing and will include representatives from firms, ACCA, CIPFA and the Financial Reporting Council.

Improving Local Government Transparency

Following publication of The Code of Recommended Practice for Local Authorities on Data Transparency, the DCLG is consulting on regulations to require local authorities to publish data in accordance with the Code. The regulations will require local authorities to publish specified data within the Code and also to publish the information in the manner and form specified by the Code.

The consultation closes on 20 December 2012. More information is available here <https://www.gov.uk/government/consultations/improving-local-government-transparency>

Dismissal of council chief executives and finance directors

Regulation 7 of The Local Authorities (Standing Orders) (England) Regulations 2001 requires an authority to appoint a 'designated independent person' to investigate proposals for disciplinary action against the chief executive, monitoring officer or chief finance officer because of misconduct, disciplinary issues or poor performance. Where appointed, the authority must pay 'reasonable remuneration' to the designated independent person.

On 9 November the Secretary of State for Communities and Local Government announced his intention to remove the requirement for councils to appoint a designated independent person. Instead the Department for Communities and Local Government (DCLG) proposes that a decision by full council is sufficient in such cases.

The DCLG plans to consult on the proposed changes to the regulations before they are made in Parliament.



Regulation and inspection

VFM profiles tool

The Audit Commission has published a redeveloped version of its VFM profiles tool, using a new software platform. The new profiles closely resemble the previous version, although users may note some formatting changes.

The councils' version of the profiles tool has been updated with 2012/13 planned expenditure data. This data comes from the revenue account data published by DCLG in July. Much of the other spending data in the VFM profiles is still based on the 2010/11 revenue outturn data. The Audit Commission expects to update the VFM profiles with the 2011/12 expenditure outturn data for local government and fire and rescue authorities in January 2013.

The VFM profile tool is available from www.audit-commission.gov.uk.

Whole of Government Accounts – 2010/11 audited accounts published

On 31 October HM Treasury published the audited Whole of Government Accounts (WGA) for the year ended 31 March 2011. The National Audit Office (NAO) has issued a qualified opinion on the accounts, highlighting a number of limitations with the WGA.

As in 2009/10 the NAO has again raised the following key issues with the WGA:

- ▶ **Definition and application of the account boundary** – although the Bank of England has been included in the 2010/11 WGA, publicly owned banks and Network Rail which, in the opinion of the Comptroller and Auditor General, are owned and controlled by government, continue to be excluded.
- ▶ **Valuation of local authority infrastructure assets** – the NAO has also qualified the accounts due to the inconsistent application of accounting policies such as the valuation basis for infrastructure assets. Infrastructure assets are currently held by local government bodies at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost.
- ▶ **Lack of evidence supporting the completeness of the elimination of intra-government transactions and balances** – the NAO has identified a continuing issue with the completeness of intra-government transactions and also mismatches between the amounts reported.

Additionally for 2010/11, the NAO has qualified the WGA due to a lack of evidence supporting the completeness and valuation of schools' assets, in particular the omission of some local authority maintained schools and academies from the WGA.

CIPFA/LASAAC set out a proposed way forward on accounting for schools assets and transport infrastructure assets in its recent consultation on the 2012/13 Code update and 2013/14 Code.

The proposals for schools were based on the initial conclusions of the CIPFA/LASAAC Working Party – Accounting for Schools in Local Government. The proposed approach adapted the single entity financial statements to include the income, expenditure, asset, liabilities, reserves and cash flows of schools' governing bodies within the control of local authorities. The proposal set out that, as local authorities have the power to govern the financial and operating policies of community and community special schools, these categories of school should always be included within the Council's financial statements. For other categories of school it indicated that this change would require careful consideration on a case by case basis of the nature of control exercised by the Council.

Following responses to the consultation no changes are now proposed, although a further review and discussions with the various stakeholders is ongoing.

CIPFA/ LASACC are also separately proposing changes to transport infrastructure assets which will require Councils to account for them on a depreciated replacement cost basis from 2014/15

Action: Those Charged With Governance may wish to ask if officers responsible for preparation of the Council's financial statements are aware of the above CIPFA proposals.

Protecting the Public Purse 2012 – Audit Commission publication

On 8 November 2012, the Audit Commission published Protecting the Public Purse 2012 (PPP).

The key message from the Protecting the Public Purse report is that Local Government bodies are targeting their investigative resources more efficiently and effectively. In 2011/12:

- ▶ They detected more than 124,000 cases of fraud, with a value of £179mn
- ▶ The number and value of detected fraud cases are broadly similar to the figures we reported last year, with only a 2 to 3 per cent variation.
- ▶ Housing and council tax benefit frauds accounted for more than half of the total fraud losses detected, to a value of £117mn.
- ▶ They detected nearly £21mn of false claims for council tax discounts.
- ▶ They detected 187 cases of procurement fraud amounting to more than £8mn.

- ▶ Tenancy fraud accounts for the largest losses from fraud in local government. Research shows that:
 - ▶ An estimated 98,000 social housing homes in England are subject to housing tenancy fraud
 - ▶ Councils recovered nearly 1,800 homes from tenancy fraudsters last year, with a total replacement value of nearly £264mn
 - ▶ Most detected tenancy fraud (69 per cent) is in London, even though the capital accounts for only 27 per cent of all council housing in England
 - ▶ Councils outside London increased tenancy fraud detection by more than a quarter, reflecting their increasing commitment to tackle this fraud.
- ▶ Councils' counter-fraud professionals recognise that more needs to be done to tackle emerging fraud risks, including those relating to:
 - ▶ Business rates
 - ▶ Social Fund payments and Local Welfare Assistance
 - ▶ Right to Buy discounts
 - ▶ Local Council Tax Support
 - ▶ Schools
 - ▶ Grants

Action: Those Charged With Governance may wish to use the checklist included in the Audit Commission report to review their counter-fraud arrangements.

Care Quality Commission (CQC)

CQC are consulting on a number of proposals:

- ▶ 2013-16 CQC strategy
- ▶ Fee strategy

The second consultation looks at the long-term strategy for the Care Quality Commission's fees and the changes they propose to make to them from 1 April 2013 to 31 March 2014. Both consultations are available here: <http://www.cqc.org.uk/public/sharing-your-experience/consultations>.

OFSTED

OFSTED, the Care Quality Commission, HMI Probation, HMI Prisons, and HMI Crown Prosecution Service Inspectorate are exploring how they can best use their resources and powers as inspectorates to build an effective joint inspection framework to evaluate the multi-agency arrangements for the help and protection of children.

More information is available here: <http://www.ofsted.gov.uk/resources/development-of-joint-inspection-care-quality-commission-of-services-for-looked-after-children-and-ca>



Local Government

Finance

The Government has recently confirmed key policy decisions relating to business rates retention proposals in the recently enacted Finance Act. The Government's Policy statement can be found here: <https://www.gov.uk/government/publications/business-rates-retention-policy-statement>.

Council Tax and NNDR

CIPFA has published a useful article that explores the changes to council tax and business rates. It highlights that the changes will increase the level of instability in the forecast of resources and the interaction of both with economic growth will increase the associated risks. Local authorities will need to take all of this into account to estimate potential future business rates growth and demand for council tax support.

It suggests five key steps that every local authority should be undertaking now:

1. Understand the changes

Keeping up to date involves accessing the right information from the web and having regular conversation with those around you.

2. Finance and revenues working closely together

For example, finance teams will want to know the details held regarding business rates appeals in order to place contingencies within the budget.

3. Exploration of options

What are the options available for delivery of the scheme, how can savings be made and how can financial risk be minimised through for example, Pooling.

4. Modelling

Modelling will be an essential part of the process of decision making allowing organisations to run various simulations of how changes in funding will impact on their income streams.

5. Forecasting

The new scheme brings with it not only increased opportunity for rewards but also increased financial risk should forecasts be inaccurate.

Local Government Pension Scheme

Local Government Pension Scheme investment regulations

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) require that Local Government Pension Schemes spread funds and risks across a number of different types of investment, and sets limits on the proportion of funds that can be invested in each type of investment.

On 6 November DCLG published its consultation on proposals to amend the Investment Regulations to provide greater flexibility in partnership investments. This would allow pensions schemes greater freedoms to invest in infrastructure projects. Details can be found here: <https://www.gov.uk/government/consultations/local-government-pension-scheme-investment-in-partnerships>.

Public health

From April 2013 local authorities will have a key role in improving the health of their local population, working in partnership with clinical commissioning groups, and others, through health and wellbeing boards in their localities.

They will be responsible for commissioning and collaborating on a range of public health services and for advising the commissioners of local NHS services.

The Department of Health has published factsheets on health intelligence requirements for local authorities and the actions local areas may wish to take to support their new public health duties from an information and intelligence perspective.

More information is available here: <http://www.dh.gov.uk/health/2012/09/health-intelligence/>

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ED None

Division(s): All

AUDIT & GOVERNANCE COMMITTEE – 16 JANUARY 2013

REVISED CORPORATE GOVERNANCE ASSURANCE FRAMEWORK

Report by Monitoring Officer and Head of Law and Governance

Introduction

1. The current governance framework was agreed by Audit Committee in November 2010 and set out a strategic process by which the Council receives assurance on key internal controls.
2. A new version of Delivering Good Governance in Local Government: Framework was published by CIPFA in December 2012 and there is also a new requirement for Fire Authorities to publish an annual statement of assurance. This will sit alongside the authority's governance statement.
3. Changes to the external inspection regime, and a move to more ad hoc reporting since the previous framework was agreed also require an updated means of monitoring any governance issues arising from each inspection.

Revised Framework

4. The proposed updated corporate governance assurance framework is attached as Annex 1.
5. This maintains the existing process whereby a corporate lead officer for each key governance process provides a statement at the year end. This statement explains what systems they have in place to ensure internal control, and their assessment of the current position across the whole council, identifying areas for improvement where appropriate. Internal Audit will provide an independent assessment of compliance with corporate processes for each directorate. Directors will continue to be required to sign off certificates at year end confirming that controls are in place and/or that actions are being taken to address any weaknesses identified through this process.
6. The key responsibility of evaluating the effectiveness of the control environment remains with those charged with that corporate responsibility. Directorates are responsible for addressing any identified weaknesses.

RECOMMENDATION

7. **The Committee is RECOMMENDED to approve the revised Corporate Governance Assurance Framework.**

PETER CLARK
County Solicitor

Background papers: Nil

Contact Officers: Peter G Clark, Monitoring Officer and Head of Law &
Governance, Tel 01865 323907

Kathy Wilcox, Principal Financial Manager,
Tel 01865 323981

January 2013

CORPORATE GOVERNANCE ASSURANCE FRAMEWORK

INTRODUCTION

1. Introduction to Corporate Governance

- 1.1 Corporate Governance came to prominence as an issue following the Cadbury Report in 1992. A series of reports from the Committee in Standards in Public Life (the Nolan Committee) addressed the issue of corporate governance in the public sector and identified seven principles of public life; selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- 1.2 The Audit Commission subsequently defined corporate governance as “the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions and lead and control their functions, to achieve their objectives”. They further identified good corporate governance as including robust systems and processes, effective leadership and high standards of behaviour, a culture based on openness and honesty and an external focus on the needs of service users and the public.
- 1.3 In 2001 Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE), jointly with the Local Government Association and the Audit Commission set up a Corporate Governance Working Party to draw together the principles identified by Cadbury, Nolan and others into a single framework of corporate governance for use by Local Authorities. The framework was issued by CIPFA/SOLACE in June 2007 and built on governance work in both the public and private sector, in particular the “Good Governance Standard for Public Services” drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management in partnership with the Joseph Rowntree Foundation.
- 1.4 The principles and standards set out in the framework are aimed at helping local authorities to develop and maintain their own codes of conduct and discharge their accountability for the proper conduct of business. It puts high standards of conduct and leadership at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct, and so set the tone for the rest of the organisation.
- 1.5 The framework adopted six core principles from the Good Governance Standard for Public Services 2004 (developed by the Independent Commission on Good Governance in Public Services).
 - 1.5.1 Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- 1.5.2 Members and officers working together to achieve a common purpose with clearly defined functions and roles
 - 1.5.3 Developing the capacity and capability of members and officers to be effective
 - 1.5.4 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
 - 1.5.5 Taking informed transparent decisions which are subject to effective scrutiny and managing risk
 - 1.5.6 Engaging with local people and other stakeholders to ensure robust public accountability
- 1.6 To ensure the Framework remains fit for purpose, the CIPFA/SOLACE Joint Working Group reviewed the Framework in 2012 and following consultation issued a revised guidance note and addendum in November 2012. These remain substantially the same as the original version but provide further guidance on the preparation of and content of the Annual Governance Statement which must accompany each authority's Statement of Accounts. The Framework note notes that the process of preparing the governance statement should itself add value to the effectiveness of the corporate governance and internal control framework of an organisation.

2. Code of Corporate Governance

- 2.1 To achieve good governance, the Council should be able to demonstrate that it has a Code of Corporate Governance that reflects the requirements for best practice outlined in the Framework.
- 2.2 The Code is reviewed every two years by the Strategy & Partnerships Scrutiny Committee.

FRAMEWORK AND SOURCES OF ASSURANCE

3. Requirement for an Annual Governance Statement

- 3.1 The preparation and publication of an annual governance statement is required to meet the statutory requirement set out in Regulation 4(3) of the Accounts and Audit Regulations 2011. This requires that the Council conducts a review at least once a year on the effectiveness of its systems of internal control and produces a statement on its effectiveness "in accordance with proper practices". The addenda to "delivering good governance framework" defines proper practice and defines the form and content of an annual governance statement. There remains no requirement to publish a separate statement on internal control but the system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level using a strategic approach.

- 3.2 In addition the Department for Communities and Local Government published the Fire and Rescue National Framework for England in July 2012. This set out a requirement for fire and rescue authorities to publish a statement of assurance to include assurance on a range of financial, governance and operational matters. Further guidance consulted on in late 2012 sets out that this statement should sit alongside existing documents such as the statement of accounts, and integrated risk management plan. It should be an accessible document which enables individuals, communities and partners to make a valid assessment of their local fire and rescue authority's performance. Fire and rescue authorities should aim to publish their statements of assurance annually to coincide with other statutory and reporting requirements. The first statement is required to be published in 2013 and annually thereafter.

