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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Audit & Governance Committee

Notice of a Meeting of the Audit & Governance Committee

Wednesday, 11 January 2017 at 2.00 pm

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

P G Clark

Peter G. Clark
County Director

December 2016

Contact Officers: *Colm Ó Caomhánaigh, Tel 07393 001096; E-mail: colm.ocaomhanaigh@oxfordshire.gov.uk*

Membership

Chairman – Councillor Sandy Lovatt
Deputy Chairman - Councillor David Wilmshurst

Councillors

David Bartholomew	Nick Hards	John Tanner
Yvonne Constance OBE	Alison Rooke	
Tim Hallchurch MBE	Roz Smith	

Co-optee

Dr Geoff Jones

Notes:

- ***There will be a pre-meeting briefing at County Hall on Thursday 5 January 2017 at 2pm for the Chairman, Deputy Chairman and Opposition Group Spokesman.***
- ***Date of next meeting: 8 March 2017***

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to

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

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

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

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

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

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

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

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

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

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

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

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

AGENDA

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

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

3. **Minutes** (Pages 1 - 4)

   To approve the minutes of the meeting held on 14 December 2016 (**AG3**) and to receive information arising from them.

4. **Petitions and Public Address**

5. **Internal Audit 2016/17 Progress Report** (Pages 5 - 24)

   2.10pm

   Report by the Chief Finance Officer (**AG5**).

   This report provides an update on the Internal Audit Service, including resources, completed and planned audits and an update on counter-fraud activity for 2016/17.

   The committee is RECOMMENDED to note the progress with the 16/17 Internal Audit Plan and 16/17 Counter Fraud Plan and the outcome of the completed audits.

6. **Update on Financial Control Improvement Plan** (Pages 25 - 30)

   2.30pm

   Report by the Chief Finance Officer

   In July 2016 the Committee received a report outlining the Financial Control Improvement Plan established to address weaknesses previously identified and to provide efficient financial management systems, policies and procedures that will support the Council in delivering effective services to our customers. This paper provides a progress report to the Committee.

   The Committee is RECOMMENDED to note the report.

7. **Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18** (Pages 31 - 56)

2.50pm

Report by the Chief Finance Officer.

The report contains the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 in compliance with the CIPFA Code of Practice. The report sets out the borrowing and investment strategies for 2017/18 and relevant background information.

The Committee is RECOMMENDED to:

a) **endorse the Treasury Management Strategy for 2017/18 as outlined in the report;**
b) **note that due to the early timing of this report, Prudential Indicators i to vi have not been included in Appendix A as they are dependent on updates to the 2017 capital programme. Full indicators will be included when the report is considered by Council in February.**

8. Hampshire Partnership - HR Update (Pages 57 - 76)

3.10pm

Report by the Chief HR Officer (**AG8**).

This report gives an update on HR services delivered through the Hampshire Partnership – Integrated Business Centre (IBC) after 18 months of working. It provides an update on actions identified in July 2016, reports on an on-going review of payroll configuration and highlights further issues which have emerged since this committee last received a report from officers.

The Committee is RECOMMENDED to note the current position and agree that a further update be provided in 6 months once the outcome of the formal Review of OCC Payroll Configuration has been completed, any implications for OCC identified, and required remedial actions fully documented.

9. External Auditors (Pages 77 - 94)

3.30pm

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

- Audit Plan

10. Progress update on Annual Governance Statement Actions (Pages 95 - 100)

3.50pm

Report by the Chief Legal Officer and Monitoring Officer (**AG10**).

The Audit & Governance Committee approved the Annual Governance Statement for 2015/16 in September 2016. This included eight actions to be followed up by the relevant corporate lead and/or directorates during 2016/17. This report gives a progress update on each of these actions as at the end of December 2016.

The Committee is RECOMMENDED to note the progress on the actions.

11. **Constitution Review** (Pages 101 - 104)

4.10pm

Report by Chief Legal Officer and Monitoring Officer (**AG11**).

Under the Constitution, the Monitoring Officer is required to monitor and review the operation of the Constitution to ensure that its aims, principles and requirements are given full effect. This includes making recommendations to Council on any necessary amendments. The Monitoring Officer is authorised to make any changes to the Constitution which are required to:

- Comply with the law
- Give effect to the decisions of Council (or Cabinet, Committees etc.)
- Correct errors and otherwise for accuracy or rectification

Other changes will only be made by Full Council, following a recommendation of the Monitoring Officer.

The Committee is RECOMMENDED to:

a) endorse the proposed change to the Council Procedure Rules outlined at paragraph 6 of this report (Financial Procedure Rules, write off provisions);
b) agree to the Monitoring Officer proposing the change for Full Council's approval; and
c) note the changes made to the Constitution by the Monitoring Officer under delegated powers since December 2015 (i.e. since the last annual Constitution Review report to Council).

12. **Audit Working Group Report** (Pages 105 - 106)

4.20pm

Report by the Chief Finance Officer (**AG12**).

This report presents the matters considered by the Audit Working Group Meeting of 14 December 2016

The Committee is recommended to note the report.

13. Work Programme (Pages 107 - 108)

4.30pm

To review the Committee's Work Programme (**AG13**).

Close of meeting

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

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 14 December 2016 commencing at 2.00 pm and finishing at 3.00 pm

Present:

Voting Members:	Councillor Sandy Lovatt – in the Chair
	Councillor David Wilmshurst (Deputy Chairman) Councillor David Bartholomew Councillor Yvonne Constance OBE Councillor Tim Hallchurch MBE Councillor Nick Hards Councillor Alison Rooke Councillor John Tanner
Non-voting Member:	Dr Geoff Jones
By Invitation:	Alan Witty (Ernst & Young)
Officers:	Sarah Cox, Chief Internal Auditor; Ian Dyson, Assistant Chief Finance Officer Assurance; Nick Graham, Chief Legal Officer; Steve Munn, Chief Human Resources Officer; Glenn Watson, Principal Governance Officer; Sue Whitehead (Corporate Services)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with 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.

71/16 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

An apology was received from Councillor Roz Smith.

72/16 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 9 November 2016 were approved and signed as a correct record subject to the following amendments:

Minute 64/16 – 5th bullet point to be amended by the addition of the word ‘to’ between the words ‘order’ and ‘reduce’.

Minute 65/16 – Additional sentence to be added: “Councillor Bartholomew raised a further question about the departure of the Director for Transformation and Mr Dyson confirmed that he was not aware of any further issues the Committee needed to be made aware of.

2nd bullet point to be amended to read: although the term ‘customer’ was used a lot in documentation, some members preferred the terms residents, business etc.

Councillor Hards commented that in relation to the final bullet point the point had been that the provision of assistance needed to be expanded.

73/16 SENIOR MANAGEMENT REVIEW

(Agenda No. 5)

Audit & Governance Committee had before them a report asking them to note progress made with the Senior Management Review and to approve the proposed recommendations including a new structure. Views from the Committee were to be considered by Cabinet on the 20 December in advance of final decisions at that meeting. The report referenced associated work carried out on the unitary debate as well as transformation of services and identified potential savings to be gained from reductions in senior management posts.

In response to comments concerning the timing of this meeting following consideration by Council it was explained that the main thrust for this Committee was to examine the proposals in relation to governance. It gave them a structured opportunity to make comments on governance implications to feed into the Cabinet decision. None the less the Committee felt that this meeting should have been held before the County Council meeting of the 13 December 2016, so that their views could have fed into the County Council debate.

During discussion the following points were made:

1. Members queried the interim nature of the Strategic Director for People. The Chief HR Officer explained that this enabled the organisation to keep options open and review the structure in 12 months. The proposed post holder will keep his statutory Director of Public Health role but will take on additional responsibilities, on the same salary, to enable the Council to make the most of his skills and experience in bringing Public Health, Adults and Childrens Services together.

2. A number of Members raised concerns about the job title of Assistant Chief Executive, particularly around:
   - The seniority implied by the job title despite it not being the formal Deputy to the Chief Executive
   - Lack of clarity about why this job title is so different from the others in the Resources directorate
   - Lack of clarity about the remit of the role and its potential to be misleading
   - Concerns that ‘scrutiny’ had not been part of this job title and that it should be.

The Chief HR Officer emphasised that this role was not the deputy for the Chief Executive which would be undertaken by the Strategic Directors. There would be no change in job role or salary but the title was vital to use with external partners, (especially concerning our unitary bid) who need to know they are dealing with someone who has significant responsibility within the organisation.

3. Members queried the strategy of recruiting internally and whether they could be sure that the Council was not missing out on the best person for the job. The Chief HR Officer explained that Penna had assessed our Deputy Directors as part of the review and found them to be capable and willing to make the next step to Directors. The intention was to capitalise on this in order to retain our talent and save on recruitment costs. However, if approved, once this structure was complete further recruitment processes would include an external search.

4. In response to questions on how long the implementation would take Committee were advised that if approved by Cabinet in December the intention would be to implement by the end of January.