The Council's Assurance Process

- 3.3 In November 2010 the Audit Committee approved a change to the Council's assurance process in order to reduce the administrative burden on Directorates whilst retaining a robust assurance process. The revised process requires a statement at the year end from the "corporate lead officer", for each of the key control areas listed below. Their statement explains the relevant systems that are in place to ensure internal control, and their assessment of the current position across the whole council, identifying areas for improvement where appropriate. The relevant corporate lead officer is shown in brackets after each control area.
- 3.3.1 Business Management (Research and Major Programmes Manager) – incorporates risk management, project management & performance management.
 - 3.3.2 Financial Management (Chief Finance Officer in consultation with delegated section 151 officers)
 - 3.3.3 Business Continuity (County Business Continuity Officer in consultation with the Business Continuity Steering Group)
 - 3.3.4 Legislation (Monitoring Officer in consultation with the Monitoring Officer's Group)
 - 3.3.5 Human Resources (Head of Human Resources in consultation with Human Resources Business Partners)
 - 3.3.6 Health & Safety (County Health & Safety Manager in consultation with Health & Safety Business Partners)
 - 3.3.7 Procurement/Contracts (County Procurement Manager and Deputy Chief Finance Officer)
 - 3.3.8 Information Technology (Service Manager - ICT)
- 3.4 The Corporate Governance Assurance Group monitor the appropriateness of these mechanisms.

- 3.5 Internal Audit provide an independent assessment of compliance with corporate processes for each Directorate.
- 3.6 Directors are required to review risk registers, corporate lead officers' assessments and Internal Audit's assessments, and to sign Certificates of Assurance annually to confirm that they have discussed the information contained in those documents, and to confirm that action is being taken to address any weaknesses identified.
- 3.7 Risk Registers, corporate lead officers' assessments on key control areas and Internal Audit's assessments are reviewed by the Corporate Governance Assurance Group (CGAG), a group of Senior Officers, Chaired by the Monitoring Officer. Where the same weakness has been identified across a number of directorates, specific consideration will be given to treating this as a corporate issue. Where specific action may need to be taken to address the weakness, it will be contained in the action plan contained within the Annual Governance Statement. On preparation, the Annual Governance Statement together with progress on the identified action plan within the Statement is reported quarterly to the Audit Working Group. The Annual Governance Statement is compiled by members of CGAG drawing on the following information:
 - 3.7.1 Risk Registers compiled by Deputy Directors and endorsed by Directors
 - 3.7.2 Statements provided by corporate lead officers for key control areas as described in paragraph 3.3 above
 - 3.7.3 The view of Internal Audit
 - 3.7.4 The view of the External Auditor as contained within the Annual Audit letter and other Audit Reports
 - 3.7.5 Reports by independent inspection bodies
 - 3.7.6 Work undertaken by and for the Audit & Governance Committee and Audit Working Group
 - 3.7.7 An assessment of the effectiveness of the Chief Finance Officer compared to the requirements set out in "The role of the Chief Financial Officer in public sector organisations" published by CIPFA.
- 3.8 In addition to the review of the system of internal control and its effectiveness CGAG also carries out a bi-annual review of the governance framework as set out in the Council's Code of Corporate Governance and considers the effectiveness of the framework.
- 3.9 The Council's Annual Governance Statement is signed by the Chief Executive, Leader of the Council, Chief Finance Officer and Monitoring Officer. The Fire and Rescue Statement is signed by the Chief Fire Officer and Cabinet member for Safer and Stronger Communities and sits alongside the Council's Statement.

4. External Audit

- 4.1 The Council's external auditors undertake an annual audit of the financial statements and Annual Governance Statement in order to be satisfied that the accounts comply with statutory requirements, that proper practices have been observed in compiling the accounts and to express an opinion on the statement of accounts.

5. External Inspections

- 5.1 The council receives external reports that can provide assurance or indicate any issues related to internal control and governance. The council no longer receives an annual summary of these reports from the Audit Commission but an overview of the inspections and reports during the year is included in the Annual Governance Statement. This is based on feedback from Directorates and a review of reports available on inspection body websites.
- 5.2 The relevant Portfolio Holder is briefed by the relevant Directorate on inspections taking place and the outcomes of those inspections. Some inspections will specify that the Cabinet need to consider the report.
- 5.3 Since most inspections are now ad – hoc CGAG will maintain an overview of external inspections and reports throughout the year; reporting any governance issues to the Audit and Governance Committee at the earliest opportunity. Directors should include feedback on any inspections in their briefings to the relevant Scrutiny Committee(s). All external inspection reports will be monitored by the Policy Team as part of the directorate Quarterly Performance Reporting process. Any governance issues arising will be reported to CGAG by the Research and Major Programmes Manager.

6. Approval of Corporate Governance Policies

- 6.1 On 16 June 2004 Cabinet authorised the Monitoring Officer, following consultation with the Section 151 Officer and Leader and Deputy Leader of the Council, to approve new or amended operational policies and procedures relating to Corporate Governance except where they would either:

6.1.1. have material budget implications;

6.1.2. have substantive policy implications; or

6.1.3. where material concerns about them have been expressed by the employee's representatives;

in which case they would be referred to Cabinet for decision.

DEFINITIONS OF OFFICERS, COMMITTEES AND GROUPS

7. Statutory Officers

7.1 Head of Paid Service

7.1.1 The Head of Paid Service has responsibility to the Council for the manner in which the Council's functions are discharged and coordinated. In addition she has the responsibility for the number and grade of Officers required for the discharge of the functions and the organisation of Officers.

7.2 Chief Finance Officer (section 151 Officer)

7.2.1 Section 151 of the Local Government and Housing Act 1972 requires every authority to "make arrangements for the proper administration of their financial affairs" and to ensure that "one of their officers has responsibility for the administration of those affairs".

7.2.2 The section 151 officer is responsible for ensuring that:

7.2.1 expenditure by the authority is within the law;

7.2.2 the authority does not undertake an unlawful action which would result in a loss or deficiency to the authority;

7.2.2 the authority's accounts are prepared in accordance with the law and have followed proper accounting practices;

7.2.3 effective financial controls are in place;

7.2.4 ensuring that there is an adequate and effective system of internal audit.

7.2.3 The role of the Chief Finance Officer for Public sector organisations is also described in the CIPFA document "The role of the Chief Financial Officer in Public Sector Organisations". This sets out that they also lead the promotion and delivery of good financial management so that public money is used safeguarded at all times and used appropriately, economically, efficiently and effectively. A statement about the extent to which the authority complies with this role needs to be included in the Annual Governance Statement.

7.3 Monitoring Officer

7.3.1 The Monitoring Officer has the statutory responsibility for independently reporting to the Council on any proposal or decision by the Council or any of its Committees or Officers which has given rise to or may give rise to a breach of the law or potential maladministration. The Monitoring Officer also plays a leading role in developing, monitoring

and maintaining a system of corporate governance for the Council and in particular:

- 7.3.1 ensures that satisfactory arrangements are in place for maintaining the registers for Members registration of interests and gifts and hospitality in accordance with the Members code of Conduct.
- 7.3.2 conducts an annual review of the effectiveness of the internal audit function in accordance with the requirements of the Accounts & Audit Regulations 2011.
- 7.3.3 ensures relevant corporate governance policies are up to date, including:
 - The Council's Constitution
 - Anti-Fraud and Corruption Policy
 - Raising Concerns At Work, Grievances and Whistleblowing Policies
 - Money Laundering Policy
 - Officer Code of Conduct
 - Corporate Complaints Policy
 - Officer Register of Interests and Gifts and Hospitality

7.4. Monitoring Officer Group

7.4.1 This Group consists of key Officers involved in the provision of Committee Services for Members and reviews on a regular basis the business conducted by the Council, Cabinet, Committees and other Member Meetings. It supports the Monitoring Officer in his monitoring role, particularly in relation to standards, complaints and to monitor the lawful decision making of the Council.

7.5. Chief Internal Auditor

7.5.1 This person is the Senior Officer directly responsible for the Internal Audit function. Internal Audit is an assurance service that provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating the effectiveness in achieving the organisation's objectives. It provides an annual independent assurance to the Chief Finance Officer on the key financial system controls as set out and contained in the Annual Internal Audit Plan. The Chief Internal Auditor also contributes to the Annual Governance Statement by commenting on the effectiveness and outcome of the programme of internal audits and comments on the effectiveness of the internal control environment of the Council.

7.6. Strategy & Partnerships Scrutiny Committee

7.6.1 The role of the Strategy and Partnerships Scrutiny Committee is set out in Article 7 of the Constitution. The key roles of the Committee include holding the executive to account together with policy development and review and business management. The responsibilities of the Committee include Corporate and Community leadership and corporate strategies.

7.7. Audit & Governance Committee

7.7.1. As set out in Article 8 of the Constitution the focus of the Audit & Governance Committee is to monitor the risk, control and governance arrangements within the Council, together with the adequacy of those arrangements and those of others managing Council resources and to ensure compliance with relevant legislation, guidance, standards, codes and best practice. The Audit & Governance Committee needs to provide assurance on the effectiveness of those arrangements both generally and for the purposes of the Annual Governance Statement, including arrangements for reporting significant risks.

7.7.2 The Audit & Governance Committee will receive reports on progress in achieving the actions set out in the previous year's Annual Governance Statement and on the current year position.

7.7.3 The Audit & Governance Committee is responsible for separately approving the Council's Annual Governance Statement for inclusion within the Statement of Accounts.

7.8. Audit Working Group

7.8.1 The Audit Working Group receives updates on significant risks, progress with action plans and reports on the assurance process itself. It may call for further detailed information on any matter of concern, including interviewing individual officers where appropriate.

7.8.2 The Audit Working Group also carries out detailed work referred to it by the Audit Committee.

7.8.3 The Chairman of the Audit Working Group provides an independent assessment of the effectiveness of the assurance process, set out within the Annual Governance Statement.

7.9. Corporate Governance Working Group

7.9.1 This Group was originally created to assist the Monitoring Officer in raising awareness of the importance of corporate governance throughout the Authority. The principal focus of the Group is to review and update Corporate Governance Policies and to monitor implementation of these by the Council. It has responsibility for reviewing the Local Code of Corporate Governance and to hold Officer

to account for compliance with the implementation of the Corporate Governance arrangements.

7.10. Corporate Governance Assurance Group

7.10.1 The Corporate Governance Assurance Group oversees the assurance framework including the process for assurance from corporate lead officers. The Group is made up of senior corporate officers, chaired by the Monitoring Officer, who are responsible for the determination and coordination of the Corporate Governance Framework and the process and the production of the Annual Governance Statement. The Group provides corporate challenge and advice to Directorates on Governance. Further details are given in Annex 1.

7.11. Standards of Behaviour and Codes of Conduct

7.11.1 The Localism Act 2011 received royal assent in November 2011 and led to the abolition of the standards regime. Each council is now required to adopt local Codes of Conduct for members and officers and must have arrangements in place to investigate complaints made against members. Standards are now within the terms of reference of the Audit & Governance Committee with the work relating to standards being undertaken by a small advisory group led by the Monitoring Officer.

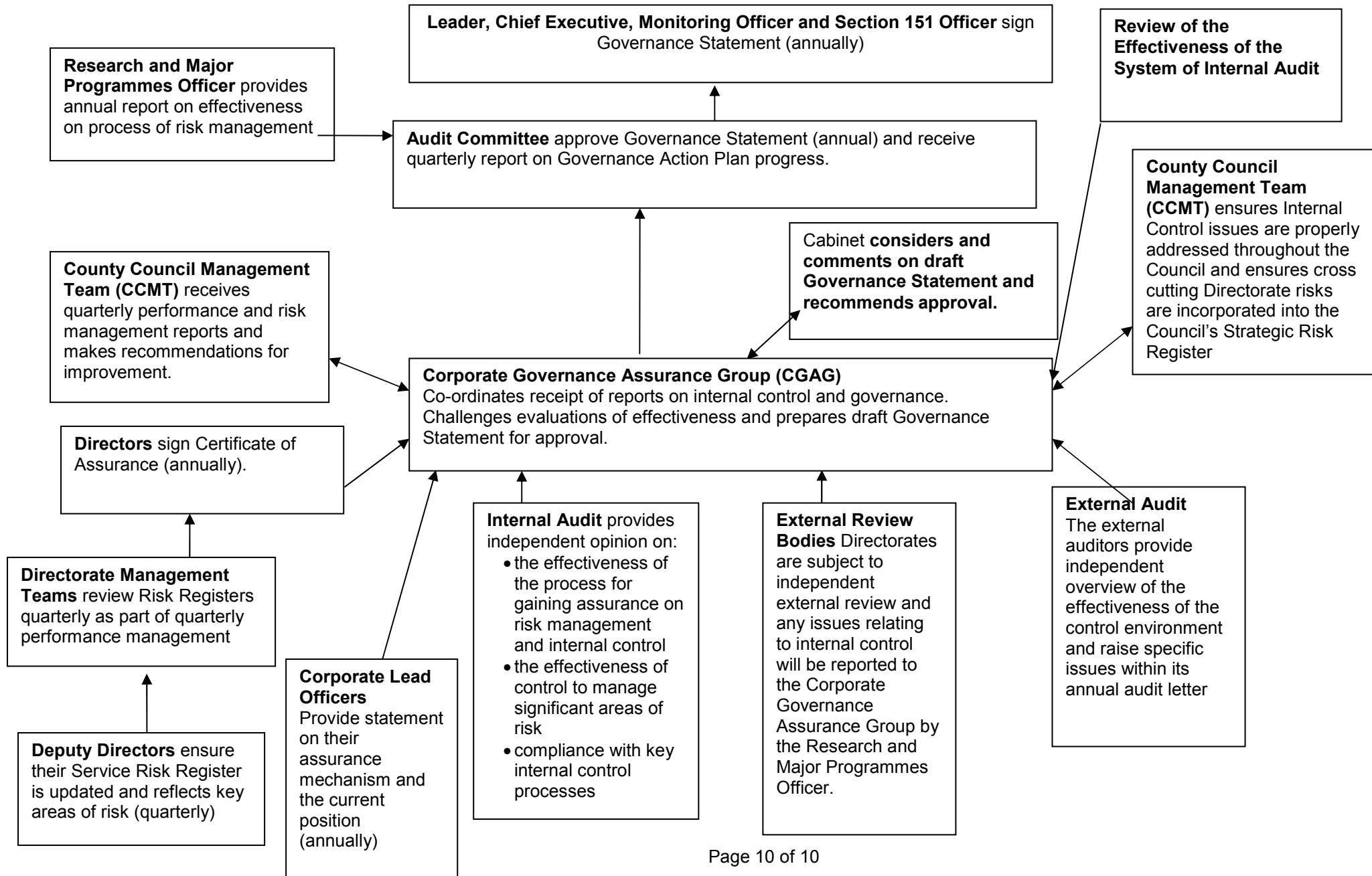
Responsible Officers:

Peter G Clark, Monitoring Officer and Head of Law & Governance
Sue Scane, Assistant Chief Executive & Chief Finance Officer

Date: January 2013

Review: January 2014

Overview of Corporate Governance Assurance Framework



Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 19 SEPTEMBER 2012

INTERNAL AUDIT 2012/13 PROGRESS REPORT AND QUARTER 4 PLAN

Report by the Assistant Chief Executive & Chief Finance Officer

INTRODUCTION

1. The Internal Audit Plan for Quarter 4 is attached as Appendix 1 to this report, and includes a progress status on the previously reported planned activity.
2. There have been 18 audits completed since the last report; the audit opinions and summary of findings is attached appendix 2 to the report.
3. Appendix 2 also contains the summary of findings from the 2011/12 audit of the Youth Offending Service. This has not been reported previously as immediately following the audit a management investigation, and then a subsequent Internal Audit investigation was commissioned. These investigations have now concluded.
4. The Q4 Plan has been discussed and agreed with the Directorate Leadership Teams.
5. During Q4 the main emphasis will be on completing the Governance Programme and also the Key Financial Systems. We are working closely with Ernst and Young on the key financial systems work so that their needs and ours are met with minimum disruption to staff.
6. This report also contains an update on progress with the Counter-Fraud Plan, the detail of which is attached as appendix 3.

2012/13 AUDIT PLAN

7. There have been 18 audits concluded since the last progress report to the Committee, summaries of findings and current status of management actions are detailed in appendix 2:

Directorate	Title	Opinion
CEF	Governance and Financial Management - Information Governance	Issues
CEF	Governance and Financial Management Establishment Audit - Riverside Centre	Unacceptable
CEF	Childrens Social Care - Management Controls.	Issues
SCS	Governance and Financial Management - Information Governance	Issues
SCS	Personal Budgets including Direct Payments	Unacceptable

SCS	Adult Social Care - Management Controls	Unacceptable
SCS	SCS Mental Health Reviews	Issues
CEO	Governance and Financial Management - Information Governance	Issues
	Corporate Governance and Financial Management - Information Governance - Corporate Issues	Issues
CEO	Capital Accounting	Acceptable
CEO	Treasury Management	Acceptable
CEO	Pension Fund	Acceptable
EE	Governance and Financial Management - Information Governance	Issues
EE	Governance & Financial Management Establishment audit - Facilities Management Samuelson House	Issues
EE OCS	Payment Card Industry (PCI) Compliance	Acceptable
EE ICT	Remote Access	Acceptable
EE ICT	Telephony Infrastructure Project Review	Issues
EE ICT	SAP System	Acceptable

8. There is one variation in the 2012/13 Plan to note. It was expected that a follow up audit of the Integrated Transport Unit within Environment and Economy would be undertaken this year; however as a result of two special investigations recently carried out by Internal Audit in that area, in which further management actions have been identified, it has been agreed with the Director the follow up should be deferred until 2013/14. (More details of the special investigations are found in the Counter-Fraud section of this report).

Performance

9. Our current performance against the indicators is as follows:
Exit meeting within 3x audit days = 60%
Issue of draft report within 15 days of exit meeting = 85%
Issue of final report within 15 days of draft = 69%

The Audit Working Group continues to receive detailed reports on outstanding management actions, and this is contributing to the high levels of implementation being achieved. As at 3 January the status of actions on the audit tracking system for 2011/12 and 2012/13 are as follows:

640 actions being tracked
457 reported as implemented (71%)
110 not yet due (18%)
39 due but only partially implemented (6%)
14 have now been superseded (2%)
16 are due, but no update has been recorded (these are being followed up with the Directorate Leadership Teams)

Counter – Fraud

Investigations

10. There is one on-going fraud investigation which has not yet reached an outcome. Further information will be provided once this has been concluded.
11. There are three investigations that have now been concluded:

Youth Offending Service

Following the 2011/12 audit of YOS in which an opinion of "unacceptable" control was reported in respect of financial management; the Director requested a management investigation. Following this a whistle-blow was received and investigated by Internal Audit that included potential financial irregularity.

The investigations have not identified any instances of fraud, however, as highlighted by the original audit, practices and procedures within the team were poor, such that the probity of transactions could not be confirmed in all instances. A detailed management action plan has been agreed and implemented. A follow up audit is currently at fieldwork stage and is looking at whether the actions taken are complete and effective.

The investigations have highlighted training needs for some staff.

Integrated Transport Unit - Home to School Transport Contract

An external complaint in respect of a tender process was referred to Internal Audit for investigation. Consistent with the findings in the Internal Audit Report, the investigation found that controls over the tender process were not acceptable. Management actions are being taken to improve controls, and Internal Audit are meeting with the senior manager responsible to review progress at the end of January.

Integrated Transport Unit - Vehicle Maintenance

Internal Audit was asked to investigate allegations of financial irregularity and health and safety concerns in respect of the management of the Vehicle Maintenance Contract. The investigation found no instances of fraud; however it highlighted management control issues. A detailed action plan has been taken produced and Internal Audit are meeting with the senior manager responsible in January to monitor progress in implementation.

Proactive Testing

12. No proactive testing has been undertaken to date; however it is planned in Q4 that work on the Accounts Payable system will commence.

National Fraud Initiative (NFI)

13. The data sets for NFI 2012/13 have been submitted and accepted. E are anticipating receiving the first report by the beginning of February. These will be appraised and a decision taken at that point on priority for review.

Counter-Fraud Work Plan

14. The work plan has been refreshed, and is attached as appendix 3, including an update on progress.

RECOMMENDATION

The Committee is RECOMMENDED to note the report.

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

Background papers: None.

Contact Officer: Ian Dyson 01865 323875

APPENDIX 1 2012/13 Update against Quarter 1, 2 & 3 Internal Audit Plan as at 31 December 2012

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
CEF	1	<p>CEF Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as <i>Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</i></p> <p>During Quarter 1, Internal Audit will review the area of <u>Information Governance</u> which will include specific testing around the management of external data transfers and review each directorate's processes for ensuring compliance with Information Governance policies, including data protection.</p>	<p>Information Governance - Final Report - ISSUES</p>
	2	<p>Riverside Centre - establishment audit.</p>	<p>Riverside Centre - Final Report - UNACCEPTABLE</p>
	3	<p>During quarter 3 & 4 the remainder of programme for CEF will be planned in.</p> <p>During Quarter 3, Internal Audit plan to undertake two establishment/team based audits to test application of key governance and financial procedures. Agreed teams are YOS and Childrens Centres.</p>	<p>YOS - fieldwork stage</p> <p>Childrens Centre procurement - planned for qtr 4.</p>

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
CEF	1	<p>CEF - Childrens Social Care Management Controls</p> <p>The audit will follow up on the findings from 2011/12 safeguarding audit and test implementation of the actions raised.</p> <p>The audit will also look to review the areas of 1) Serious Case Reviews, reviewing how action is taken on information and learning points identified and 2) External Providers, reviewing assurance mechanisms in place as to whether safeguarding controls are operating effectively.</p>	Final Report - ISSUES
CEF	2	<p>CEF Early Intervention Hubs – Data Management / Performance Information</p> <p>Following work completed during 2011/12 which reviewed the project management arrangements for the implementation of the Hubs, and the establishment audit undertaken at East Oxford, this audit will aim to review the newly designed processes for recording of children’s data, controls over data accuracy and integrity and the adequacy and effectiveness of performance information / management systems.</p>	Final Report - ACCEPTABLE
CEF	3	<p>CEF Troubled Familes Grant</p> <p>This is a new grant which Internal Audit are required to sign off, first submission to review will be January 2013. Audit Manager will also be advising on design of controls for data collection and reporting prior to first return being made.</p>	On-going Verification of first claim for Results Payment - planned for Jan 2013.
CEF	3	<p>CEF Contract Procurement and Contract Management</p> <p>A strategic review of contract procurement and contract management activity in CEF, with particular focus on the CEF contracts register.</p>	Fieldwork stage

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
SCS	1	<p>SCS Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as <i>Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</i></p> <p>During Quarter 1, Internal Audit will review the area of Information Governance which will include specific testing around the management of external data transfers and review each directorate's processes for ensuring compliance with Information Governance policies, including data protection.</p>	<p>Information Governance - Final Report - ISSUES</p>
	2	<p>During qtr 2, Internal Audit will review progress against key stages of project implementation for key projects within SCS to provide assurance over <u>project management</u>. This will include Day Opportunities and the Learning Disabilities remodel. Specific audit activity around review of any re-design of processes and contract activity will be agreed upon during the year with the relevant Deputy Director / Senior Management.</p>	<p>SCS Project Management - Fieldwork stage</p>
	2	<p>Riverside Centre - establishment audit. Following initial stages of audit this became a wholly CEF audit - further establishment / team based sample to be identified for SCS - deferred until quarter 4.</p>	<p>Now planned for quarter 4.</p>
	3&4	<p>During quarter 3 & 4 the remainder of programme for SCS will be planned in.</p>	

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
SCS	1	<p>Personal Budgets</p> <p>The audit will provide assurance on the effectiveness of the Self Directed Support process, considering any recent changes or improvements, including personal budget allocations and accounting, review of directorate's care pathway work, care plan delivery and client documentation. The audit will specifically review controls in respect of direct payments and consider the current pilot of payment cards.</p> <p>It has been agreed with the Deputy Director that the audit will be undertaken in two parts during 2012/13, with the focus in quarter 1 being on the controls in place for direct payments and new payment card system.</p>	<p>Final Report - UNACCEPTABLE</p>
SCS	1	<p>AIS implementation</p> <p>The Audit Manager will continue to work with the project manager in reviewing the progress against key stages of this project implementation, including the identified data cleansing and data management improvements. Specific audit activity during quarter 1 will include review of the draft "to-be" processes once designed and also review of system mapping which identifies current and future output requirements.</p>	<p>On-going review</p> <p>Walkthrough of initial new system processes was completed in Sept.</p> <p>Now on hold due to pause with project.</p>
SCS	1	<p>OFRS – Joint Fire Control</p> <p>The Audit Manager will work with the project manager in reviewing the progress against key stages of the project implementation. Specific audit activity will be agreed which will include review of the project management governance arrangements.</p>	<p>On-going review</p>

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
SCS	All	<p>SCS Contract Procurement and Contract Management During quarter 1 the Head of Audit will be involved in the Directorate's review of the adequacy of contract monitoring arrangements in relation to Health and Safety.</p> <p>For the remaining quarters a programme of assurance activity on contract procurement and contract management arrangements in place to be determined and agreed with Deputy Director, Joint Commissioning.</p>	<p>On-going</p> <p>No planned activity for quarter 4.</p>
SCS	2	<p>SCS - Adult Social Care Management Controls This audit was planned for quarter 2, however was brought forward and started in quarter 1.</p> <p>The audit will follow up on the findings from 2011/12 safeguarding audit and test implementation of the actions raised.</p> <p>The audit will also look to review the areas of 1) Adult Protection Alerts/Referral Reporting, 2) Serious Incident Enquiries/Reporting, 3) Supervision and 4) Carers Assessments, reviewing assurance mechanisms in place as to whether key safeguarding controls are operating effectively.</p>	<p>Final Report - UNACCEPTABLE</p>
SCS	2	<p>Client Charging</p> <p>The audit will provide assurance on the adequacy of the systems and processes in place for Client Charging, it will include review of budget setting and budgetary controls for income.</p>	<p>Fieldwork stage</p>

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
SCS	2	<p>Pooled budgets</p> <p>The audit will provide assurance on the overall governance and management arrangements currently in operation for the pooled budgets which Oxfordshire County Council is the administering authority for.</p> <p>The audit will be undertaken in advance of the work to be completed in setting up new arrangements for the pool from April 2013, when the budgets are expected to receive increased funding and whereby funding will not be separately managed as current.</p>	Fieldwork stage
SCS	3	<p>Mental Health Client Reviews</p> <p>The audit will provide assurance on the adequacy of the systems in place for ensuring that client reviews are undertaken and reported on, on a timely basis.</p>	Final Report - ISSUES
SCS	3	<p>AIS Application Security Review</p> <p>This is an I.T application audit and will review the security of AIS pre and post implementation.</p>	Now on hold due to pause with project.
CEO	1	<p>CEO Governance and Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as <i>Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</i></p> <p>During Quarter 1, Internal Audit will review the area of <u>Information Governance</u> which will include specific testing around the management of external data transfers and review each directorate's processes for ensuring compliance with Information Governance policies, including data protection.</p>	Information Governance - Final Report - ISSUES

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
	2 3&4	Governance and Financial Management establishment audit - Registrar's Office During quarter 3 & 4 the remainder of programme for CEF will be planned in.	Registrar's - Fieldwork stage.
CEO	1	Capital Accounting (Part 2) This audit will follow on from the 2011/12 review, completed during quarter 4. The scope of the audit is to review the closedown procedures and transactions, completed as part of the year end accounting process. The main focus of testing will be on acquisitions, enhancements, depreciation, revaluations, disposals and write offs and the Asset Register.	Final Report - ACCEPTABLE
CEO	1	Treasury Management An annual review to test the key controls to provide assurance that council funds are being effectively managed to support the delivery of council operations and to maximise investment opportunities for cash surpluses.	Final Report - ACCEPTABLE
CEO	2	Pension Fund Annual review to provide assurance that the Pension Fund is being managed effectively.	Final Report - ACCEPTABLE
EE	1	EE Governance and Financial Management (including Customer Services) This is an annual audit to review governance and financial management arrangements in place within each directorate. <i>Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and</i>	

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
		<p><i>Community Consultation & Involvement.</i></p> <p>During Quarter 1, Internal Audit will review the area of <u>Information Governance</u> which will include specific testing around the management of external data transfers and review each directorate's processes for ensuring compliance with Information Governance policies, including data protection.</p> <p>2 Governance and Financial Management establishment audit of FM office - Samuelson House.</p> <p>3 OCS establishment / team to be identified.</p>	<p>Information Governance - Final Report - ISSUES</p> <p>Samuelson House - Final Report - Issues</p> <p>Now planned in qtr 4.</p>
EE	1	<p>Property and Facilities Contract</p> <p>Property & Facilities is currently carrying out a project to procure a new Strategic Service Partner to supply property services including multi-disciplinary design, construction, white and blue collar facilities management and transactional Estates Management services to the council from April 2012.</p> <p>This is a major project for the council with an estimated annual value of work in the region of £50m, and it is intended to let a ten year contract which has the facility to extend in aggregate up to a further ten years.</p>	Exit Meeting Stage
EE	1	<p>Asset Strategy Implementation (incl. Corporate Landlord Approach)</p> <p>Implementation of the Asset Strategy is being managed and coordinated through an overarching programme and work streams. The property rationalisation programme has been set out and is being taken forward: the programme will mean that a number of other properties will be sold or leases surrendered over the next four years and beyond.</p>	Exit Meeting Stage

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
		Implementation of the Corporate Landlord will see Property & Facilities develop its corporate role: this will require enhanced working relationships with service teams across the council. As part of this approach, asset-led locality reviews are being taken forward with a view to identifying further opportunities to rationalise the asset and improve service delivery.	
EE	2	Local Transport Capital Block Funding Specific Grant Determination 2010: No 31/1859 The audit will focus on reviewing the system of accounting for and evidencing grant spend in accordance with the conditions, to enable the grant submission to be signed off in 2012.	Completed
EE	2	Integrated Transport Unit (Q2) The review will focus on the management and operations within the Integrated Transport Unit. The service delivers transport for eligible clients wishing to attend residential care homes, day centres and adult training centres for people with learning disabilities. The audit will also review the ITU Business Plan for the provision of transport to day services and the services provided to SCS.	This Audit has been deferred until qtr 1 of 2013/14.
EE	2	Development Control This audit is reviewing the system for Development Control including the e-planning system, and to provide a status update on the management action plan produced earlier in the year.	Draft Report