5. The Committee discussed the proposed savings and supported the approach. A question was asked as to why Finance did not sit in Communities given the current infrastructure challenges. The Chief HR Officer explained that the purpose of the structure was to deliver increased flexibility based upon need at any particular time. At present, given the Transformation agenda the County Director felt Finance needed to be in Resources, but there was no reason why Finance couldn't move to Communities in the future. Indeed all services under this model could be moved if circumstances dictated.

6. Committee queried whether a team reward structure would be more appropriate for the roles in this structure? This would further encourage working together rather than as individuals. The Chairman noted that this was the remit of Remuneration Committee rather than this Committee and the Chief HR Officer said he would include this idea in a future paper for Remuneration Committee.

RESOLVED: to note the progress made to date on the Senior Management Review; and to endorse the Senior Management Review recommendations and proposed structure subject to the following comments:

- The majority of this Committee believes the title Assistant Chief Executive to be misleading. The Committee requests consideration is given to a title more reflective of the role including policy and scrutiny (by a show of hands with 6 votes for, to 1 against with 1 abstention).
- The Committee noted that they would have preferred to have reviewed the proposals prior to full Council doing the same.

74/16 SCALE OF ELECTION FEES AND EXPENDITURE 2017-18

(Agenda No. 6)

Each year the Council needs to set a scale of election fees and expenditure for the holding of elections of county councillors. In September 2016, the Committee agreed a scale of fees to apply for the remainder of the 2016/17 year. It was noted then that a fuller review would be needed for the scale of fees and expenditure to apply in 2017/18, particularly for the May 2017 County Council elections.

A full review has therefore been undertaken in consultation with the City and District Councils which have, of course, held various elections and the EU Referendum since the 2013 County Council election. The Audit & Governance Committee considered a report that presented a revised scale of fees and expenditure which brings the scheme up to date.

Responding to questions Glenn Watson, Principal Governance Officer indicated that in respect of 10(e) the training fees were not going to individual staff members but were split between trainer and trainee and the figure was a ceiling on fees. He highlighted the detail on 10(d) set out on page 29 of the report.

RESOLVED: to approve the Scale of Expenditure for the financial year 2017/2018, as shown in Annex A to the report, for the election of County Councillors and any other local referendums.

.... in the Chair

Date of signing 2016

Division(s): N/A

AUDIT and GOVERNANCE COMMITTEE – 11 January 2017

INTERNAL AUDIT 2016/17
PROGRESS REPORT

Report by the Chief Financial Officer

INTRODUCTION

1. This report provides an update on the Internal Audit Service, including resources, completed and planned audits and an update on counter-fraud activity.

RESOURCES

2. Since the last update to the 14 September 2016 Audit & Governance Committee there has been a change to Internal Audit resources. The Compliance Officer has been seconded for a 6 month period to the Income and Banking Team to cover a vacant position and contribute to the improvements to financial control in this area.
3. As a result of this; audits have been reallocated within the team, combined with two audits where they are now more appropriate to defer until 17/18 plan, also the two trainee Auditors are continuing to develop and are undertaking more of the audit activity. Therefore this has only resulted in a small reduction to the Internal Audit Plan which will not impact on the overall opinion of the system of internal control provided at the year end.
4. Since April, Sarah Cox has been covering the post of Chief Internal Auditor as an interim arrangement. This has now been formalised with the previous post of Audit Manager re-designated as Chief Internal Auditor.

2016/17 INTERNAL AUDIT PLAN - PROGRESS REPORT

5. The 2016/17 Internal Audit Plan, which was agreed at the 13 July Audit & Governance Committee, is attached as Appendix 1 to this report. This shows current progress with each audit.
6. There have been six amendments to the plan, since the last update. Full details of the amendments to the plan are outlined in Appendix 1. The ICT audit of mobile computing has been replaced with the ICT audit of the implementation of Windows 10. The audit of PCI DSS (Payment Card Industry Data Security Standard) has been removed

from the plan due to the wholesale review of this area currently being undertaken sponsored by the Assistant Chief Finance Officer. The audit of the EE Property Contract has been removed due to the current review of the contract by senior management. The audits of main accounting and of a governance area have been removed. The audit of payments to residential and home support providers has been deferred until the 17/18 plan due to system improvements currently ongoing in this area.

7. There have been 7 audits concluded since the last update (provided to the September meeting of the Audit and Governance Committee); summaries of findings and current status of management actions are detailed in Appendix 2. The completed audits are as follows:

Directorate	2016/17 Audits	Opinion
ICT	Website Management & Security	Amber
SCS	Mental Health	Red
CEF	Thriving Families - September Claim	n/a
Corporate Services	Treasury Management	Green
Corporate Services	Altair System (Pensions Administration I.T system)	Amber
Corporate Services	Schemes of Delegation	Amber
ICT	Office 365 Programme - stage 2 of audit	Amber

PERFORMANCE

8. The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved for 16/17 audits (as at 12/12/16)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit	70%	

	manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)		
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	84%	
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	70%	

The other performance indicators are:

- % of 2016/17 planned audit activity completed by 30 April 2017 - reported at year end.

- % of management actions implemented - 67% (last update in September 2016 was 62%). Of the remaining there are 16% of actions that are overdue and 17% of actions not yet due.

- Extended Management Team satisfaction with internal audit work - reported at year end.

COUNTER-FRAUD UPDATE

9. The 2016/17 Counter-Fraud Plan, which was agreed at the 13 July Audit & Governance Committee, is attached as Appendix 3 to this report. This shows current progress.

10. Development of arrangements for working with the City Council, for Counter-Fraud continues. The arrangement is working well and they have provided excellent support to our team by undertaking several reactive fraud investigations on our behalf. This has demonstrated clear benefits of having properly trained and skilled fraud investigators and has had very successful results. The Oxford City Team is currently working on a pro-active fraud review of all Single Person Discounts across the City, with a view to rolling out the exercise across the rest of the County from the new financial year.

11. A further small theft of cash has been reported from a school, this is the third this financial year. Cash handling and security controls are being discussed with the individual schools and Internal Audit in conjunction with the CEF Finance Business will produce a one page brief for the schools newsletter to be issued reminding schools around the importance of cash security, income reconciliation, etc.

12. There have now been two schools who have reported potential misuse of a procurement card, of a couple of transactions, totalling just under £1000, at each school. The cards have been cancelled and these are being investigated further with the schools. Internal Audit in conjunction with the Procurement Team and the CEF Finance Business Partner will also produce a one page brief for the schools newsletter reminding schools around the importance of controls around procurement cards.

13. A further school has been highlighted to Internal Audit where there are potential irregular procurement card transactions. An initial analysis is currently being undertaken by Internal Audit of the transactions.

14. A whistleblowing report is currently being investigated by Internal Audit and the CEF Directorate regarding some transactions made by procurement card.

15. Following the Blue Badge pro-active pilot exercise undertaken last year, the Service are working again with the Oxford City Team to commission another pre-Christmas pro-active exercise where officers will verify blue badge use at key locations, across the County. Further work is still being undertaken by the Service to develop processes for dealing with reports of potential misuse going forward.

16. The pro-active review of travel and expenses has now been completed which is at draft report stage. Following the implementation of the IBC system in July 2015, travel and expense claims of less than £1000 per month no longer require management checking and approval. (This has recently been increased from £750). This review was undertaken in recognition of the increased fraud risk following the move to self-certification of travel and expenses, the objective of the review was to consider the sufficiency and clarity of policies and procedures in this area, adequacy and availability of management information and to complete targeted testing on a sample of 40 employees' claims to highlight any potential fraudulent activity. The review identified that the employees sampled were able to justify and support their travel and expense claims, although there was a lack of awareness of the requirement to retain fuel receipts for VAT purposes, there were also a small number of individuals that were found to have over-claimed, which are now being investigated. Risks were also identified with the availability of management information on expenses, which could lead to misuse of the system going undetected.

National Fraud Initiative (NFI)

17. All data has now been submitted for the new NFI exercise and matched data is expected to be received during February 2017. It is planned at the start of the new financial year Internal Audit will support the teams responsible for investigating the Pensions / Deceased matches and also Residential Home Payments / Deceased matches so that prompt action, including recovery where appropriate, can be taken.

RECOMMENDATION

The committee is RECOMMENDED to note the progress with the 16/17 Internal Audit Plan and 16/17 Counter Fraud Plan and the outcome of the completed audits.

Sarah Cox
Chief Internal Auditor

Background papers: None.
Contact Officer: Sarah Cox: 07393 001246

APPENDIX 1 - 2016/17 INTERNAL AUDIT PLAN - PROGRESS REPORT

Directorate	Audit	Planned start	Status	Conclusion
SCS	Mental Health	Q1	Complete - Final Report	Red
SCS	Money Management	Q2/3	Fieldwork	
SCS	Pooled Budgets - Contract Management	Q2/3	Fieldwork	
SCS	Adults Safeguarding	Q3	Scoping	
SCS	Personal Budgets inc Direct Payments	Q3	Scoping	
SCS	Client Charging (including ASC debt)	Q4	Not started	
CEF	Unaccompanied Asylum Seeking Children	Q2	Fieldwork	
CEF	Thriving Families - Summer and Winter Grant Claims	Q2 & Q4	Summer Claim - Final Report	n/a
			Winter Claim - Fieldwork	
CEF	Children's Direct Payments	Q1	Complete - Final Report	Green
CEF	Early Years Payments - Follow up	Q2	Complete - Final Report	Amber
CEF	Childrens Safeguarding	Q3	Exit Meeting	
Schools	Mapping of S151 assurance	Q2	Draft Report	
Schools	Thematic Review - Schools HR contracts, combined with proactive fraud review.	Q3 & Q4	Fieldwork	
Corp / EE	Capital Programme	Q2	Fieldwork	
Corp / EE	LEP	Q4	Scoping	
EE	Highways Follow up	Q3/Q4	Scoping	
EE	S106 agreements	Q3	Scoping	
ICT	Cloud Computing - Office 365 - part 1	Q1	Complete - Final Report	Amber
ICT	Cloud Computing - Office 365 - part 2	Q3	Complete - Final Report	Amber

ICT	Cloud Computing - Office 365 - part 3	Q4	Not started	
ICT	Website Management & Security	Q1	Complete - Final Report	Amber
ICT	Windows 10 implementation	Q4	Scoping	
ICT	ICT application audit - Altair (Pensions Admin System)	Q2	Complete - Final Report	Amber
Corp	Budget Setting / Delivery of Savings	Q2	Fieldwork	
Corp	Accounts Payable	Q4	Not started	
Corp	Accounts Receivable	Q4	Not started	
Corp	Treasury Management	Q1	Complete - Final Report	Green
Corp	Payroll	Q4	Not started	
Corp	Pensions Fund	Q3	Scoping	
Corp	Pensions Admin	Q4	Fieldwork	
Corp	Scheme of Delegation Application	Q2	Complete - Final Report	Amber
Corp	BDU - monthly compliance checks on files uploaded to BDU	Ongoing	Ongoing	n/a
Corp	BDU - compliance review, visiting officers and testing upload processes	Q1	Complete - Final Report	Amber
Corp	Grant Certification (requests throughout year for CIA sign off)	Ongoing	Ongoing 3 completed to date.	n/a

Changes made to Internal Audit Plan - previously presented to the Audit & Governance Committee:

E&E / ICT	**Removed** from plan: E&E ICT Management and Operations	This audit was removed at scoping stage due to a recent organisational decision to move the management and governance of E&E ICT systems into ICT, to align with the processes for the management of systems across the rest of the organisation.
ICT	**Addition** to Plan: Website Management & Security	The audit has been added to the plan and has replaced the audit of E&E ICT Management and Operations.

Since September 2016 update to Audit & Governance Committee the following amendments have been made to the Internal Audit Plan:

Corp	**Removed** from plan: Governance area - compliance review (area to be confirmed)	This audit has been removed due to the secondment of the Compliance Officer from the Internal Audit Team to the Banking / Income Team.
Corp	**Removed** from plan: Main Accounting	This audit has been removed due to the secondment of the Compliance Officer from the Internal Audit Team to the Banking / Income Team. There were no significant weaknesses identified in the 15/16 audit and therefore planned to audit this area every two years instead of annually. Actions from 15/16 audit are being monitored for implementation. Issues around the BDU are being addressed via the Financial Control Improvement Plan.
SCS	**Removed** from plan: Residential and Home Support Payments	The audit has been removed from the plan and will be considered for early inclusion within the 17/18 plan. If has been deferred due to proposed changes within phase 2 of the implementation of LAS/Controcc and also changes due to the financial control improvement plan, for example replacement of the BDU for these payments with a direct interface, which will be implemented during quarter 4. The audit will look to test the robustness and accuracy of payments processes following the implementation of these key changes.
E&E	**Removed** from plan: Property	The audit has been removed due to current review of the contract by senior management and will be considered for early inclusion within the 17/18 plan. The audit of the Capital Programme has been retained within the plan and will provide assurance in the area of Property's capital programme.
Schools	Thematic review - **Combined** with pro-active fraud review	The days allocated to undertake schools thematic reviews have been reduced due to the secondment of the Compliance Officer from the Internal Audit Team to the Banking / Income Team. Instead there is a combined audit / pro-active fraud review now at fieldwork stage looking at Schools HR Contracts and Payments.
ICT	**Removed** from plan: Cloud Computing - Back up	ICT are still undertaking appraisals of different options and the programme for this is

	as a service	currently not at project initiation stage. It has therefore been removed from the 16/17 plan and will be considered again during audit planning for 17/18.
ICT	**Removed** from plan: Mobile Computing	The audit will be considered again for 17/18 audit planning when phase 2 of mobile device management covering non corporate devices will be implemented.
ICT	**Addition** to plan: Windows 10	This audit has replaced Mobile Computing and has been brought into the 16/17 plan as Windows 10 is now due for implementation by March 2017. The audit will review the overall governance of this programme.
ICT	**Removed** from plan: PCI DSS Compliance	This audit has been removed from the 16/17 plan as a wholesale review of PCI compliance across OCC is now being undertaken as requested by Lloyds. This has highlighted some issues which are now being dealt with by Senior Management.

APPENDIX 2 - EXECUTIVE SUMMARIES OF COMPLETED AUDITS

WEBSITE MANAGEMENT & SECURITY REVIEW 2016/17

Opinion: Amber	12 September 2016	
Total: 10	Priority 1 = 04	Priority 2 = 06
Current Status:		
Implemented	05	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	05	

Overall Conclusion is Amber

The public website (www.oxfordshire.gov.uk) and a number of other OCC websites, including the Intranet and micro-sites, are all managed and maintained by the Web Services team within the Customer Service Centre. The team is led by a Web Services Manager, whose reporting line will be changing to the Deputy Director for Transformation, as the development of the corporate website and the area of online services are seen as a key component of OCC's transformation programme.

The Drupal Content Management System (CMS) is used to manage the public website and other websites. A review of the CMS identified a number of control weaknesses including the number of users with administrator role, versions of software in use and password controls.

A Web Content Policy has not been documented to provide an overall framework for managing websites.

The CMS does not have a traditional audit trail system so there is no logging of management or security events. However, it does log all changes made to content and keeps a full history so that it is possible to see who changed a web page and the details of the actual change made.

The web services team use a third-party for assessing the accessibility of websites by disabled users and there is also help for disabled users on the public website. However, a review of the latest accessibility compliance assessment found that there are a number of issues which are likely to result in a breach of the Equality Act 2010. The privacy policy used on the public website should also be reviewed to ensure it complies with the requirements of the Data Protection Act 1998. Our testing identified one website that did not have any information on the use of cookies and two without a privacy policy.

MENTAL HEALTH

Opinion: Red	22 September 2016	
Total: 24	Priority 1 = 21	Priority 2 = 3
Current Status:		
Implemented	1	
Due not yet actioned	2	
Partially complete	1	
Not yet Due	20	

Overall Conclusion is Red

Introduction

The statutory responsibility for effective delivery of mental health social care provision rests with OCC. However the delivery of these services is undertaken by Oxford Health under a S75 Agreement, and jointly governed through the Provider JMG (Joint Management Group) which oversees the £11m pooled staffing budget. The systems, processes and teams for mental health are split into Adults (18-64 year olds) and Older Adults (over 65). Adults have a fully devolved budget, managed by Oxford Health, and are governed through the Mental Health JMG, with the majority of services provided through the Outcomes Based Contract (OBC) and funded by the Mental Health Pooled Budget (which is OCCG 'hosted'). For mental health service users over 65, these are funded from the Older People Pooled Budget and although the operational teams are Oxford Health, the funding decisions are made within OCC via the LAS system and OCC Scheme of Delegation. However, for both groups, all payments are processed and made by OCC, and are subsequently invoiced back to Health. The Mental Health Pooled Budget for 2016/17 is £54m, with OCC contributing £9m, however this does not include the Older Adults mental health care packages.

There are weaknesses in the current governance and OCC assurance arrangements, resulting in the Red audit report grading.

A: Governance and Budget management

Weaknesses identified in the governance and budget management arrangements included:

- The Provider JMG (which governs the arrangements between OCC and Oxford Health to manage the staffing budget and operational performance) had not met since late 2015, although since the audit report finalisation is now taking place.
- The provider JMG S75 agreement had not been reviewed or updated since 2012.

- There was an absence of regular 1:1s between the MH Social Care Leads and OCC.
- Information on operational performance has not been reviewed due to the absence of Provider JMG meetings.
- Issues were identified with the review and authorisation of OCC procurement cards.
- There have been significant issues with the Outcomes Based Contract regarding which service users are not included in the contract.
- At the time of the audit the Commissioning Pool S75 risk share had not been agreed for 2016/17, this has since been agreed.
- Costs for Older Adults MH are not separately identifiable as subsumed within the Older People Pool reporting.

B: Assessments and Reviews

- From the sample of care packages reviewed, all had completed assessments and reviews (except one) undertaken within the last 12 months. The performance data on assessment waiting times and reviews for 2016/17 are within targets.
- Financial assessments are not being routinely completed for paper invoice service users.