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
EE (Customer Services)	1	<p>Transforming Customer Services</p> <p>The outcome of this programme is to provide a high quality, cost effective support service that has a reputation for excellent customer service whilst being competitively priced. This will be achieved by setting up an Internal Customer Services centre operating model. Customers will have simple and clear access channels to the required service, with most query resolution occurring at the first point of contact.</p> <p>The audit will review the progress in delivering the programme, aimed at improving access to services for customers. Programme objectives include improving the systems currently in place and producing savings through economies of scale, cross-skilling, and ensuring the right level of work is directed to the relevant skilled employee.</p>	This programme is on - going
EE (Customer Services)	2	<p>Credit Card Income - PCI compliance</p> <p>The audit will review the effectiveness of the framework and processes in place for the Council to accept credit card payments. Testing will be undertaken in a sample of teams and establishments to ensure procedures are being followed and the Council is Payment Card Industry Data Security Standard (PCI DSS) compliant.</p>	Final Report - ACCEPTABLE
EE (OCS) & SCS	3	<p>Abacus re-tender.</p> <p>The Audit Manager will work with the project manager in reviewing the progress against key stages of this project implementation.</p>	On-going On hold - whilst project on pause.
EE (Customer Services)	3	<p>HR Self Service</p> <p>Internal Audit will provide advice and support in delivering the objectives of the HR Self Service Project. This will include providing assurance on the design of any new key process or changes relating to the four work streams of the project:</p>	This is one stream of the OCS Transformation Programme On-going

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
		<ul style="list-style-type: none"> - Personal Details Management (including Bank Details) - Travel and Expense Management - Sickness and Absence Management - E-Payslips 	
EE (ICT)	2	<p>Wireless Network</p> <p>To review the management and security of the wireless network. The wireless network is an attack point for any intruder wanting to gain unauthorised access to corporate systems and data.</p>	Fieldwork
EE (ICT)	2	<p>Remote Access</p> <p>To ensure all remote access to the corporate network is secure and controlled. This includes both users and suppliers. A new remote access solution has recently been implemented.</p>	Final report ACCEPTABLE
EE (ICT)	1	<p>Telephony Infrastructure Project</p> <p>To provide assurance over the implementation of the telephony strategy. The audit will be undertaken in two phases. A key programme within ICT designed to deliver significant cost savings to the organisation.</p>	Phase 1 - Final Management Letter - ISSUES
EE (ICT)	2	<p>Virtualised Infrastructure</p> <p>To review the management and security configuration of the virtual server environment i.e. VMware.</p>	Draft Report
EE (ICT)	2	<p>SAP System</p> <p>To review the management and governance over the SAP collaboration with</p>	Final Report - ACCEPTABLE

Directorate	Qtr Start	Audit	Status as at 31 December 2012 (Bold type = completed since last progress report)
		Hampshire CC. The scope will also include a high-level review of system security i.e. logical access, management of roles etc.	
EE (ICT)	3	NHS Information Governance Toolkit (IGT) S&CS access to NHS networks and systems is dependent upon them complying with NHS IGT requirements. This audit will review the compliance with those requirements	Scoping Stage

Q3 Additional Audits

EE	3	<p>Broadband</p> <p>There is a programme for the implementation of Superfast Broadband. Internal Audit are providing assurance in three areas:</p> <ul style="list-style-type: none"> i) Project governance ii) Compliance with BDUK requirements (to achieve funding from BDUK) iii) Contract/Procurement activity. <p>All three areas commenced in Q3 but will be on-going for the duration of the programme</p>	<ul style="list-style-type: none"> i) On-going ii) Stage 1 review of BDUK compliance has been completed and was acceptable. iii) On-going
EE (OCS)	3&4	<p>Procure to Pay Project</p> <p>The Procure to Pay project commenced in Q3 and is due to be completed on Q4. Internal Audit has monitored the progress and outcomes to date, inputting to the Project Board as required. During Q4 Internal Audit will be reviewing changes to the processes, in particular the design of controls.</p>	On-going

2012/13 Quarter 4 Internal Audit Plan

Directorate	Qtr Start	Audit
Corporate	4	<p>Health and Safety</p> <p>This audit will review the governance structure for the management of Health and Safety across Council at a Corporate and Directorate level, including the identification, management and escalation of health and safety risks. Internal Audit is aware of the current activity in respect of health and safety responsibilities arising from the mobilisation of the Facilities Management contract, and will support that process as part of the audit.</p>
PH	4	<p>Public Health</p> <p>This is not a specific audit, but Internal Audit are monitoring the on-going project for the mobilisation of Public Health responsibility to the Council with effect from April 2013.</p>
CEF	4	<p>CEF Governance & Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</p> <p>Remainder of work programme in CEF to be scheduled for quarter 4.</p>
SCS	4	<p>SCS Governance & Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</p> <p>Remainder of work programme in SCS to be scheduled for quarter 4. This will include establishment/service</p>

		based audit of the Engagement Service and a sample of managers across SCS.
CEO	4	<p>CEO Governance & Financial Management</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</p> <p>Remainder of work programme in CEO to be scheduled for quarter 4.</p>
EE	4	<p>EE Governance & Financial Management (inc OCS)</p> <p>This is an annual audit to review governance and financial management arrangements in place within each directorate. The programme of work will be completed over the whole year, and will include areas such as Financial Management including budget setting & control, Structure and Authority, Information Governance, Business Management, Business Continuity, Human Resources, Legislation and Community Consultation & Involvement.</p> <p>Remainder of work programme in EE to be scheduled for quarter 4. This will include an OCS establishment/service based audit of Learning and Skills team.</p>
EE	4	<p>Highways Contract</p> <p>This audit is an annual review of the Highways Contract, focussing on management controls, performance, and financial control.</p>
EE (OCS)	4	<p>Public Sector Network - Commissioning</p> <p>There is a strategy to decommission the Oxfordshire Community Network and move to a Broadband/alternative services. One aspect of that work will be to commission certain connectivity via a PSN agreement. This in turn will require design and ultimate configuration of access to corporate services from the PSN. Internal Audit are supporting this project by providing advice and independent assurance on the security standards to be applied and design of controls.</p>
EE (OCS)	4	<p>Key Financial System - Payroll</p> <p>This audit is undertaken annually to provide assurance that payments are accurate, timely and paid to legitimate employees only.</p>
EE (OCS)	4	<p>Key Financial System - Accounts Receivable</p>

		An annual audit to provide assurance that debtor income is identified recorded and collected in a timely and efficient method. The audit will also review other debt management procedures including the cancellation and writing off of debts. The scope will cover debts managed corporately on SAP and those relating to Adult Social care managed through the Abacus System. The audit will also include procedures at local sites responsible for raising debtor invoices.
EE (OCS)	4	Key Financial System - Accounts Payable The Accounts Payable system is subject to changes during Q4 resulting from the Procure to Pay project. As a results a systems control audit will not be undertaken this year, however, the audit will consist of substantive testing of the accounts payable data through analytical review, and a sample of transactions to test compliance. Accounts Payable Feeder Systems will also be reviewed as part of this audit.
EE (OCS)	4	Key Financial System - Pensions Admin The audit is an annual review aimed at testing the key controls providing assurance that members' records are accurately maintained and that payment through the pension's payroll are accurate and made on a timely basis to legitimate pensioners only. This audit will also consider the processes for the admission and withdrawal of organisations to and from the pension fund.
EE (OCS) / CEO	4	Key Financial System - Main Accounting This is an annual audit, testing the key controls to provide assurance that financial transactions are properly recorded to enable the production of timely and accurate statement of accounts, and management accounts. The planned days also provides for a review of non-SAP feeder systems, ensuring there are adequate and effective controls in place to give assurance on the accuracy and integrity of data being transferred into SAP Accounts Payable, Account Receivable and the General Ledger.
EE (OCS)	4	Schools Finance & Technical Team The Schools Support and Technical Team is the main provider of assurance on the performance of financial management at schools. This is an annual audit.
CEO	4	Lloyds Link On Line The Treasury Management Team are transferring operations to an on line version of Lloyds Link. Internal Audit are looking at the design of controls and supporting the testing of the integrity of the system.

All	4	Assurance Mapping It was intended that during August 2012 we would be developing the methodology for undertaking an exercise to map out the assurance framework for all the key services within the County Council. This has not yet stated but will begin in Q4, focussing on CEF initially. This work will carry over in 2013/14. It will be a major piece of work, but the outcome should provide management with a high level review of the management controls in place to assure them that service objectives and outcomes will be met, or to provide the early warnings when action is required. Where gaps in the assurance framework are identified this will be used to direct future internal audit activity.
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Appendix 2

Summary of Completed Audits

The following is a summary of the overall opinion and findings from the concluded audits since the last progress report to the Committee.

For each audit (unless specified) there is a table summarising the number of agreed management actions arising from the audit and the current status of those actions.

For reference there are three overall opinions we can give, defined as follows:

Acceptable	There is a sound system of internal control in which risks are being managed to acceptable levels.
Issues	There is generally a sound system of internal control, however some significant risks have been noted and there is therefore the possibility that some objectives will not be achieved.
Unacceptable	The system of internal control is generally weak, and the exposure to risk is such that it is probable that objectives will not be, or are not being achieved. The system is open to the risk of significant error or abuse.

Management actions are categorised as Priority 1 or 2, defined as follows:

Priority 1	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority 2	Significant issue that requires prompt action and improvement by the local manager.

2011/12 Not previously reported

The following audit is from the 2011/12 Plan. The audit was concluded in November 2011 but has not been reported to the Audit and Governance Committee as following the audit there has been a subsequent management/whistle blowing investigation. The outcome of that investigation was concluded in October 2012.

CEF - Governance & Financial Management Establishment Audit - Youth Offending Service 2011/12

Opinion: Unacceptable	Date of Final Report: 28 November 2011	
Total:	Priority 1 = 12	Priority 2 = 13
Current Status:		
Implemented	25	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

As part of the Governance and Financial Management Audit for CEF in 2011/12 an establishment audit of Youth Offending Service (YOS) was undertaken in September 2011. The overall conclusion for the audit was Unacceptable.

Internal Audit testing identified that OCC policies and procedures were not being complied with, and that financial management practices were poor such that the probity of transactions could not be confirmed in all instances tested.

The YOS has links with the SAFE! Project, a project set up to support young victims of crime. Internal Audit noted several governance issues with the accountability of roles, responsibilities, health and safety and financial arrangements for the project, including the involvement of YOS staff and the involvement of OCC. No operational guidance was provided to OCC employees in relation to their SAFE! duties.

Due to the significance of the findings a management investigation was completed. This led to permanent withdrawal of the imprest accounts and a detailed action plan to address the control issues identified which has been implemented by the Deputy Director and newly appointed Head of YOS. The action plan has included a training package for staff supported / led by both the HR Business Partner and Finance Business Partner.

The management actions are now all reported as implemented. An audit for 2012/13 will be undertaken during December 2012 which will review the effectiveness of controls implemented.

2012/13 Audit Plan

CEF Governance & Financial Management - Information Governance

Opinion: Issues	Date of Final Report: 17 October 2012	
Total:	Priority 1 = 1	Priority 2 = 3
Current Status:		
Implemented		0
Due not yet actioned		0
Partially complete		1
Not yet Due		3

This review has identified a number of risk areas with Information Governance that need to be addressed at both a corporate and local level. Corporately, we have found there is no formal structure for Information Governance, with clear ownership and defined roles and responsibilities. There is also a local issue in this respect as there is no defined responsibility for Information Governance within CEF or current representation at the corporate Information Governance Group. The joint working between CEF and S&CS on social care also requires clear ownership and management of Information Governance issues.

A priority 2 action in respect of Information Governance and access to data on SAP was agreed in the 2011/12 CEF Governance and Financial Management Audit. The original

implementation date was 30 June 2012, this has been extended and the action is still outstanding and therefore re-stated in the report.

A Corporate Data Transfer Policy was issued earlier this year but has not been well publicised and is difficult to find on the Intranet. Hence there is little evidence that relevant staff are aware of it. CEF does not have a complete and accurate register of all its external data transfers and there is no management review of this in place. A test of a sample number of transfers found that not all are undertaken securely, and some that are not covered by formal agreements.

There is now a mandatory requirement for all staff to complete an e-learning course on the Data Protection Act 1998. This was introduced during the course of the audit and will help improve staff awareness of the key issues.

CEF Governance & Financial Management Establishment audit - Riverside Centre

Opinion: Unacceptable

The audit identified unacceptable financial management procedures that have been reported to the Director, in particular regarding the management and trading activity of the shop. The Director has taken immediate action by closing down the shop and the trading activity. The audit identified mistreatment of VAT on some sales, so the Finance Business Partner has allocated resources to carry out a detailed examination of all VAT transactions to ensure this is corrected.

CEF Childrens Social Care - Management Controls

Opinion: Issues	Date of Final Report: 19 October 2012	
Total:	Priority 1 = 0	Priority 2 = 14
Current Status:		
Implemented	8	
Due not yet actioned	2	
Partially complete	1	
Not yet Due	3	

This audit identified the design of controls to be acceptable, however when testing a sample of records it highlighted issues with the effectiveness of those controls, and how well they are being monitored. The key findings relate to the consistency and timeliness of recording data on the management information system. The audit noted that management are aware of the issues, and that similar ones were noted in the previous years audit. Actions arising from the 2011/12 audit have been taken, but have not all resulted in effective implementation therefore are noted as partially implemented only. Timeliness of recording remains an issue, but management were aware and at the time of the audit were already taking further action to address them. In addition, at the time of the audit, management were in the process of reviewing procedures and records required for

carrying out monitoring visits to residential placements. The audit was able to highlight control improvements for incorporating into those procedures.

There were no Priority 1 actions arising from this audit.

SCS Governance & Financial Management - Information Governance

Opinion: ISSUES	Date of Final Report: 17 October 2012	
Total:	Priority 1 = 1	Priority 2 = 3
Current Status:		
Implemented	2	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	2	

This review has identified a number of risk areas with Information Governance that need to be addressed at both a corporate and local level. Corporately, we have found there is no formal structure for Information Governance, with clear ownership and defined roles and responsibilities. There is also a local issue in this respect as the previous Information Governance Officer has transferred to ICT following the recent organisation restructure. The joint working between S&CS and CEF on social care also requires clear ownership and management of Information Governance issues.