C: Care package funding approvals

- For the sample of care packages reviewed, these had all been authorised correctly. However RAS calculations of indicative budgets could not be located for all of the sample of Adults cases reviewed; it was reported to Internal Audit that this should no longer be the case for new care packages.
- For OP MH care packages, these should be sourced through OCC's Placement Officers, however the audit noted a number of cases where care had been sourced directly with a provider. For Adults MH care packages, these are primarily sourced with the 5 OBC partners, however other providers are still used for capacity and capability reasons, as care packages are needs led. In cases where care is sourced directly between the MH teams and providers, prices are negotiated on a case by case basis and these providers are not subject to OCC accreditation and quality monitoring processes. Many of these are for out of county placements

D: S117 Orders

- There are significant and known issues with the inaccuracy of S117 funding eligibility status for mental health service users, which has resulted in repayments to service users and also service users not charged for care. The audit noted incorrect recording of S117 status on Care Notes, LAS and ContrOCC

E: Data Recording

- The audit identified that there is insufficient access to and use of LAS, by MH staff, LAS records are incomplete, there is no complete and up to date record downloadable from LAS of all MH social care cases and the details from MH safeguarding investigations and outcomes are only recorded in Care Notes, and not in LAS

TROUBLED FAMILIES (September 2016 Claim)

Opinion: n/a	29 September 2016	
Total: 06	Priority 1 = 03	Priority 2 = 03
Current Status:		
Implemented	03	
Due not yet actioned		
Partially complete		
Not yet Due	03	

The September 2016 Claim of families who met the Significant and Sustained Progress (SSP) criteria or who have moved into continuous employment required Internal Audit sign off prior to submission. The final submitted claim consisted of 11 families for SSP and 12 for continuous employment.

The initial SSP claim was for approximately 200 families but approximately 80% of these had to be removed from the claim following guidance from the Department for Communities and Local Government (DCLG) regarding unemployment as an eligibility factor, due to the evidence supporting those claims not being sufficient. A further 8 were then also removed as they did not have either a current whole family plan, or a plan that had been open at the point of engagement in September 2014.

Issues were also experienced with the Data Team not receiving information from partner organisations before the agreed deadlines, meaning that the Data Team had not produced a final and complete data set or undertaken their own quality checks prior to the audit.

TREASURY MANAGEMENT 2016/17

Opinion: Green	10 October 2016	
Total: 04	Priority 1 = 0	Priority 2 = 04
Current Status:		
Implemented	0	
Due not yet actioned	01	
Partially complete	0	
Not yet Due	03	

Overall Conclusion is Green

Testing undertaken during the audit confirmed that access to key Treasury Management systems and spreadsheets are well controlled and provide the information required for key treasury management processes. Although key information sources include complex, linked spreadsheets, there are a number of checks in place which would highlight errors or formula issues. There was an instance noted whereby an ex-member of staff (temporary agency worker) had not had their access removed promptly, this could be an issue in the event that the individual was employed elsewhere in the Council. A management action has been agreed to resolve this issue and prevent future recurrence.

There is a clear and comprehensive Treasury Management Strategy in place which has been approved by Cabinet and the Audit & Governance Committee. Sample testing confirmed that investments and dealing takes place in accordance with the strategy and that controls in place in relation to the dealing process are robust and effective. There is good segregation of duties between dealers, verifiers & authorisers. There was also found to be detailed reporting on Treasury Management activity to Cabinet and Audit & Governance Committee through the year as well as detailed monthly reporting to the Treasury Management Strategy Group.

Although, as no borrowing has been undertaken in the previous or current financial year to date, no detailed testing was undertaken in relation to borrowing during this audit, the controls in place were confirmed. It was noted that the Scheme of Delegation in relation to borrowing was reported to be out of date and that it is not accessible to staff via the intranet.

Testing undertaken in relation to cashflow forecasting found that cashflow is monitored and updated on a daily basis.

ALTAIR SYSTEM (Pensions Administration I.T system)

Opinion: Amber	19 October 2016	
Total: 07	Priority 1 = 01	Priority 2 = 06
Current Status:		
Implemented	01	
Due not yet actioned		
Partially complete		
Not yet Due	06	

Overall Conclusion is Amber

The Altair IT application is externally hosted and accessed over the Internet, similar to a cloud computing delivery model. There is a two stage login process involving an initial login to a Citrix environment, which is managed by the supplier, and a secondary application login which is managed at service level. All users have their own individual accounts which are password protected and they are allowed a maximum of three failed logins before their account is locked and requires administrator intervention.

As the application can be accessed from any computer with an Internet connection and Citrix software, which can be freely downloaded, it is important that the IT infrastructure is adequately secured and protected against cyber-based attacks. No specific assurances have been sought on this area from the supplier. We also found that the length of application passwords fall short of what is generally regarded as good practice and also contravene the standards defined in OCC's ICT Access Policy.

User access is defined on the basis of 'roles', each of which gives a specific set of permissions to menu items. There are 9 roles in total and these have been allocated based on the access required by each user. However, the roles are not documented in terms of the access they provide and there has been no formal review of access rights. System administrator level access was reviewed and found to be appropriately restricted.

A wider segregation of duties issue was noted in the 2015/16 audit of Pensions Administration, whereby two senior members of the team have access to perform both administrative tasks and run the payroll function. This was reportedly necessary to correct minor payroll reconciliation errors and to ensure the payroll runs on time. This meant that essentially one individual could set up a ghost pensioner, or divert funds to a different bank account when the payroll is run, with it going unnoticed indefinitely. However, it should be noted that there were no signs of any financial irregularity in the documentation reviewed during the Pensions Administration audit and a management action to address this weakness was planned for implementation by the end of September 2016.

The application has an audit trail facility which logs all user activity, including details of any changes made to data. The information held in the audit logs cannot be amended or deleted, but can be reported upon. The ability to produce audit reports is restricted and a number of reports are generated as part of the monthly processing of pension payments.

The application uses mandatory fields, calendars and drop-down lists to help ensure the completeness and accuracy of data input. There are manual processes to upload data received from employers and reconciliations are performed to ensure it is uploaded without errors. However, the procedures for uploading data are not documented and hence may not be followed consistently.

There is a formal documented and signed supplier agreement for the application, which covers support and maintenance. The agreement was signed in January 2013 and is for a five year period, with the option of a further two year extension. A review of the agreement found that service levels do not cover the availability of the application, which is key given it is externally hosted.

All backups of data are taken by the supplier. The supplier agreement states that backups are taken on a daily basis and a copy of the tapes are held at an off-site location by a third-party storage services company. However, there is no information to confirm the security of backup tapes whilst they are in transit to the third-party company. A loss or theft of tapes could result in a breach of the Data Protection Act 1998. The supplier agreement states that they undertake regular tests of the backup media and an annual disaster recovery test, but no assurances have been sought to confirm that this work is completed.

SCHEMES OF DELEGATION 2016/17

Opinion: Amber	29 September 2016	
Total: 03	Priority 1 = 0	Priority 2 = 03
Current Status:		
Implemented		
Due not yet actioned		
Partially complete		
Not yet Due	03	

Overall Conclusion is Amber

Following the move to IBC, the Scheme of Delegation is inbuilt into SAP, with Officers allocated an authorisation Level from 0-7 and transactions automatically work flowed to the cost centre manager at the correct level. In OCC's constitution it is a requirement that Directors keep a record of sub-delegations pertaining to their directorate, with copies held also by the Chief Legal Officer.

The Finance Leadership Team (FLT) therefore agreed documented Schemes of Delegation would still be required and will be updated every 6 months. The Finance Business Partners (FBPs) lead on undertaking the 6 monthly update and reconciliation between the documented Schemes and the Authorisation Levels assigned on SAP, with any discrepancies investigated and the documented Schemes updated and signed off.

At the time of the audit, one year after the move to IBC, only two out of 6 Directorates had updated all parts of their Schemes following the move, and only one of these was updated within the previous six months. Two more were in the process of being updated at the time of the audit, but not yet completed

The HCC Policy on Substitutes available to staff on the ESS Lite portal states that authorisers can delegate their transaction authorisation levels downwards to substitutes so transactions can be authorised for example during periods of annual leave. The system allows for this to happen (e.g. for a manager to delegate their level to one of their direct reports). However it is against OCC's previous approach to allow substitutes to take on an authorisation level which is higher than their normal level, and prior to the audit this policy position had not been reviewed or amended.

From a review of the authorisation levels in SAP, the audit identified that 14 Head Teachers, Deputy Head Teachers and Bursars had been assigned the highest authorisation Level (Level 0 which is up to unlimited value), which is incorrect, as other Head Teachers, Deputies and Bursars have Level 1 authorisation (up to £0.5m).

<u>OFFICE 365 PROGRAMME - STAGE 2 OF AUDIT 2016/17</u>

Opinion: Amber	19 December 2016	
Total: 08	Priority 1 = 1	Priority 2 = 07
Current Status:		
Implemented	01	
Due not yet actioned		
Partially complete		
Not yet Due	07	

<u>Overall Conclusion is Amber</u>

The stage 1 review identified a number of key risk areas and management actions were agreed to address these. However, we have found that four of these actions have yet to be completed, including a priority one action of communicating the risks of cloud computing to Cabinet, CCMT and the corporate Information Governance Group.