A Corporate Data Transfer Policy was issued earlier this year but has not been well publicised and is difficult to find on the Intranet. An Information Asset Register has been produced for S&CS and includes details of external data transfers. However, a test of a sample number of transfers found that some are not undertaken securely and some that are not covered by formal agreements.

There is now a mandatory requirement for all staff to complete an e-learning course on the Data Protection Act 1998. This was introduced during the course of the audit and will help improve staff awareness of the key issues. We have identified a potential breach of the Data Protection Act as some data collection forms used to collect personal data do not have a privacy notice and consents are not always being recorded as obtained.

SCS Personal Budgets including Direct Payments

Opinion: Unacceptable	Date of Final Report: 23 October 2012	
Total:	Priority 1 = 7	Priority 2 = 28
Current Status:		
Implemented	14	
Due not yet actioned	2	
Partially complete	6	
Not yet Due	13	
N.B. 2 actions due - not actioned, are priority 2 and only became due 31/12/12. Officer had unforeseen absence and not available to update system before 7/1/13 when this report produced.		

The audit identified an unacceptable level of control in respect of Personal Budgets and Direct Payments. The audit found that actions arising from the client annual review process were not being monitored effectively; in addition within the sample of direct payment clients examples were noted where the reconciliation and review of the clients financial returns was not operating effectively. The audit identified a need for improved communication and management information between the Direct Payments Team and Social and Community Services including highlighting where control processes are not being applied within the timescale expected, or where instances of non-compliance are identified which could need following up with the client.

The number of clients being managed through personal budgets is increasing with the roll out of Self-Directed Support and as a consequence of that, there has been a significant increase in the number of clients now in receipt of direct payments. This will continue to increase with the ongoing direction to transition clients on to Self-Directed Support and offer clients direct payments as part of this.

The Deputy Director responsible for this service attended the Audit Working Group on 8 November 2012 to respond to this report. She confirmed that actions are being progressed and that a full review of resources, and processes will be undertaken to ensure the systems are both efficient and effective. The AWG has requested a progress report at their meeting on 14 February 2013.

SCS Adult Social Care - Management Controls

Opinion: Unacceptable	Date of Final Report: 24 October 2012	
Total:	Priority 1 = 11	Priority 2 = 12
Current Status:		
Implemented	12	
Due not yet actioned	2	
Partially complete	5	
Not yet Due	4	
N.B. 2 actions due - not actioned, are priority 1 and 2 and only became due 31/12/12. Officer had unforeseen absence and not available to update system before 7/1/13 when this report produced.		

This audit has concluded an unacceptable level of control, however, it should be acknowledged that the Deputy Director for Adult Social Care, who has been in post from August 2012, and her team had already identified some of the key issues identified in the Internal Audit testing and raised in this report. A new Adult Social Care Operational Governance Group has been established and management actions identified to address these weaknesses have now been identified and are in progress of being implemented.

The key findings relate to the completeness, timeliness and accuracy of data recording, the monitoring and recording of actions taken, and the timeliness and accuracy of management information. The audit noted there are planned changes within Adult Social Care to improve data recording and monitoring of data; however, it is acknowledged that it will take time to embed.

This audit included a follow up of related actions from 2011/12 audits. It was found that three priority 1 actions had not been implemented and as a result have been restated.

The Deputy Director responsible for this service attended the Audit Working Group on 8 November 2012 to respond to this report. She confirmed that actions are being progressed and that through the Operational Governance Group she has already established a stronger process by which management issues are being identified and actions tracked. The AWG has requested a progress report at their meeting on 14 February 2013.

SCS Mental Health Reviews

Opinion: Issues	Date of Final Report: 27 November 2012	
Total:	Priority 1 = 0	Priority 2 = 3
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	3	

The audit found that performance regarding the completion of reviews on a timely basis has recently significantly improved. Performance figures in October 2012 show that timely reviews are at 81%.

The timeliness of the CPA and Mental Health process now appears to be well managed, with a robust monitoring spread sheet, evidence of quarterly auditing of data recorded on RIO and active monitoring by the mental health teams of client review / risk assessment status. The key area for improvement is that management information on timeliness of reviews is not currently reported to SCS Senior Management.

CEO Governance & Financial Management -Information Governance

Opinion: Issues	Date of Final Report: 24 October 2012	
Total:	Priority 1 = 0	Priority 2 = 3
Current Status:		
Implemented	0	
Due not yet actioned	1	
Partially complete	0	
Not yet Due	2	

This review has identified a number of risk areas with Information Governance that need to be addressed at both a corporate and local level. Corporately, we have found there is no formal structure for Information Governance, with clear ownership and defined roles

and responsibilities. An Information Governance lead has been identified within the CEO, but responsibilities are not formally documented.

A Corporate Data Transfer Policy was issued earlier this year but has not been well publicised and is difficult to find on the Intranet. CEO does not have a complete and accurate register of all its external data transfers, a risk that has been previously reported by internal audit in the Governance of Financial Management audits of 2010/11 and 2011/12, to which agreed management actions have not been implemented.

There is now a mandatory requirement for all staff to complete an e-learning course on the Data Protection Act 1998. This was introduced during the course of the audit and will help improve staff awareness of the key issues. We have identified a potential breach of the Data Protection Act as a number of on-line data collection forms used to collect personal data do not have a privacy notice.

Corporate Governance & Financial Management - Information Governance - Corporate issues

Opinion: Issues	Date of Final Report: 24 October 2012	
Total:	Priority 1 = 0	Priority 2 = 6
Current Status:		
Implemented	0	
Due not yet actioned	1	
Partially complete	1	
Not yet Due	4	

Our review of Information Governance, which was primarily focussed at looking at arrangements within each Directorate, has identified a number of risks that need to be addressed at a corporate level. This includes the identification of clear corporate roles and responsibilities as well as how these support local responsibilities. We have found that local responsibilities have changed following the organisation re-structure, to the extent that some Directorate's do not now have any identified person with Information Governance responsibility. This risk has been included within relevant Directorate reports. Membership of the corporate Information Governance Group also needs to be reviewed as a number of current attendees are all now based in ICT.

Further support and guidance needs to be available at a corporate level in respect of the work being undertaken by each Directorate to produce and monitor registers of all their external data transfers. There is little knowledge of the Data Transfer Policy and no corporate template for compiling these registers. Our review has identified some external transfers are not being undertaken securely or are not covered by a formal agreement and this has been included in relevant Directorate reports.

There are no corporate issues with regard to the Data Protection Act 1998. There is now a mandatory requirement for all staff to complete an e-learning course on Data Protection which will help improve their awareness of the key issues. Our testing of data collection forms identified some that do not include a privacy notice and this has been identified as a risk to relevant Directorate's.

CEO Capital Accounting

Opinion: Acceptable	Date of Final Report: 18 October 2012	
Total:	Priority 1 = 0	Priority 2 = 1
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	1	
Not yet Due	0	

Our overall conclusion is ACCEPTABLE. There is a sound system of internal control in which risks are being managed to acceptable levels.

An area for improvement was identified in the updating of the capital accounting procedure notes.

CEO Treasury Management

Opinion: Acceptable	Date of Final Report: 25 October 2012	
Total:	Priority 1 = 0	Priority 2 = 2
Current Status:		
Implemented	1	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	1	

Our overall conclusion is ACCEPTABLE. Internal Audit identified that there is generally a sound system of internal control in place. Risks are being mitigated to acceptable levels, although there is a need for processes and procedures to be followed in all instances to ensure that control is always applied as intended and on a timely basis.

As the Council has not borrowed within the period of review nor appears likely to need to do so in the immediate future we did not carry out any testing of this activity. There are sufficient investments in money market funds and call accounts to cover unexpected payments. Treasury Management Team undertakes constant and detailed analysis of available investments. Actions agreed in the 2011/12 audit have been confirmed as fully implemented.

CEO Pension Fund

Opinion: Acceptable	Date of Final Report: 20 December 2012	
Total:	Priority 1 = 0	Priority 2 = 2
Current Status:		
Implemented	1	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	1	

Our overall conclusion is ACCEPTABLE. Internal Audit identified that there is generally a sound system of internal control in place.

Areas of good practise were noted in the regularity of Fund Manager and Independent Financial Advisor meetings and reports to the Pension Fund Committee. There appear to be good processes in place for reviewing and monitoring the performance of the Fund Managers and the Pension Fund in general, and good transactional processes for recording and checking contributions from participating bodies and In-House transactions. The main issue identified was the monitoring of daily BACS reconciliations.

EE Governance & Financial Management -Information Governance

Opinion: Issues	Date of Final Report: 11 October 2012	
Total:	Priority 1 = 0	Priority 2 = 2
Current Status:		
Implemented	2	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

This review has identified a number of risk areas with Information Governance that need to be addressed at both a corporate and local level. Corporately, we have found there is no formal structure for Information Governance, with clear ownership and defined roles and responsibilities. There is also a local issue in this respect with regard to current IG roles in E&E, OCS and ICT.

A Corporate Data Transfer Policy was issued earlier this year but has not been well publicised and is difficult to find on the Intranet. Hence, there is little evidence of staff being aware of it. A register of external data transfers has recently been compiled, however, it does not record all relevant details.

On a positive note, there is now a mandatory requirement for all staff to complete an e-learning course on the Data Protection Act 1998. This was introduced during the course of the audit and will help improve staff awareness of the key issues.

EE Governance & Financial Management Establishment audit - Facilities Management Samuelson House

Opinion: Issues	Date of Final Report: 11 October 2012	
Total:	Priority 1 = 3	Priority 2 = 7
Current Status:		
Implemented	10	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

This report has highlighted issues in respect of the transactions the Finance Team process on behalf of CEF and SCS. Some issues remain outstanding from the Facilities Management audit at Knights Court which has impacted on the findings for Samuelson House. The outstanding management actions for Knights Court include; issue of local financial procedures, review of procurement activity within CEF and SCS area teams and identification of additional procurement card holders as appropriate.

Due to the lack of financial procedures in place for Facilities Management and Social Care teams at the time of the audit, it was difficult for audit to establish whether the frequency/amounts of claims paid was necessary and in accordance with standard protocols. From review of financial activity we were able to ascertain examples that the imprest account at Samuelson House appears to be utilised by CEF and SCS staff in preference to alternative methods of procurement such as procurement cards, SAP/SRM and reimbursement through central submission of a Travel & Expense claim form to Payroll. Since the audit it has been reported that finalisation and publication of the Local Financial procedures for all Facilities Management Finance Offices is now due for implementation at the beginning of November 2012.

During the audit it was difficult to identify whether claims were appropriately authorised due to the list of authorised signatories not being up to date.

An issue was also identified whereby lettings income had not been invoiced. This has since been rectified.

Where relevant management actions agreed in Knights Court 2011/12 report have not been fully embedded / implemented they have been re-stated in this report. 5 management actions that are not implemented are referred to in the findings section and will continue to be followed up as part of the Knights Court Action Plan. 2 management actions have been reported to have been implemented for Knights Court, but have not been implemented for Samuelson House so these have been specifically raised again under the Samuelson House action plan.

EE OCS - Payment Card Industry (PCI) Compliance

Opinion: Acceptable	Date of Final Report: 29 November 2012	
Total:	Priority 1 = 0	Priority 2 = 2
Current Status:		
Implemented	2	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Our overall conclusion is ACCEPTABLE. There is a sound system of internal control in which risks are being managed to acceptable levels. (At draft report stage the overall conclusion was Issues, however overall conclusion changed due to implementation of priority 1 management action).

Departments are generally compliant with PCI Standards, no major incidents of card detail security were found during the audit process. Minor improvements are required around local procedures.

It was identified that there was no evidence of PCI compliance in place for the Government Gateway used for the Councils invoice payments and by Registrars for online certificates. This was being actively chased by management with the provider and has since been rectified at the time of the draft audit report.

EE OCS - ICT Remote Access

Opinion: Acceptable	Date of Final Report: 18 December 2012	
Total:	Priority 1 = 0	Priority 2 = 4
Current Status:		
Implemented	1	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	3	

Our overall conclusion is ACCEPTABLE. Internal Audit identified that there is a sound system of internal control in which risks are being managed to acceptable levels.

Remote access is now generally regarded as a standard service that is used by organisations to support initiatives such as home and mobile working. Third-party suppliers are also given remote access to support and/or maintain their software systems. Where remote access is provided, it is important that all such access is appropriately managed and that only secure and authenticated connections are permitted to networked systems and data. The audit found that this is being well controlled.

Detailed procedures have been developed covering the remote access process, and guidance notes on security requirements are available to users. The Remote Working Policy is in the process of being reviewed and updated. We understand that third parties and suppliers are made aware of remote access security requirements, and that contracts include standard clauses relating to the security of data and systems. However, this information was not provided during the audit so could not be verified.

EE (ICT) Telephony Infrastructure Project Review

Opinion: Issues	Date of Final Report: 25 October 2012	
Total:	Priority 1 = 0	Priority 2 = 5
Current Status:		
Implemented	5	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

The objective of the Telephony Infrastructure Project is to replace the existing telephone system, which is deemed expensive and complicated, with a new system that is based on current technology and developments in the market. The aim of the project includes reducing the overall cost of telephony at OCC, consolidating the telephone budgets into ICT and providing softphones for all users to support new ways of working.

There is a documented and approved Project Initiation Document (PID) for the Telephony Infrastructure Project. This defines a project structure comprising of a Governance Group and a Work Stream Leads Group, however, we found that the latter does not formally meet. The audit identified areas for improvement with the project management as the project progresses, mainly regarding the content, detail and timeliness of information to the Governance Group who are the Project Board.

There has been some slippage in project timescales as a result of procurement delays. This has been reported to the Governance Group who have approved changes to delivery dates. We have looked at the initial plans for testing the new system and discussed how users will be supported during the implementation stages. No areas of risk have been identified with current plans, although this will be followed up at the next audit.

EE ICT - SAP system

Opinion: Acceptable	Date of Final Report: 7 November 2012	
Total:	Priority 1 = 0	Priority 2 = 5
Current Status:		
Implemented	2	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	3	

Our overall conclusion is ACCEPTABLE. Internal Audit identified that there is a sound system of internal control in which risks are being managed to acceptable levels.

Oxfordshire and Hampshire County Councils have entered into a collaborative partnership, which is initially centred on support arrangements for the SAP system. Other areas will be reviewed and considered as required. Plans are being developed to transfer responsibility for SAP support from Serco to Hampshire County Council (HCC) by the 31st October 2012.

A Shared Services Agreement has been put in place and ICT are currently working to define the service levels required from HCC. We have supported this process by reviewing the draft proposals and suggesting areas that should be included within them. In addition, we have recommended that ICT should introduce formal monitoring of HCC users and also ensure that all passwords known by Serco are changed on the termination of their contract.

Our review of the plans to give HCC ICT users access to the SAP system has confirmed that key risks are being adequately managed. All HCC users will have individual accounts and specific roles, which have been documented and are currently being tested. All HCC

roles will be formally signed off by the Programme Manager and the SAP Operations Group.