The stage 1 audit also had an agreed priority one action to further review a number of security areas relating to O365 and whilst some work has been done in this area, not all the areas highlighted have been assessed. We also found that the CESG security guidance on 0365 has not been reviewed and the Privacy Impact Assessment is incomplete.

A Programme Initiation Document has been documented and approved by the Management Support Team (Programme Board). There is a high-level programme plan which is maintained by the Programme Manager and detailed project plans are developed at the discretion of each project manager. It has been agreed that the Programme Plan include all key milestones from each project PID and that the Programme Manager should determine which projects require a formal project plan. The Management Support Team (MST) meets fortnightly and receives updates on the programme via notes made on the project management system. The method of reporting to MST will improve with the introduction of a new Highlight Report which utilises a RAG status. Risks and issues logs are maintained but our testing found that they have not been tabled at MST at their last four meetings.

A Test Plan has been developed but not formally approved and test scripts exist to support the testing of products. However, the test scripts should be reviewed in advance to ensure they are fit for purpose and signed off at the end to confirm they have been fully executed, including re-testing of any errors or issues found.

APPENDIX 3 - 2016/17 COUNTER FRAUD PLAN - PROGRESS REPORT

Activity	Status
Review of CIPFA Local Government Counter Fraud and Corruption Strategy 2016-19, identifying any gaps and required action for implementation.	Ongoing
Review and update of OCC fraud internet and intranet pages and procedures.	Complete
Review and update of fraud risk register. Identification of new fraud risk areas.	Ongoing
NFI 2015/16 work - completion of review of data matches	Complete
NFI 2016/17 - preparation for 2016 data collection including review of fair processing notices.	Complete
Reactive investigations - continued from 2015/16 plus new referrals.	Ongoing
Fraud awareness sessions.	Ongoing DP sessions are being provided with SCS
Development of arrangements with the City Council, for Counter-Fraud (to include Single Person Discount work) and also support with reactive investigations.	Ongoing
Proactive Fraud review - travel and expenses.	Draft Report
Proactive Fraud review - Schools HR contracts and payments	Fieldwork

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Division(s):

AUDIT & GOVERNANCE COMMITTEE – 11 JANUARY 2017

FINANCE IMPROVEMENT PLAN

Report by Chief Finance Officer

Introduction

1. In July 2016, the Committee approved the Financial Control Improvement Plan. This report is the latest of the regular updates provided to the Committee and the Audit Working Group.

2. The Finance Improvement Plan is now part of the Transformation Programme, within the Business Efficiencies work stream.

3. As previously reported by aligning the Financial Control Improvement Plan within the Transformation Programme, the scope and timings have changed. Now renamed as Finance Improvement, the principles and key themes of the original plan remain, but a strategic approach is being adopted to the change priorities. This report is therefore structured differently with a brief summary confirming the status of activity within the original plan, followed by an update on the key priorities and any emerging issues.

Summary

4. The following summarises the progress against the original plan:

Roles and Responsibilities

5. This has been completed for existing teams within Corporate Finance, but as the Transformation Programme progresses with an expectation of organisation change and system change, roles and responsibilities will be kept under constant review.

6. There is one specific process, refunds and credit notes, where further work is being undertaken to look at the end to end process to clarify policy, in particular in relation to use of credit notes. Once completed a decision will be taken on which team should own that process. This should be completed by the end of February 2017.

Regulations, Policies and Procedures

7. As reported in November 2016 we are currently reviewing core policies and regulations. Workshops have been undertaken with Finance staff and the Web Content Team to review and adapt existing guidance to ensure it is up to date, consistent in design and presentation, and accessible through logical search enquiries. This will be concluded by 31 March 2017.

8. In addition a review of the Financial Procedure Rules and Financial Regulations is being undertaken to ensure that they are consistent and remain relevant. This will also be concluded by 31 March 2017.

Training and Self Help Material

9. The drop in sessions have now ceased and any future need for more sessions or targeted training will be considered based on any issues emerging from the performance monitoring that the professional leads are undertaking during their monthly meetings.

Financial Reporting

10. The project is on-going, and on track to go live from April 2017.

Management Control

11. Performance reports are being developed to provide corporate overview of the key financial systems, in conjunction with the system improvements. From the original audit reports, there are now routine reports produced for purchasing cards, duplicate payments and payroll. Debtor reporting has been an issue but has recently been resolved. Whilst improved reporting is in place, the routines for reviewing and acting upon that information are not yet fully embedded into the operating model.

Financial Systems

12. The audit actions continue to be monitored and implemented in conjunction with the strategic solutions being developed. There remain several actions, mainly priority 2, that are outstanding. A full review of these actions is being undertaken in January to consider whether the risk exposure remains material to require reprioritising.

Bulk Data Upload (BDU)

13. The focus remains on the development of the payment feeder system from the CONTROCC system into SAP. This remains on track to be live in February 2017. Once this has been successfully implemented, a programme will be established within the Digital work stream of the Transformation Programme, to facilitate further automation of other feeder systems.

14. It was the original objective that the existing BDU system would be decommissioned as alternative, more secure methods of payment would be investigated. It is clear that this is not realistic, and that there will continue to be a need for some manual uploading of payment files; however the scale will be reduced and a new control process for managing the uploads will be developed. This will be undertaken during the first quarter of 2017/18.

IBC Review

15. This action has been completed, with the new governance structure embedded. The operation of the IBC services remains under continuous review.

16. One of the key issues that has been consistently highlighted by staff has been the support and query resolution by the customer services centre within the IBC. During November 2016 the IBC engaged with all its partners and commissioned an external company to undertake a fundamental review of its customer service. This included a large scale feedback via questionnaires, and more recently a facilitated workshop involving staff from OCC and other partners to support action planning. We are expecting the results of this exercise towards the end of January 2017.

Issues Arising

17. There are three key issues to report, identified from the Finance Improvement activity completed during the last quarter:

Payroll Configuration

18. As previously reported to the Committee there have been on-going difficulties experienced in providing the Pensions team will accurate and timely reports. In October further concerns were escalated by the Pension Team to the Chief Finance Officer and the Chief HR Officer. The concerns highlighted suspected errors in the configuration of the payroll system in specific areas of the calculation of pensionable pay. It should be noted that the errors identified are not material in value; however, following various discussions with the IBC at both an operational and senior management level, it was agreed that due to the persistent issues arising, and lack of satisfactory resolution, there is a lack of confidence in the assurance over the accuracy of the system configuration, change control process and operations.

19. Under the direction of their Chief Finance Officer, Hampshire has commissioned an independent payroll and pensions subject matter expert to undertake a review, and to provide assurance over the accuracy and integrity of the system and processes. A terms of reference defining the scope has been agreed, the work has commenced and will conclude end of January 2017.

Financial Assessment

20. A key work stream within Finance Improvement is Phase 2 development of the LAS/CONTROCC (Adult Social Care Management System). This includes an end to end review of the financial system and processes. At the end of October 2016, the Manager of the Financial Assessments Team identified an omission in the management reports being reviewed. The omission was in relation to reviewing service users in receipt of care, but have not received a financial assessment.

21. The report was available but had not been included in the operating procedures. This has been corrected and the report is now run and reviewed weekly.

22. When the report was first reviewed in October 2016, it highlighted a number of cases where financial assessments had not been undertaken for people in receipt of care. The majority of these cases were, as expected, relatively new referrals so in process, or cases where services are non-chargeable; however the report also highlighted a relatively small number of deceased clients that had not received an assessment, and 137 clients where assessments were long overdue.

23. Some of these cases predate the implementation of LAS. In other examples they occurred due to the absence of manual referrals being received. The latter has been an automated process since March 2016, with the exception of residential care which remains a manual referral.

24. The cases are now being reviewed and where appropriate assessments being undertaken.

25. Although it is disappointing that these omissions have occurred, the error was not utilising the management reporting effectively. What this demonstrates though is the new integrated system is providing a much improved control environment, in which omissions are being highlighted through the system reporting; and with the procedures now in place to review these reports weekly as part of regular performance monitoring any future omissions will be highlighted early.

Aged Debt

26. Detailed analysis of aged debt for both Social Care and Corporate Debt is highlighting that performance in debt collection has deteriorated in the last twelve months. We are currently investigating the cause of this, including an urgent review scheduled with the IBC to look at the current processes and performance.

27. This will be a fundamental review as clarification is needed on the debt management strategy and resourcing.

Progress Highlights

28. In addition to the issues highlighted above, the following are the key activities being prioritised under the Finance Improvement work stream:

LAS/CONTROCC

29. We are currently looking at all the end to end processes currently in operation and with the support of a business analyst and systems development team, identifying a series of improvement projects that will form the scope for Phase 2 implementation over the next six months. In scoping each project the principles of digital and business efficiency are set as key deliverables. The

work is highlighting inefficiency and potential areas for reviewing existing charging policies.

30. One of the key priorities is consolidating the payments processing within a single team. The terms of reference for this project are expected beginning of January 2017. The scope will initially be in relation to the Adult Social Care systems, but consideration is being given to extending to include corporate payment control activity including BDU and Duplicate Payments etc.