The logical security controls over the SAP system were tested and found to be adequate. It was further confirmed that all SAP roles have a nominated 'Owner' and 'Responsible Person,' although we have identified that roles have not been formally reviewed since they were re-defined in 2010. It is pleasing to report that testing has confirmed that a number of previously agreed management actions have been fully implemented.

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OCC COUNTER-FRAUD WORK PLAN FOR YEAR 2012/2013

REF.	TASK/OBJECTIVE	DAYS NEEDED	RESOURCES	TARGET DATE	CURRENT POSITION	COMPLETION DATE
1. Creating an Anti-fraud Culture and Raising Awareness						
a)	Attend regional and national groups on fraud issues (i.e. MCCIAG Sub-Fraud Group, London Audit Group, etc.).	5 days	Audit Manager or substitute.	April 2012	Group session attended and learning will be taken and applied to work.	March 2013, continuing into 2013/14.
b)	Engage with DLT's and Directorate Manager Meetings to undertake an assessment of fraud risks within each service area. Utilise the results to inform Internal Audit's fraud risk assessment and proactive fraud work.	10 days	Audit Manager and experienced fraud Auditor.	July 2012	Undertook 'Good Governance' presentation for CEF EDLT. As a result Tier 3 managers have requested sessions for tier 4 managers (booking session in for the new year). Three lunchtime workshop are also being run in CEF. Extending out to the other directorates in the new year.	March 2013, continuing into 2013/14 based on need.
c)	Develop & maintain a Counter-Fraud webpage on the Council's intranet.	2 days	Experienced fraud Auditor.	September 2012	Review completed, minor updates needed.	Feb 2013
d)	Develop & maintain a Counter-Fraud webpage on the Council's public website.	2 days	Experienced fraud Auditor.	September 2012	Review completed, minor updates needed.	Feb 2013
e)	Publish news items and articles on the Council's intranet on fraud and related subjects.	2 days	Experienced fraud Auditor.	October 2012	NFI Fair Processing notice published. As above, Intranet and Internet to be updated.	Feb 2013
f)	Review and monitor completion of Combating Fraud &	1 day	Experienced fraud Auditor.	December 2012	Course reviewed, content still deemed to	October 2012

REF.	TASK/OBJECTIVE	DAYS NEEDED	RESOURCES	TARGET DATE	CURRENT POSITION	COMPLETION DATE
	Corruption e-learning course.				be relevant. Encouraging staff as part of Good Governance presentations to undertake/raise awareness of the course.	
g)	Combating fraud and corruption e-learning course to be reviewed, revised as necessary and re-publicised.	1 day	Experienced fraud Auditor.	February 2013	Course reviewed, content still deemed to be relevant. Encouraging staff as part of Good Governance presentations to undertake/raise awareness of the course.	October 2012
2. Deterring Fraud						
a)	Discuss publicity requirements on all OCC cases and initiatives, as the need arises.	1 day	Audit Manager and experienced fraud Auditor.	September 2012	None required as yet. Potential when higher profile cases near completion.	
3. Preventing Fraud						
a)	Develop the consideration of fraud and corruption risks as part of the organisation's risk management arrangements.	3 days	Audit Manager and experienced fraud Auditor.	June 2012	Fraud risk assessment being built, also starting to conduct 'good governance' programme of presentations.	
b)	Counter-Fraud Policy: <ul style="list-style-type: none"> Review Anti Fraud and Corruption Strategy. Include Fraud Response Plan in Counter-Fraud 	0.5 day 0.5 day	Audit Manager and experienced fraud Auditor. Audit Manager and experienced fraud	June 2012 June 2012	Reviewed strategy, no need to update as yet. Liaising with HR on the whistleblowing policy to ensure its lined up together with the strategy.	Dec 2013

REF.	TASK/OBJECTIVE	DAYS NEEDED	RESOURCES	TARGET DATE	CURRENT POSITION	COMPLETION DATE
	Manual. <ul style="list-style-type: none"> Review Whistle blowing Policy. Review Money Laundering Policy. 	N/A N/A	Auditor. Legal / HR Department. Legal Department.	July 2013 November 2013		
4. Detecting Fraud						
a)	Produce a fraud risk assessment to inform areas for pro-active fraud testing.	5 days	Audit Manager and experienced fraud Auditor.	July 2012	Fraud risk assessment drafted. Will take time to fully build, intend to review again early Jan and then meet with FBP's in the new financial year to build further.	March 2013, ongoing.
b)	Greater utilisation of IDEA and SAP when undertaking proactive fraud investigations.	5 days	Training need for the Internal Audit team.	July 2012	IDEA training course due in February 2013. IDEA will then form part of proactive reviews.	March 2013 and ongoing
c)	Audit Commission National Fraud Initiative (NFI) 2012/13: <ul style="list-style-type: none"> Undertake awareness raising and comply with the NFI's "Fair Processing Notification" requirements. Submit NFI data. Investigate and resolve NFI data matches. Monitor outcomes and confirm that issues are being reviewed and 	1 day 1 day N/A 2 days	Audit Manager and experienced fraud Auditor. Audit Manager and experienced fraud Auditor, with ICT department. Delegated to individual teams. Experienced fraud Auditor.	September 2012 October 2012 March 2013 March 2013	Fair processing notice issued. All data uploaded and Audit Commission queries answered. Now awaiting the matches due at the end of January 2013.	Nov 2012

REF.	TASK/OBJECTIVE	DAYS NEEDED	RESOURCES	TARGET DATE	CURRENT POSITION	COMPLETION DATE
	resolved appropriately, including addressing any control weaknesses.					
d)	Undertake proactive anti fraud testing to provide assurance on effectiveness of fraud controls.	50 days (5 reviews)	Audit Manager and experienced fraud Auditor.	March 2013	Proactive reviews are underway, some of this time will also be allocated to any issues arising from the NFI, if there are any potential gaps in fraud control. Time has also been reallocated to investigation time due to the number of referrals this year.	March 2013
5. Investigating Fraud						
a)	Develop a joined up approach to investigating fraud and corruption allegations (i.e. with Legal, HR, ICT, etc.).	5 days	Audit Manager and experienced fraud Auditor.	June 2012	Partnership with Wokingham set up. Some time has been drawn from the proactive reviews to support investigations and ensuring control flaws, that have allowed frauds to occur, are strengthened.	March 2013
b)	Create Internal Audit Counter-Fraud Manual.	2 days	Audit Manager and experienced fraud Auditor.	June 2012	This will be deferred now until 2013/14	2013/14
c)	Increased team awareness of fraud issues and risks when undertaking standard assurance work.	To be completed as part of 4b).	Training need for the Internal Audit team.	July 2012	This will be deferred now until 2013/14	2013/14
6. Seeking to Apply Sanctions (where fraud is proven)						

REF.	TASK/OBJECTIVE	DAYS NEEDED	RESOURCES	TARGET DATE	CURRENT POSITION	COMPLETION DATE
a)	Maintain a close working relationship with Human Resources / Legal re: civil, disciplinary and criminal.	To be completed as part of 5a).	Audit Manager and experienced fraud Auditor.	January 2013	As per 5a, liaison with HR and Managers in relation to the frauds that have occurred.	March 2013
7. Supplying Information so that Redress may be Sought						
a)	Supply the necessary information to partner organisations to ensure that funds and assets remain within the Council and where losses are identified, seek to recover funds, where possible.	1 day	Audit Manager and experienced fraud Auditor.	January 2013	In contact with the Police regarding an ongoing case involving suspected financial irregularities. The results of this will be reported to Audit Committee on conclusion of the case.	March 2013

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AUDIT & GOVERNANCE COMMITTEE – 16 JANUARY 2013

SERVICE & RESOURCE PLANNING 2013/14 – 2017/18

**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL
INVESTMENT STRATEGY FOR 2013/14**

Executive Summary

- a) The Treasury Management Strategy Statement complies with the requirements of the Local Government Act 2003, The Prudential Code for Capital Finance in Local Authorities (2011), The Treasury Management Code of Practice (2011), DCLG Investment Guidance, and incorporates the Annual Investment Strategy for 2013/14.
- b) The Council is required to approve Prudential Indicators for 2013/14, 2014/15 and 2015/16. Draft Prudential Indicators are set out at Appendix A. These are currently incomplete as they are dependent on updates to the Capital Programme but will be included in the Treasury Management Strategy Statement as an Annex to the Service and Resource Planning Report to be approved by Council on 19 February 2013.
- c) The strategy for financing prudential borrowing during 2013/14 is to use temporary internal balances. External debt will continue to be repaid upon maturity and will not be refinanced.
- d) The Annual Investment Strategy for 2013/14 is based on an average base rate of 0.50% and assumes an average return of 0.90%, 0.40% above base rate. The average cash balance for 2013/14 is forecast to be £261.94m, including externally managed funds. The list of proposed specified and non-specified investment instruments are set out in full at Appendices C and D respectively. The maximum maturity and duration limits for counterparties are currently determined by matrices based on Fitch credit ratings. The matrices proposed for 2013/14 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 7.10 to 7.23.
- e) The Council intends to continue to place funds with the external fund manager, Investec Asset Management. Details of this fund and other pooled funds used by the Council, including performance and monitoring, are given in section 8.
- f) The Council will continue to prioritise the security and liquidity of capital. The Council will aim to achieve investment returns that are commensurate with these priorities. To achieve this, the Treasury Management Strategy Team (TMST) will aim to maintain a balanced portfolio between longer term deposits with high credit quality counterparties and investments in liquid instruments and shorter term deposits with Money Market Funds (MMFs) and high credit quality banks.
- g) Revisions to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice in 2011 following the granting of the general power of competence to local authorities in the Localism Act 2011

require the Council to state its policy on the use derivatives. This is set out in section 10.

- h) The Council will continue to benchmark the performance of the Treasury Management function through membership of the CIPFA benchmarking club. In-house performance will also continue to be benchmarked against 3 month London Interbank Bid Rate (LIBID).
- i) The recommendations arising from the Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14 are set out in section 14.

Treasury Management Strategy Statement & Annual Investment Strategy 2013/14

1. Background

- 1.1 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 1.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 The proposed strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the views of the Council's Treasury Management Strategy Team (TMST)¹, informed by market forecasts provided by the Council's treasury advisor, Arlingclose Limited. The strategy covers:
- Treasury limits in force which limit the treasury risk and activities of the Council;
 - Treasury Management Prudential Indicators for 2013/14, 2014/15 and 2015/16;
 - the current treasury position;
 - prospects for interest rates;
 - the borrowing strategy;
 - the borrowing requirement; and
 - the Annual Investment Strategy.
- 1.4 It is a statutory requirement for the Council to produce a balanced budget and to calculate its council tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue caused by increased borrowing to finance additional capital expenditure, and any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.
- 1.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The code was adopted by Council on 1

¹Comprising the Assistant Chief Executive & Chief Finance Officer, Deputy Chief Finance Officer, Service Manager - Pensions, Insurance and Money Management, Principal Financial Manager – Treasury & Pension Fund Investments, and Financial Manager – Treasury Management.

April 2003. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Treasury Limits for 2013/14 to 2015/16

- 2.1 It is a statutory duty, under section 3 (1) of the Local Government Act 2003, for the Council to determine and keep under review the amount it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit' and is equivalent to the 'Authorised Borrowing Limit' as specified in the Prudential Code.
- 2.2 The Authorised Borrowing Limit requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is 'acceptable'.
- 2.3 Whilst termed an "Affordable Borrowing Limit" within the Act, the capital plans to be considered for inclusion incorporates financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3. Prudential Indicators for 2012/13 to 2014/15

- 3.1 The Prudential Code for Capital Finance in Local Authorities (2011) requires the Council to set and monitor against Prudential Indicators in the following categories:
- Affordability
 - Prudence
 - Capital Expenditure
 - External Debt
 - Treasury Management
- 3.2 Further Treasury Management indicators are specified in the Code of Practice on Treasury Management (2011).
- 3.3 Prudential Indicators are set out in full at Appendix A to this strategy (please note these figures are DRAFT and INCOMPLETE and will be updated prior to Council on 19 February 2013):
- i. Gross debt and the Capital Financing Requirement
 - ii. Estimates of Capital Expenditure
 - iii. Ratio of Financing Costs to Net Revenue Stream
 - iv. Capital Financing Requirement
 - v. Incremental Impact of Capital Investment decisions
 - vi. Authorised Limit and Operational Boundary for External Debt
 - vii. Actual External Debt
 - viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice
 - ix. Gross and net debt

- x. Upper and lower limits to maturity structure of fixed rate borrowing
- xi. Upper limits on fixed and variable rate interest exposures
- xii. Upper limit to total of principal sums invested longer than 364 days

3.4 Prudential Indicators are reported to and monitored by the TMST on a monthly basis and will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2012/13 and the Treasury Management Mid-Term Review 2013/14, which will be considered in July and November 2013 respectively.

3.5 It is recommended that Cabinet recommends Council to approve the Prudential Indicators for 2013/14, 2014/15 and 2015/16 as set out in Appendix A.

4. Forecast Treasury Portfolio Position

4.1 The Council's Treasury forecast portfolio position for the 2013/14 financial year comprises:

	Principal £m	Average Rate %
Opening External Debt Balance		
PWLB	362.383	4.61%
Money Market Loans	50.000	3.90%
TOTAL EXTERNAL DEBT	412.383	
2013/14 Average Cash Balance		
Average Monthly Cash Balance	234.64	
Average Monthly Externally Managed	27.30	
TOTAL INVESTMENTS	261.94	

5. Prospects for Interest Rates

Current Medium Term Financial Plan

5.1 The strategy for 2012/13 approved by Council in February 2012 set out forecast interest rates over the medium term. The forecast was for an average base rate of

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 0.50%

These interest rates were used as a basis for constructing the strategic measures budget for 2012/13 to 2016/17.

Arlingclose's View

- 5.2 The Council uses the services of Arlingclose Limited to provide investment advice to the Council, as part of this service they help the Council to formulate a view on interest rates.
- 5.3 Arlingclose's current view on interest rates is that the Bank Rate will remain at 0.5% for the duration of their medium term forecast to December 2015 with the possibility that the official bank of England base rate may not rise until 2016.
- 5.4 If the Bank of England's Monetary Policy Committee begins to raise the base rate before December 2015, Arlingclose forecast that base rate will rise to 0.75% in September 2013, then to 1.0% in September 2014 and remain at that rate for the remainder of the forecast to December 2015.
- 5.5 Arlingclose expect the 1 year LIBID rate to rise from 1.10% to 1.40% over the same period, indicating that short-term borrowing will become marginally more expensive.