Pre-Paid Card

31. The business case has been agreed for introducing pre-paid cards as a favoured banking option going forward. It is expected the prepaid cards will stop the reliance on cash for local transactions, including payments over to service users, and be utilised for direct payments going forward. These cards enable greater visibility of transactions and greater control, whilst also reducing the risk we are currently exposed to through cash transactions.

PCI (Payment Card Industry) Compliance

32. As part of the requirement to undertake self-assessment of our compliance with PCI requirements, we have commissioned an expert to present options for maintaining a compliant IT Network. This is necessary as it will be fundamental in determining the strategic solutions for receiving online payments.

33. At present our existing compliance is requiring use of PDQ (card payment) machines at multiple sites, which although compliant is not the most efficient, and requires significant administration and corporate overview.

Customer Portal

34. As part of the Digital Strategy work will soon commence on developing a customer portal. We are currently working with ICT reviewing the banking and financial control requirements to ensure that any financial transactions managed through self-help within the portal will be compliant, both with PCI, and also banking regulations.

Bank Accounts

35. As previously reported we are currently undertaking a review of all bank accounts. This is requiring a detailed data cleansing exercise to ensure we have an accurate and up to date list of all accounts. We are working with Lloyds Bank to review the existing mandates. The aim is to significantly reduce the number of accounts being maintained, and on-going have arrangements in place for monitoring and oversight of the accounts.

Finance – Fit for the Future

36. We are creating a small project team within Corporate Finance, reporting to the Finance Leadership Team, focussing on continuous improvement and a strategic look at the operating model for Finance and how we can be “fit for

the future" in a progressive and transforming organisation. The project team will be meeting in January 2017 to establish scope and priorities.

Financial and Staff Implications

37. The Finance Improvement is a work stream within the Transformation Programme. Any additional resource requirements such as project management and business analyst resources are funded through the Programme. Otherwise, it is expected that the delivery of the plan will be resourced through current teams. There are no immediate cost or staff implications, although there will be a need to prioritise work; however the overall objective is to provide efficient and effective financial management systems, policies and procedures, therefore opportunities requiring investment may be identified. These would need to be considered and agreed by the Transformation Board.

Risk

38. There is an inherent risk of loss or error where financial control is not managed effectively. The objective of the improvement plan is to deliver financial control that is based on strong risk awareness.

RECOMMENDATION

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

Lorna Baxter
Chief Finance Officer

Background papers: None

Contact Officer: Ian Dyson, Assistant Chief Finance Officer (Assurance)
January 2017

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 11 JANUARY 2017

Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18

Report by the Chief Finance Officer

Executive Summary

1. The Treasury Management Strategy Statement, which incorporates the Annual Investment Strategy for 2017/18, complies with the requirements of relevant legislation, codes of practice and guidance.

2. The Council is required to approve Prudential Indicators for 2017/18, 2018/19 and 2019/20. DRAFT Prudential Indicators are set out at Appendix A. These are currently in draft form as they are dependent upon 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 14 February 2017.

3. The strategy for financing prudential borrowing during 2017/18 maintains the option to use temporary internal balances.

4. The Annual Investment Strategy for 2017/18 is based on an average base rate of 0.25% and assumes an average in-house return of 0.55%. The average cash balance for 2017/18 is forecast to be £352.6m, including externally managed funds. The list of proposed specified and non-specified investment instruments are set out in full in 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 2017/18 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 66 to 81.

5. The Council intends to continue to place funds in pooled funds with the external fund managers. Further details are given in the section on External Funds.

6. 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), local authorities and high credit quality financial institutions.

7. 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 Policy on Use of Financial Derivatives.

8. The Council will continue to benchmark the performance of the Treasury Management function through membership of the CIPFA benchmarking club and the benchmarking undertaken by the Council's Treasury advisor Arlingclose. In-house performance will also continue to be benchmarked against 3-month London Interbank Bid Rate (LIBID).

Treasury Management Strategy Statement & Annual Investment Strategy for 2017/18

Background

9. 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.

10. 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.

11. Treasury management is defined as: "The management of the local authority's investments and 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."

12. The proposed strategy for 2017/18 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 2017/18, 2018/19 and 2019/20;
- the current treasury position;
- prospects for interest rates;

[1]Comprising the Chief Finance Officer, Service Manager (Pensions), Strategic Finance Manager (Treasury & Banking) and Financial Manager (Treasury Management).

- the borrowing strategy;
- the borrowing requirement and
- the Annual Investment Strategy.

13. 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 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.

Treasury Limits for 2017/18 to 2019/20

14. 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.

15. 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'.

16. 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.

Prudential Indicators for 2017/18 to 2019/20

17. 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

    Further Treasury Management indicators are specified in the Code of Practice on Treasury Management (2011).

18. Prudential Indicators are set out in full at Appendix A to this strategy:

    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

19. Prudential Indicators are reported to and monitored by the TMST on a regular basis and will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2016/17 and the Treasury Management Mid-Term Review 2017/18, which will be considered in July and November 2017 respectively.

Forecast Treasury Portfolio Position

20. The Council's treasury forecast portfolio position for the 2017/18 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance PWLB Money Market Loans	 335.383 50.000	 4.43 3.94
TOTAL EXTERNAL DEBT	385.383	
2017/18 Average Cash Balance Average In-House Cash Average Externally Managed	 296.900 55.685	
TOTAL INVESTMENTS	352.585	

21. The average forecast cash balance for 2017/18 is comprised of the following:

	Average Balance £m
Earmarked Reserves	49.0
Capital and Developer Contributions	130.4
General Balances	17.4
Cashflow and Working Capital Adjustments	86.2
Provisions and Deferred Income	13.9
TOTAL	**296.9**

Prospects for Interest Rates

Economic Background – Provided by Arlingclose

22. The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

23. The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

24. Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

25. Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

26. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook – Provided by Arlingclose:

27. Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

28. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

Interest rate forecast – Provided by Arlingclose:

29. The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

30. Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low

Treasury Management Strategy Team's View

31. The Council's TMST, taking into account the advice from Arlingclose, market implications and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2017/18 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.25%
- 2020/21 0.25%

32. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target in-house rate of return should be 0.55% in 2017/18, reducing to 15 basis points above the forecast average base rate for 2018/19 and 5 basis points above forecast average base rate for 2019/20 and 2020/21. The reduction in the size of the premium above base rate in later years reflects the forecast maturity of long term investments held at higher rate. These rates have been incorporated into the strategic measures budget estimates:

- 2016/17 0.55%
- 2017/18 0.40%
- 2018/19 0.30%
- 2019/20 0.30%

Borrowing Strategy

Arlingclose's View

33. The Public Works Loan Board (PWLB) sets new borrowing rates at the gilt yield plus 1.00%. Arlingclose have forecast gilt yields as follows:

- The 50 year gilt yield is expected to start the financial year at 1.40%, increasing gradually to 1.60% by December 2019.
- The 20 year gilt yield is expected to start the financial year at 1.50%, rising to 1.70% by the end of the forecast in December 2019.
- The 10 year gilt yield is expected to start the financial year at 0.95%, rising to 1.15% by December 2019.
- The 5 year gilt yield is expected to start the financial year at 0.40% and to reach 0.65% by December 2019.

34. Arlingclose's forecasts have an upside variation range of between 25 and 40 basis points, and a downside variation range of between 30 and 60 basis points depending on the economic and political climate.

Treasury Management Strategy Team's View

35. It is expected that the Bank Rate will remain low during 2017/18 and that there will continue to be a high "cost of carry[2]" associated with the long term borrowing compared to temporary investment returns. The TMST will continue to monitor the Council's debt portfolio and will consider debt repayment if it is in the Council's interest.

36. 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 Financing Strategy 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 new borrowing.

37. 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 (or

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

its successor) and market rates exceed those currently available. This could result in higher financing costs over the long term.

38. 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.

39. 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 through internal borrowing Internal borrowing will have the effect of reducing some of the "cost of carry" of funding. Internal borrowing will also be used to finance prudential schemes.

40. If market conditions change during the 2017/18 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.

41. As the Accountable Body for OxLEP ltd, the Oxfordshire Local Enterprise Partnership, the Council will be required to prudentially borrow £40m on behalf of OxLEP for project funding by 2018/19. The loans will be repaid through the retained business rates of OxLEP. This represents projects to be delivered by the Council. The TMST monitor interest rates and will consider forward borrowing on behalf of OxLEP at the end of 2016/17 and in 2017/18 if it is determined to be cost-effective. This is consistent with the expectation that interest rates and Gilt yields will begin to rise over the period.

42. As part of the Local Growth Fund bids via the Council, OxLEP were able to apply for the Public Works Loan Board (PWLB) project rate, at 40 basis points below the standard rate across all loan types and maturities in 2016/17. OxLEP were able to borrow up to £20m at this discounted rate in 2016/17 but as at 30 November 2016 this has not yet been required. It is not yet clear if the OxLEP will have the opportunity to apply for this rate again in future Local Growth Fund rounds.

43. The Council's chief objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

44. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds

- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

Borrowing for the Capital Financing Requirement

45. 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 spending. When capital expenditure is financed by grants, capital receipts or direct contributions from revenue this is not included the CFR.

46. 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 MRP Policy statement is currently being revised and is prepared outside of Treasury Management. The revised statement will be reported to Cabinet on 24 January 2017.

47. 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.

48. The Council's CFR is currently forecast to increase over the medium term financial plan. This is a result of the requirement to borrow on behalf of the OxLEP discussed in paragraph 41.

49. The Council's external debt is also forecast to increase over the medium term financial plan as new external borrowing required for OxLEP projects is forecast to exceed the rate at which existing long term debt is repaid upon maturity.

50. The Council's external debt is forecast to match the CFR in 2017/18. In 2018/19 and 2019/20, external debt will fall below the expected CFR, resulting in an internal borrowing requirement, before aligning again in 2020/21.

Borrowing Instruments

51. The TMST's forecast for the period 2017/18 – 2020/21 for 20 and 50 year PWLB rates over the medium term are an average rate of 2.26% and 2.19% per year respectively.

52. 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 2016 to 31 October 2017.

53. An annual application will be made to renew eligibility for the Certainty Rate, in order to maintain the option should it be required.

54. 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 2017/18. As at 30 November 2016, LOBOs represent 11.68% of the total external debt.

55. The Council has five £5m LOBO's with call options in 2017/18, three of which have two call options in year, whilst two have a single call option in year. 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.

Annual Investment Strategy

56. 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

57. 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.

58. 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 Treasury Management Policy Statement is included at Appendix E. Cabinet is recommended to recommend Council to approve the Treasury Management Policy Statement.

Investment Instruments

59. Investment instruments identified for use in the 2017/18 financial year are set out at Appendices C and D under the 'Specified' and 'Non-Specified' Investment categories.

60. 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.

61. 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. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

62. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.

63. 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.

64. A maximum of 50% of the portfolio will be held in non-specified investments.

Changes to Instruments

65. There are no proposed changes to instruments for 2017/18

Credit Quality

66. 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.

67. 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 82 and 83 respectively.

68. The TMST may further reduce the derived limits due to the ratings provided by Moody's and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap rates, share prices, Ratings Watch & Outlook notices from credit rating agencies and quality Financial Media sources.

69. 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.

70. 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 82 and 83), that counterparty will be immediately removed from the lending list.

71. 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.

72. The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher with the Fitch ratings agency.

Liquidity Management

73. The Council has developed a cash flow forecast which is used to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. The Council uses instant access bank deposit accounts and money market funds for balances forecast to be required at short notice to meet commitments due. The TMST will continue to monitor options available to maintain the required liquidity, and will open new accounts with approved counterparties as appropriate.

Lending Limits

74. 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 10% of the investment portfolio.

75. Where the Council has deposits on instant access, this balance may temporarily exceed the 10% bank or group limit. However the limits as set out in paragraphs 78 and 79 will still apply.

76. Counterparty limits as set out in paragraphs 78 and 79, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts, money market funds or notice accounts. 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.

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

78. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2017/18. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings is included for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded.

LENDING LIMITS - Fitch Rating	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
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

79. 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.

MATURITY LIMITS – Fitch Rating	Short Term Rating	
Long 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
BBB+, BBB, BBB- (bank with which the Council has its bank account)	Overnight	Overnight

Other institutions included on the councils lending list

80. 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

81. As at 30 November 2016, the Council had no 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 maintain the option 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.

External Funds

82. As at 30 November 2016, the Council had £55.3m invested in external funds (excluding MMFs), representing 16.5% of the Council's total investment portfolio. 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.

83. The Council uses external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The Council will have no more than 50% of the total portfolio invested with external fund managers and pooled funds (excluding MMFs). This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value.

84. In order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

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

86. The TMST will keep the external 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.

Investment Approach

87. Given the increased risk for short-term bank and building society deposits as a result of bail-in legislation, the Authority aims to diversify into more secure asset classes during 2017/18.

88. The weighted average maturity (WAM) of in-house deposits as at 30 November 2016 was 210 days. This was made up of £61.8m of instant access balances with a maturity of 1 day, and £247m of deposits with a WAM of 262 days.

89. The in-house WAM has decreased from 260 days, reported on 30 November 2015. The shorter WAM is partly a result of a reduction to durations for bank and building society deposits on the Council's lending list. The shorter WAM will provide a greater degree of flexibility in securing investment returns in an uncertain interest rate environment.

90. With continued uncertainty over the timing of a rise in base rate, the TMST will aim to maintain the balance between longer-term deposits with local authorities and short-term secured and unsecured deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will maintain a degree of certainty about the investment returns for a proportion of the portfolio, as well while also enabling the Treasury Management team to respond to any increases in interest rates in the short-term.

91. The Council maintain the option to invest directly in UK Government Gilts, T-bills, Certificates of Deposits and other Sovereign Bonds, use of such instruments remains dependent upon custody arrangements. 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.

92. 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.

Policy on Use of Financial Derivatives

93. 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.

94. 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.

95. 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.

96. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2017/18. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

97. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.

98. Arlingclose benchmark the performance of their clients against each other on a quarterly basis, looking at a variety of indicators including investment risk and returns.

99. The Council will benchmark its internal return against the 3 month London Interbank Bid Rate (LIBID) - the rate at which banks are willing to borrow from other banks.

100. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2016/17, and the Treasury Management Mid-Term Review 2017/18, which will be considered in July and November 2017 respectively.

Investment Training

101. All members of the Treasury Management Strategy Team are members of CIPFA or other 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, including as part of the staff appraisal process.

Treasury Management Advisors

102. Arlingclose continue to provide the Council's Treasury Management Advisory Service, following the award of a three year contract via a competitive procurement process in May 2013. The contract included an option to extend for up to one year, which the TMST have agreed will be exercised under existing terms. Under the contract the Council will receive specific advice on investment, debt and capital finance issues.

103. The contract with Arlingclose is due for renewal in early 2017/18 and the process of selecting a provider will be completed in line with the Councils procurement rules. Any changes will be reported to members.

RECOMMENDATIONS as part of Cabinet Report

104. When the report is considered by Cabinet on 24 January it will be RECOMMENDED to RECOMMEND to Council to:

a) approve the Prudential Indicators for 2017/18, 2018/19 and 2019/20 as set out in Appendix A;

b) approve the Minimum Revenue Provision Policy for 2017/18 as set out in Appendix B;

c) approve the Treasury Management Strategy Statement & Annual Investment Strategy 2017/18;

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.

RECOMMENDATIONS

105. The Committee is RECOMMENDED to:

a) endorse the Treasury Management Strategy for 2017/18 as outlined in the report;
b) note that due to the early timing of this report, Prudential Indicators i to vi have not been included in Appendix A as they are dependent on updates to the 2017 capital programme. Full indicators will be included when the report is considered by Council in February.

LORNA BAXTER
Chief Finance Officer

Contact officer: Joseph Turner – Financial Manager (Treasury Management)
Contact number: 07392 318984

December 2016

Appendix A

Prudential Indicators 2017/18, 2018/19 and 2019/20

Indicators i to vi will only be available on finalisation of the 2017 capital programme.

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 31.03.16	**£m**
External Borrowing	393.38
Financing Liability	24.864
Total	**418.244**

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

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

Upper Limit of net debt:

	2016/17	**2017/18**	**2018/19**	**2019/20**
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 2017/18	**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

xi.i These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.

Fixed interest rate exposure

xi.ii Limits in the table below have been set to reflect the current low interest rate environment. The limits set out offer the Council protection in an uncertain interest rate environment by allowing the majority of the debt portfolio to be held at fixed interest rates, thus not subjecting the Council to rising debt interest.

Upper limit for fixed interest rate exposure:

	2016/17	**2017/18**	**2018/19**	**2019/20**
Net principal re fixed rate borrowing / investments	150%	£350m	£350m	£350m

xi.iii Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Variable interest rate exposure

xi.iv 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. As with the fixed rate exposure limits, the variable rate exposure limits set offer the council protection in an uncertain interest rate environment. This is achieved by ensuring variable rate debt is lower than variable rate investments, which would result in a net benefit if interest rates were to increase.

xi.v Interest rate exposure limits will be amended in future years to reflect any changes to the forecast trajectory of interest rates.

Upper limit for variable rate exposure:

	2016/17	2017/18	2018/19	2019/20
Net principal re variable rate borrowing / investments	25%	£0	£0	£0

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 risk of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

xii.ii It is proposed that the limit reduce to £85m in 2017/18 and reduce in subsequent years thereafter. This is to reflect the forecast reduction to in-house cash balances over the period. The average in-house cash balance for 2015/16 was just under £320m.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Upper limit on principal sums invested longer than 364 days	100	85	75	65

Appendix B

Specified Investments

Investment Instrument	Minimum Credit Criteria	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	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+	In-house and Fund Managers
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	AA	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of 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 C

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
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)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	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 and 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 and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house
Supranationals	N/A	In-house and Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Money Market Funds and Collective Investment Schemes[4] 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
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Minimum long term rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Covered Bonds	Minimum issue rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	50% In-house	5 years

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

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

Appendix D

OXFORDSHIRE
COUNTY COUNCIL

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 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.