Treasury Management Strategy Team's View

- 5.6 The Council's TMST, taking into account the advice from Arlingclose, and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2013/14 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:
- 2013/14 0.50%
 - 2014/15 0.50%
 - 2015/16 0.50%
 - 2016/17 0.50%
- 5.7 It is the view of the team that as rates achieved on deposits in the past have been over and above that of the Bank Rate that a return rate should also be budgeted for. The team has agreed that the target return rate should be 0.40% higher than the average Bank Rate in 2013/14, reducing to 0.35% above in 2014/15 and 0.30% above for 2015/16 and 2016/17. The rate this gives is set out below. These rates have been incorporated into the strategic measures budget estimates:
- 2013/14 0.90%
 - 2014/15 0.85%
 - 2015/16 0.80%
 - 2016/17 0.80%

6. Borrowing Strategy

Arlingclose's View

- 6.1 The Public Works Loan Board (PWLB) set new borrowing rates at the gilt yield plus 1.0%. Arlingclose have forecast gilt yields as follows:
- The 50 year gilt yield is expected to start the financial year at 3.30%, increasing gradually to 3.60% by December 2015.
 - The 20 year gilt yield is expected to start the financial year at 2.80% rising incrementally to 3.00% by the end of the forecast in December 2015.
 - The 10 year gilt yield is expected to start the financial year at 1.90%, incrementally rising to 2.20% by December 2015.
 - The 5 year gilt yield is expected to start the financial year at 0.80% with gradual increases forecast to reach 1.20% in December 2015.
- 6.2 Arlingclose's forecasts have an upside variation range of between 25 and 50 basis points, and a downside variation range of between 25 and 50 basis points depending on the economic and political climate.
- 6.3 This forecast indicates that there are a range of options available when setting a borrowing strategy for 2013/14. Short dated gilt yields are forecast to continue to be lower than medium and long dated gilt yields during the 2013/14 financial year with medium term gilt rates slightly lower than longer term gilt rates.
- 6.4 Arlingclose believe that The Bank of England's Monetary Policy Committee may announce further Quantitative Easing during 2013/14 depending on the impact of the Funding for Lending Scheme. This, combined with the flight to quality, will continue to suppress the UK gilt yields.

Treasury Management Strategy Team's View

- 6.5 It is expected that the Bank Rate will remain low during 2013/14 and that there will continue to be a high "cost of carry²" associated with the long term borrowing compared to temporary investment returns.
- 6.6 In April 2011 the Government replaced the 'credit approval' system for capital financing with direct provision of capital resources in the form of capital grant. This means that the Council only needs to borrow to finance prudential borrowing schemes. The Council's Capital Resource Allocation System applies capital grants, developer contributions, capital receipts and revenue contributions to fund capital expenditure before using prudential borrowing. This means that the majority of the current capital programme is fully funded without the need to take up any borrowing.

² The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

- 6.7 Financing the Council's borrowing requirement internally would reduce the cost of carry in the short term but there is a risk that the internal borrowing would need to be refinanced with external borrowing at a time when PWLB and market rates exceed those currently available. This would result in higher financing costs over the long term.
- 6.8 Internal borrowing is a short term financing solution as cash surpluses are temporary balances made up of creditors over debtors, earmarked reserves and capital reserves. As reserves are drawn down for their earmarked purpose internal borrowing will need to be replaced with external borrowing.
- 6.9 The Council's TMST have agreed that they should continue to have the option to fund new or replacement borrowing up to the value of 25% of the portfolio (currently approximately £75m) through internal borrowing. This will have the effect of reducing some of the "cost of carry" of funding. There are no plans to borrow externally. Internal borrowing will also be used to finance prudential schemes.
- 6.10 If market conditions change during the 2013/14 financial year such that the policy to borrow internally is no longer in the short term or long term interests of the Council, the TMST will review the borrowing strategy and report any changes to Cabinet.

Capital Financing Requirement

- 6.11 The Council's Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing. The CFR is the value of the Council's assets that have not been permanently financed, in other words, borrowing has been used to finance the spend. When capital expenditure is permanently financed by grants, capital receipts or direct contributions from revenue this is not included the CFR.
- 6.12 The Council is required to make an annual contribution from revenue towards the repayment of debt termed the Minimum Revenue Provision (MRP). This contribution reduces the CFR and effectively provides the resource to permanently finance the capital expenditure and reduce the Council's borrowing requirement by that amount. The Council's MRP Policy Statement sets out the methodology that the Council applies in its MRP calculation. The statement is agreed by Council each year in February alongside the budget and capital programme and is included at Appendix B. Cabinet are recommended to recommend that Council approve the policy.
- 6.13 Under the Prudential Code, the Council must ensure that gross external borrowing does not, except in the short term, exceed the sum of the CFR in the previous year plus estimates of any increases to the CFR for the current and next two financial years. Where the gross debt is greater than the CFR the reasons for this should be clearly stated in the annual treasury management strategy. The Council's current position is set out below.

- 6.14 The Council's CFR is currently forecast to reduce over the medium term financial plan. This is because the MRP over the medium term is forecast to be higher than the level of prudential borrowing included in the Capital Programme.
- 6.15 The Council's external debt is also forecast to reduce over the medium term financial plan as existing long term debt is repaid upon maturity. However, the maturity profile of the existing debt portfolio is such that the CFR will fall at a greater speed than the level of external debt and will result in gross external borrowing exceeding the CFR.
- 6.16 This position is a direct result of the change in capital funding in April 2011 from credit approval to grant funding. Under the credit approval scheme the Council's CFR would have continued to increase as a result of the Capital Programme. The existing debt portfolio was constructed based on this assumption.

Borrowing Instruments

- 6.17 The team's forecast for 50 year PWLB rates over the medium term are 4.5% p.a. for 2013/14 – 2017/18. These rates do not impact on the strategic measures budget because it is anticipated that no additional external borrowing will be arranged in 2013/14.
- 6.18 In November 2012 the PWLB introduced the Certainty rate which allows eligible Councils to borrow at a discounted rate of 0.20% below the advertised borrowing rate. Eligibility is established by the submission of an annual application form to the Department of Communities and Local Government. The Council has successfully applied and qualified for the rate for the period from 1 November 2012 to 31 October 2013.
- 6.19 Although the short to medium term capital financing strategy is to borrow from internal balances, an annual application will be made to renew eligibility for the Certainty rate, in order to maintain the option should it be required.
- 6.20 The Council has historically set a maximum limit of 20% of the debt portfolio to be borrowed in the form of Lender's Option Borrower's Option (LOBOs). It is recommended that this remain as the limit for 2013/14. As at 30 November 2012, LOBOs represent 11.98% of the total external debt.
- 6.21 The Council has three £5m LOBO's with call options in 2013/14. The first has call options in April 2013 and October 2013, the second has call options in July 2013 and January 2014 and the third has a call option in August 2013 only. At each call date the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid.

7. Annual Investment Strategy

7.1 The Council has regard to the Office of the Deputy Prime Minister's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). It also has regard to the subsequent Communities and Local Government update to the Investment Guidance, Capital Finance Regulations and Minimum Revenue Provision Guidance issued in April 2010. The Council's investment priorities are:-

- The security of capital and
- The liquidity of its investments

7.2 The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

7.3 The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. The Draft Treasury Management Policy Statement is included at Appendix E. Cabinet is recommended to recommend to Council to approve the Draft Treasury Management Policy Statement.

Investment Instruments

7.4 Investment instruments identified for use in the 2013/14 financial year are set out at Appendices C and D under the 'Specified' and 'Non-Specified' Investment categories.

7.5 Guidance states that specified investments are those requiring "minimal procedural formalities". The placing of cash on deposit with banks and building societies 'awarded high credit ratings by a credit rating agency', the use of AAA rated Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal part of day to day treasury management.

7.6 Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included

on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification.

- 7.7 All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.
- 7.8 Non specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one year investments and have high credit ratings.
- 7.9 A maximum of 50% of the portfolio will be held in non-specified investments.

Credit Quality

- 7.10 The updated CIPFA Code of Practice on Treasury Management (2011) recommends that Councils have regard to the ratings issued by the three major credit rating agencies (Fitch, Moody's and Standard & Poor's) and to make decisions based on all ratings.
- 7.11 Whilst the Council will have regard to the ratings provided by all three ratings agencies, the Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and to derive its maximum counterparty limits. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 7.20 and 7.21 respectively.
- 7.12 The TMST may further reduce the derived limits due to the ratings provided by Moody' and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap Rates, Share prices, Ratings Watch & Outlook notices and quality Financial Media sources.
- 7.13 Notification of any rating changes (or ratings watch and outlook notifications) by all three ratings agencies are monitored daily by a member of the Treasury Management Team. Updates are also provided by the Council's Treasury Management advisors Arlingclose and reported to TMST.
- 7.14 Where a change in the Fitch credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables at paragraphs 7.20 and 7.21), that counterparty will be immediately removed from the lending list.
- 7.15 Where a counterparty has been placed on Negative Watch or Outlook by any of three major credit rating agencies the counterparty's status on the approved lending list will be reviewed by the TMST and appropriate action taken.

Lending Limits

7.16 In addition to the limits determined by the credit quality of institutions, the TMST apply further limits to mitigate risk by diversification. These include:

- Limiting the amount lent to banks in any one country (excluding the UK) to a maximum of 20% of the investment portfolio.
- Limiting the amount lent to any bank, or banks within the same group structure to 15% of the investment portfolio.

7.17 Where the Council has deposits on instant access, this balance will not be considered when limiting the amount lent to any bank or group of banks to 15%, however the limits as set out in paragraphs 7.20 and 7.21 will still apply.

7.18 Counterparty limits as set out in paragraphs 7.20 and 7.21, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts and money market funds. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and cashflow forecast.

7.19 Any changes to the approved lending list will be reported to Cabinet as part of the Financial Monitoring and Business Strategy Delivery Report.

7.20 The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2013/14. The TMST may further restrict lending limits dependent upon prevailing market conditions.

	Short Term Rating	
Long Term Rating	F1+	F1
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m

7.21 The Council also manages its counterparty risk by setting maturity limits on deposits, restricting longer term lending to the very highest rated counterparties. The table below sets out the maximum approved limits. The TMST may further restrict lending criteria in response to changing market conditions.

Long Term Rating	Short Term Rating	
	F1+	F1
AAA	3 years	364 days
AA+	2 years	364 days
AA	2 years	9 months
AA-	2 years	9 months
A+	364 days	9 months
A	9 months	6 months
A-	6 months	3 months

Other institutions included on the councils lending list

- 7.22 In addition to highly credit rated banks and building societies the authority may also place deposits with:-
- AAA rated Money Market funds,
 - Collective Investment Schemes
 - Local authorities.

Structured Products

- 7.23 As at 30 November 2012, the Council had £25m of structured products within its investment portfolio. Structured products involve varying degrees of additional risk over fixed rate deposits, with the potential for higher returns. It is recommended that the authority continue to use structured products up to a maximum of 10% of the investment portfolio. The Council will continue to monitor structured products and consider restructuring opportunities as appropriate.

8. External Fund Managers and Pooled Funds with Variable Net Asset Value

- 8.1 As at 30 November 2012, the Council currently has £12.3m invested with external fund manager Investec Asset Management. The Council has a further £15.1m invested in pooled funds managed by Scottish Widows Investment Partnership (SWIP), Federated Prime Rate and Payden & Rygel. These funds have a variable net asset value which means that the value of the funds can decrease as well as increase depending on the performance of the instruments in the fund.
- 8.2 The Council uses external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments and investment in different markets. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The Council will have no more than 20% of the total portfolio (currently around £50m) invested with external fund managers and pooled funds. This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value.

8.3 The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns.

8.4 On December 1 2010 the mandate with Investec was switched to one where predefined proportions are invested in 3 different types of investment fund, known as the Dynamic approach. The weighting in each fund is as follows:

Fund Name	Weighting
Liquidity Fund	5%
Short Dated Bond Fund	65%
Target Return Fund	30%

8.5 The investment objectives of each fund are as follows:

- Liquidity Fund – to achieve a superior return to that of cash deposits while maintaining capital and preserving liquidity
- Short Dated Bond Fund – to provide capital stability and income through investment in short term fixed income and variable rate securities listed or traded on one or more Recognised Exchanges
- Target Return Fund – to produce a positive return over the longer term regardless of market conditions by investing primarily in interest bearing assets and related derivatives

8.6 The Liquidity and Short Dated Bond Funds are AAA rated funds with varying degrees of liquidity. The target return fund is an unrated fund and is deemed to be of higher risk. The weighting of the funds under the Dynamic approach is designed to benefit from the upside risk of the Target Return fund whilst dampening volatile returns with the more stable Liquidity and Short Dated Funds.

8.7 The performance of the Investec fund has been undermined by its exposure to more volatile elements of the investment market. However, it is expected that in the long run the structure of the fund will produce improved returns and that the fund will outperform the return achieved in-house.

8.8 The performance of the Investec fund is monitored by TMST throughout the year against the fund's internal benchmark of 1.23% above 7 day LIBID rate and against the in-house investment returns.

8.9 The TMST will keep the external fund and pooled fund investments under review and consider alternative instruments and fund structures, to manage overall portfolio risk. It is recommended that authority to withdraw or advance additional funds to/from external fund managers continue to be delegated to the TMST.

9. Investment Approach

- 9.1 The weighted average maturity (WAM) of in-house deposits as at 30 November 2012 was 324.8 days. This is made up of £45.1m of instant access balances with a maturity of 1 day, and £269.6m of deposits with a WAM of 379.5 days.
- 9.2 During 2012/13 the Treasury Management team lengthened the WAM of the portfolio through long term lending to Local Authorities, giving a greater degree of certainty for investment returns in an environment of falling or stagnating interest rates. The portfolio was diversified using instant access MMFs and short term deposits with high credit quality financial institutions.
- 9.3 With the continued prospect of interest rates remaining lower for longer, the TMST will aim to maintain the balance between longer term deposits with high credit quality local authorities and short term and instant access deposits with MMFs and high credit quality banks. This will continue to provide certainty about the investment returns for a proportion of the portfolio and protect against the downside risk of changes in the interest rates while also enabling the Treasury Management team to respond to upside interest rate risk.
- 9.4 The Council requires a custodian account in order to invest directly in UK Government Gilts, T-bills, Certificates of Deposits and other Sovereign Bonds. The TMST have approved the opening of such a facility and the account opening is in progress. If availability of acceptable credit worthy institutions is reduced, the council may use the Debt Management Office Deposit Facility and will continue to prioritise security and liquidity of assets over investment returns.
- 9.5 Given the on-going turmoil in the banking sector it is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy continue to be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

10. Policy on Use of Financial Derivatives

- 10.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code (2011) requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

- 10.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 10.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 10.4 It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2013/14. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

11. Performance Monitoring

- 11.1 The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.
- 11.2 The Council will benchmark its internal return against 3 month LIBID.
- 11.3 Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2012/13, and the Treasury Management Mid-Term Review 2013/14, which will be considered in July and November 2013 respectively.

12. Investment Training

- 12.1 All members of the Treasury Management Strategy team are members of a professional accounting body. In addition, key Treasury Management officers receive in-house and externally provided training as deemed appropriate and training needs are regularly reviewed.

13. Treasury Management Advisors

- 13.1 In 2009 the Council appointed Arlingclose Ltd as Treasury Management advisors. The current agreement terminates on 30 April 2013. A procurement process will be undertaken in early 2013 to award a new Treasury Management Advisory Service contract.

14. RECOMMENDATIONS

14.1 Cabinet is RECOMMENDED to RECOMMEND Council to:

- (a) approve the Prudential Indicators for 2013/14, 2014/15 and 2015/16 as set out in Appendix A;**
- (b) approve the Minimum Revenue Provision Policy for 2013/14 as set out in Appendix B;**
- (c) approve the Treasury Management Strategy Statement & Annual Investment Strategy 2013/14;**
- (d) continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;**
- (e) approve the continued delegation of changes required to the Annual Treasury Management Strategy Statement & Annual Investment Strategy to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance;**
- (f) approve the Draft Treasury Management Policy Statement as set out at Appendix E.**

Appendix A

DRAFT Prudential Indicators 2013/14, 2014/15 and 2015/16

i. Gross Debt and the Capital Financing Requirement

- i.i. This is a key indicator of prudence. In order to ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
- i.ii. The Assistant Chief Executive and Chief Finance Officer reports that the Council had no difficulty meeting this requirement in 2012/13. It is expected that the level of external borrowing will exceed the CFR in 2014/15. The reasons for this are set out in paragraphs 6.11 to 6.16 of the Treasury Management Strategy. This view takes into account current commitments, existing plans and the proposals in the approved budget.

ii. Estimates of Capital Expenditure

- ii.i. The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2013/14 and the following two financial years. The Council must also approve the actual expenditure for 2011/12 and revised expenditure for 2012/13.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Expenditure					

	Actual 2011/12 £m	Estimates			
		2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
SCE(R) Supported Borrowing					
Prudential Borrowing					
Grants and Contributions					
Capital Receipts					
Revenue					
Reserves					

- ii.ii. The indicators have been based on the February 2013 capital programme which will be considered for approval by Council on 19 February 2013 with the Service & Resource Planning Report.
- ii.iii. The capital expenditure figures for beyond 2013/14 will be able to be revised in twelve months' time.

iii. The Ratio of Financing Costs to the Net Revenue Stream

- iii.i. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Year	Actual/ Estimate	Financing Cost	Net Revenue Stream	Ratio
2011/12	Actual			
2012/13	Estimate			
2013/14	Estimate			
2014/15	Estimate			
2015/16	Estimate			

- iii.ii. Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision.

iv. The Capital Financing Requirement

- iv.i. Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2012 that are recommended for approval are:

Year	Actual/Estimate	£m
2011/12	Actual	452.607
2012/13	Estimate	
2013/14	Estimate	
2014/15	Estimate	
2015/16	Estimate	

- iv.ii. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between

revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

v. The Incremental Impact of Capital Investment Decisions

- v.i. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.
- v.ii. The estimate of the incremental impact of capital investment decisions proposed in the Capital Programme, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2013/14	Estimate	
2014/15	Estimate	
2015/16	Estimate	

vi. Authorised Limit and Operational Boundary for External Debt

- vi.i. The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.
- vi.ii. The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.
- vi.iii. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).
- vi.iv. The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- vi.v. The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst

case scenario but without the additional headroom included within the Authorised Limit.

	2012/13 probable outturn	2013/14 estimate	2014/15 estimate	2015/16 estimate
	£'000	£'000	£'000	£'000
Operational Boundary for external debt -				
Borrowing	438,000	435,000	431,000	430,000
other long term liabilities	40,000	40,000	40,000	40,000
TOTAL	478,000	475,000	471,000	470,000
Authorised Limit for external debt -				
Borrowing	448,000	445,000	441,000	440,000
other long term liabilities	40,000	40,000	40,000	40,000
TOTAL	488,000	485,000	481,000	480,000

vii. Actual External Debt

vii.i This indicator enables the comparison of Actual External Debt at year end to the Operational Boundary and Authorised Limit.

Total External Debt as at 31.03.12	£'000
External Borrowing	420,728
Financing Liability	34,746
Total	455,474

viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice

viii.i This indicator demonstrates that the Council has adopted the principles of best practice.

viii.ii The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.

ix. Gross and net debt

x.i This indicator is intended to identify where an authority may be borrowing in advance of need.

Upper Limit of net debt:

	2012/13	2013/14	2014/15	2015/16
Net Debt / Gross Debt	70%	70%	70%	70%

x. Upper and lower limits to maturity structure of fixed rate borrowing

x.i This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

x.ii It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

x.iii LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2013/14	Lower Limit %	Upper Limit %
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

xi. Upper limits on fixed and variable rate interest exposures

x.i These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

Upper limit for fixed interest rate exposure:

	2012/13	2013/14	2014/15	2015/16
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%

x.ii The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue

budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Upper limit for variable rate exposure:

	2012/13	2013/14	2014/15	2015/16
Net principal re variable rate borrowing / investments	25%	25%	25%	25%

xii. Upper limit to total of principal sums invested longer than 364 days

xii.i The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Upper limit on principal sums invested longer than 364 days	100	100	100	100

Appendix B

Minimum Revenue Provision Policy Statement for 2013/14

Introduction

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.
2. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. Legislation (Statutory Instrument 2008 no. 414 s4) which came into force on 31 March 2008, gives local authorities more freedom to determine what a prudent level of MRP is.
3. The new legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.
4. The implementation of the International Financial Reporting Standards (IFRS) requirements brought some service concession arrangements on balance sheet and resulted in some leases being reclassified as finance leases instead of operating leases. Part of the service charge or rent payable is taken to reduce the balance sheet liability rather than being charged to revenue accounts. To ensure that this does not result in a one-off increase in the capital financing requirement and in revenue account balances, an amount equal to the amount that has been taken to the balance sheet is included in the annual MRP charge.

Options for Prudent Provision

5. Guidance on the legislation sets out a number of options for making 'prudent provision'. Options 1 and 2 relate to Government supported borrowing. Options 3 and 4 relate to new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed. Authorities are able to use any of the four options for MRP. The options are explained below.

Option 1 - Regulatory Method

6. This is the current method, and for debt supported by Revenue Support Grant (RSG), authorities can choose to continue to use the formula. This is calculated as 4% of the council's general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

Option 2 – Capital Financing Requirement (CFR) Method

7. Option 2 differs from Option 1 only in that the smoothing factors are removed. This is a simpler calculation; however for most authorities including Oxfordshire, it would result in a higher level of provision than Option 1.

Option 3 – Asset Life Method

8. For new borrowing under the Prudential system, Option 3 is to make provision in equal instalments over the estimated life of the asset for which the borrowing is undertaken or the alternative is the annuity method which has the advantage of linking MRP the flow of benefits from an asset where the benefits are expected to increase in later years. As with the existing scheme of MRP, provision for the debt will normally commence in the financial year following the one in which the expenditure is incurred. There is however one exception to this rule under Option 3. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. The MRP 'holiday' would perhaps be two or three years in the case of major projects and could make them more affordable.

Option 4 – Depreciation Method

9. For new borrowing under the Prudential system, Option 4 is to make MRP in accordance with the standard rules for depreciation accounting.

MRP Methodology Statement

10. The policy already in place in the Council is reflected in Options 1 and 3; consequently the statement requiring approval by Council is a confirmation of existing practice and continuation of the policy approved by Council in June 2008. The Council is recommended therefore to approve the following statement:
11. For capital expenditure incurred before 1 April 2008 or which in the future will relate to Supported Capital Expenditure, the MRP policy will be based on existing regulations (Option 1 – Regulatory Method).
12. From 1 April 2008, for all unsupported borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method or Annuity Method).
13. In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability, including the retrospective element in the first year (Option 3 in modified form).

14. The major proportion of the MRP for 2012/13 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with Option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2013 will be subject to MRP under Option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Appendix C

Specified Investments

Investment Instrument	Minimum Criteria	Credit	Use
Debt Management Agency Deposit Facility	N/A		In-house and Fund Managers
Term Deposits – UK Government	N/A		In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term A-, Minimum Sovereign Rating AA		In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A		In-house
Term Deposits with Part Nationalised banks by the UK Government	N/A		In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1		In-house on a buy and hold basis and Fund Managers
Money Market Funds with a Constant Net Asset Value	AAA		In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes ³	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.		In-house and Fund Managers
UK Government Gilts	AAA		In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A		In-house and Fund Managers

³ I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix D

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year) ⁴	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (eg. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house on a buy and hold basis and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers

⁴ Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house. Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers
Money Market Funds and Collective Investment Schemes ⁵ but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers

The maximum limits for in-house investments apply at the time of arrangement.

⁵ Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix E

**DRAFT TREASURY MANAGEMENT POLICY STATEMENT**

1. Oxfordshire County Council defines its treasury management activities as:
“The management of the organisation’s cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
2. Oxfordshire County Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. Oxfordshire County Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.
4. The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
5. The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.
6. The manner in which Oxfordshire County Council will seek to achieve these objectives and the arrangements for managing and controlling treasury management activities is prescribed in the treasury management practices which support this policy statement.
7. Responsibility for the implementation and monitoring of the Council’s treasury management policies and practices are vested in the Council. The officer responsible for the execution and administration of treasury management decisions is the Assistant Chief Executive and Chief Finance Officer, who will act in accordance with this Policy Statement, Treasury Management Practices and CIPFA’s Standard of Professional Practice on Treasury Management.
8. The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

9. Council will receive reports on treasury management policies, practices and activities including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

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Division(s): All

AUDIT AND GOVERNANCE COMMITTEE – 16 JANUARY 2013

DISPENSATIONS AND THE SETTING OF THE COUNCIL'S BUDGET

Report by the County Solicitor & Monitoring Officer

Introduction

1. The Audit & Governance Committee has the power to grant dispensations to councillors who might otherwise be unable to participate in decision-making by virtue of a disclosable pecuniary interest in the matter under consideration. Failure to register a disclosable pecuniary interest “without reasonable excuse” is a criminal offence under Section 34 of the Localism Act 2011.
2. This report addresses the question as to whether a dispensation is required for County Councillors in the setting of the Council's budget where a member holds “any beneficial interest in land which is within the area of the relevant authority” (Relevant Local Authorities (Disclosable Pecuniary Interests) Regulations 2012). I conclude that no such dispensation is required because, in the view of the Monitoring Officers of all of Oxfordshire's principal councils, the holding of such a beneficial interest is not a disclosable pecuniary interest under the Localism Act 2011.

Statutory provisions

3. The Relevant Local Authorities (Disclosable Pecuniary Interests) Regulations 2012 list “any beneficial interest in land” in the authority's area as a disclosable pecuniary interest. Section 30 of the Localism Act 2011 provides that a member must notify the authority's monitoring officer of any disclosable pecuniary interest which that person has at the time of notification.
4. Under the Council's Code of Conduct, a councillor who has a disclosable pecuniary interest in a matter must not discuss or vote on the matter at a meeting of the Council and must withdraw from the room.
5. However, Section 33 of the Localism Act 2011 enables the Council to issue a dispensation from the restrictions at Section 31(4) and allow a councillor to:
 - a. participate, or participate further, in any discussion of the matter at the meeting(s); and/or
 - b. participate in any vote, or further vote, taken on the matter at the meeting(s).
6. If a dispensation is granted, the councillor may remain in the room where the meeting considering the business is taking place and if the dispensation allows, they may also vote.

7. Under the former Code of Conduct which has now been abolished by the Localism Act 2011, councillors had personal interests in any matter which might have “affected” or “related to” their land. This is no longer the case for ‘disclosable pecuniary interests’. Rather, a councillor now has a disclosable pecuniary interest only when the subject matter concerns their “beneficial interest in land”. When the budget is being set, this decision contributes to the setting of the precept. However, the reference point for this is all properties within the respective bands as opposed to any individual one. While under the former Code, express dispensation was arguably needed, it is considered that this is no longer the case.

No dispensation required - rationale

8. While the setting of a precept may affect the charge payable on a property, it does not affect the value of the property in question. It is also the case that the legislation could have been drafted specifically to require dispensation had this been the intention behind the Localism Act requirements.
9. There is no national consensus on this matter. At parish and town council level, for instance, the National Association of Local Councils has advised local councils that a disclosable pecuniary interest does arise. However, the Monitoring Officers of Oxfordshire’s city and district councils have advised local councils in their area that they do not agree with this view and that a disclosable pecuniary interest does not exist in this case.
10. In the absence of any definitive national guidance, which has not been forthcoming, it is for each local authority to determine its own approach. I therefore ask the Committee to consider my advice that a dispensation is not necessary because a disclosable pecuniary interest does not arise in the setting of the Council’s budget by virtue only of a member holding a beneficial interest in land within Oxfordshire.
11. Where Monitoring Officers have advised their members that no disclosable pecuniary interest arises in these circumstances, members would in any case be able to demonstrate that they had “reasonable excuse” for not having declared the interest.
12. Consequently, it is my intention to write to all County Councillors to advise them that no disclosable pecuniary interest exists with regard to the setting of the Council’s budget by virtue only of a member holding a beneficial interest in land within the Council’s area.

RECOMMENDATION

13. **The Committee is RECOMMENDED to consider the advice in this report and to agree that no dispensation is required with regards to the setting of the Council budget and that County Councillors be advised accordingly.**

PETER G CLARK

County Solicitor and Monitoring Officer

Background papers:

The Localism Act 2011

The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

Contact Officer:

Peter Clark

(01865) 323907

January 2013

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AUDIT & GOVERNANCE COMMITTEE – 19 SEPTEMBER 2012

WORK PROGRAMME 2012/13

2013

Wed 16 January

Annual Governance Statement Process – annual review of the assurance framework
(Peter Clark & Kathy Wilcox)

Internal Audit Plan – 2012/13 Progress Report and Quarter 4 Plan
(Ian Dyson)

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

Treasury Management Strategy
(Sue Scane / relevant officer)

Audit Committee - Draft Work Programme 2013/14
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

Wed 27 February

Audit Committee Annual Report to Council 2012
(in accordance with the process adopted by the Committee on 29 November 2006)

Internal Audit Services-Internal Audit Strategy & Annual Plan 2013/14
(Ian Dyson)

Standing Items:

- Audit Working Group Reports
(Ian Dyson)
- Business Strategy: updates & key extracts from the Cabinet Financial Monitoring & Business Strategy Delivery Report
(Sue Scane)
- Scrutiny - governance & control matters
(Alexandra Bailey)
- Audit Committee Work Programme – update/review
(Committee Officer/Chairman/relevant officers)

Other matters

AWG 5 Draft Annual Governance Statement

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

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

Contact officer: Geoff Malcolm, Committee Officer
Tel: (01865) 815904

November 2012

DRAFT