AUDIT & GOVERNANCE COMMITTEE – 11 JANUARY 2017

HAMPSHIRE PARTNERSHIP – HR UPDATE

Report by the Chief HR Officer

Executive Summary

1 This report provides an update on the HR services delivered through the Hampshire Partnership – Integrated Business Centre (IBC)

2 This report focuses on the status of HR Services after 18 months of operation, includes an update of the issues reported in July 2016 and provides detail on other issues raised and actions taken for resolution since that date.

3 All partners were invited to participate in a Customer Interaction Centre (CIC) survey during October. A number of workshops have since been held to review and understand findings in more detail (at both senior and operational level), and a documented outcome and action plan is pending.

4 As a result of feedback and in recognition of the additional support required to support managers, additional access to IBC Portal has been put in place in Oxfordshire Fire & Rescue Service (OFRS) to support operational managers with the more complex actions and a similar arrangement is due to be put in place in the Special Educational Needs Support Service (SENSS).

5 Recent investigations into queries relating to Employer contributions into LGPS have identified a lack of confidence in the IBC payroll configuration for OCC and in the skillset of staff employed within specific areas of the IBC dealing with payroll and pension related queries. These concerns have been escalated to the Partnership Board, and have resulted in HCC commissioning an external review of OCC payroll configuration and change control processes. The outcome of the review is due at the end of January.

HR Update on Outstanding Actions identified in July 2016

6 Of the key HR issues reported as outstanding in July the update is as follows

- The reports to provide the monthly pension data for both Local Government and Fire Fighter Pensions were completed in April and are now provided within deadline to the Fund. A number of formatting issues continue and there is still a delay in timely responses to Pension queries raised by the Fund.

- The Teachers' End of Year Return was completed and submitted on time in July.

- Response times to Enquiries have generally improved but feedback suggests the quality of response is still not consistent. As a result, the Customer Interaction Centre staff (CIC) have transferred to Winchester and are now co-located within the IBC teams they are supporting. This should enable knowledge sharing and assist with the training of new staff.

- A cross partner survey was carried out in October and a series of workshops reviewing the performance of the CIC have since taken place – the outcome of these and action plans are pending.

- It has been agreed that the new expenses compliance process will not be rolled out to OCC managers as the process was seen to be a duplication of the existing monthly reports emailed to managers.

- The suspense account balance for casual expense claims continues to build until the Change Request (initially raised back in September 2015) to override the default suspense cost centre is implemented.

- The suspense account also continues to build in respect of employer contributions for supply teachers. The IBC continue to work on a fix to allow direct cost centre postings.

- HR Bitesize training and refresher sessions continue across the County according to identified need.

- There is a continuous review of the intranet guidance to improve clarity, consistency and accessibility of policies and procedures and self-help guides.

- A formal IBC Release Document (highlighting planned changes to the IBC Portal and fixes to identified issues) is now being circulated monthly to all Partners and the first copy is attached as Appendix 1 to this report.

- Functional Review Groups have been set up across all workstreams – the main objective across each of the groups is to review issues using root cause across end to end process to identify and implement effective solutions. Issues can then be forwarded through agreed channels for IBC review and feedback and where appropriate, prioritised for resolution and documented within the IBC Release Document

- The management actions following the payroll audit have all now been put in place providing OCC with improved processes for monitoring manager/employee compliance.

- Further training sessions for Schools have taken place

- Additional access through the IBC Portal has been provided to staff in certain areas to allow some of the more complex issues to be managed on behalf of managers, this has been trialled in OFRS and a similar arrangement will be put in place to support SENSS managers. This has not removed the day to day responsibilities from managers, but enables managers to be supported with the more complex issues.

Review of payroll configuration - Issues identified for resolution

7 Following on from a number of issues raised formally by OCC, further investigation has led to significant concerns in respect of the IBC configuration of OCC Payroll and the skillset of staff available to respond to this level of query. Examples include:

An error has been identified in the calculation of assumed pensionable pay (APP) in regard to staff who:

- went on maternity leave during the 3 month period following go live;
- went on sick leave having exhausted their full pay entitlement during the 3 month period following go live;
- have recorded part day absences since July 2015.

The above issues mean that for those affected, the Annual LGPS Benefit statement issued by OCC Pensions in August will be incorrect

An issue has been identified relating to National Insurance employer contributions for apprentices under the age of 25 not being implemented at the beginning of the financial year.

Manual fixes to correct known issues continue to be in place pending formal resolution, where some of these issues date back nearly 12 months

8 A formal Review of OCC Payroll Configuration is now underway. The IBC have engaged an external auditor to undertake this review – the Terms of Reference are attached as Appendix 2 to this report. The summary report will be available at the end of January

9 As a separate exercise, but included within the overall Review there will be an evaluation of the change control processes currently in place.

Further Issues

10 Since the last report in July, a number of other issues have been identified. Some of these are pending investigation and/or resolution by the IBC, some require action/mindfulness by OCC.

- Recruitment issues and repeated contractual errors within SENSS – a formal review has now been undertaken resulting in a number of changes to be made to the Recruitment System to improve the recruitment experience for this service area. The changes will enable SENSS managers to select appropriate schools' criteria within the system – removing the need for manipulation or interpretation of data by the IBC prior to conversion into a contract.

- Recruitment of Casual staff is a lengthy and cumbersome process resulting in managers tending to use agency staff – to overcome this, consideration is being given to transfer casual recruitment into a Corporate HR function. This will also ensure the correct approval and safeguarding processes are in place.

- The IBC require a lead in time of between two and three months for organisational restructures (depending on size and complexity) which is significantly longer than previously required and will require OCC to be mindful of this with regard to their planning – An accurate organisational structure is critical as this drives all HR and finance related authorisation workflow as well as the telephone directory.

- A number of Head Teachers did not receive the 2015/16 pay award last year due to some schools not taking positive action to put this in place. This has now been corrected and Schools have been reminded of the need to review Actions highlighted in Schools' News in respect of changes in process.

- The fix to enable managers with dual roles to have access to manage both teams via the IBC Portal has now been delayed until May. This has been an ongoing issue since go live.

RECOMMENDATION

11 **The Committee is RECOMMENDED to note the current position and agree that a further update be provided in 6 months once the outcome of the formal Review of OCC Payroll Configuration has been completed, any implications for OCC identified, and required remedial actions fully documented.**

Steve Munn
Chief HR Officer

Contact Officer – Sarah Currell, HR Manager IBC Interface. 07867 467793

About IBC releases

This document describes the content of IBC releases. Last updated: 02-Dec-2016 14:40.

To be released: 2nd April 2017

What's new?	Links	Customers impacted	Ref
ESS Lite improvements • The ESS Lite "launch page" will have a new look and feel. • It includes a new "My approvals" tile, allowing managers to approve workflow from ESS Lite (a feature already being piloted by staff in HCC Corporate Resources). • The other apps within ESS Lite will also have a fresh look and feel. • This also applies to VSS (Volunteer Self Service), CSS (Councillor Self Service), and ESS Lite for Schools. • *The timing of this change depends on completion of development and testing.*		All ESS Lite customers	1925, 1361, 1160
ESS Lite and IBC Portal improvements - for staff with Multiple Employments • Staff with Multiple Employments will be prompted to pick which employment they want to use when they enter the ESS Lite launch page, for an improved user experience. More details of this change will communicated directly to staff with multiple employments. • *The timing of this change depends on completion of design work, development and testing.*		All staff with Multiple Employments	656
Financial end of year processing • IBC systems will be unavailable whilst end of year closure processing is completed - between 5pm and 8pm on Friday 31st March.		All IBC customers impacted by outage	
Flexi-time go-live (OCC) • OCC implement flexi-time solution.		All eligible OCC staff	1193

To be released: 26th February 2017

What's new?	Links	Customers impacted	Ref

SAP support packs • The latest SAP support packs are required to keep IBC systems current and supported by SAP. They are also needed to ensure that IBC systems comply with any legislative changes (e.g. November budgetary changes). • IBC systems will be unavailable whilst this change is being made: from: 8pm Friday 24th February to: 12 midnight Sunday 26th February		All IBC customers impacted by outage	1889
Improvements that impact internal teams only: • The way that the IBC provides returns to Teachers Pensions (TP) is being changed to meet new mandatory standards (known as Monthly Data Collection or MDC). Subject to development and testing completion, the trail runs of the MDC returns report start in January 2017, ready for full switch over to MDC from April 2017.		Internal only	1871, 1736, 1748

To be released: 29th January 2017

What's new?	Links	Customers impacted	Ref
Invoicing Plan improvements • Various improvements to Invoicing Plans. More detail to follow.		IBC Portal users	729
OCC invoices improvement • Improvement to allow OCC users to add contact details to customer invoices that are raised via the PI interface.		OCC staff that raise invoices (e.g. Music Service)	1244
IBC Portal - Customer Statement tile • Make the "customer statement" tile available to OCC. *Subject to testing completion.*		OCC IBC Portal users	1839
View and re-print customer invoices • IBC Portal improvement, to allow a customer to view a PDF image of the original customer invoice, which can be re-printed if required.		IBC Portal users	971
Flexitime report improvement (available at IBC Portal > HR > Reports) • An improvement to only show approved time (and hide withdrawn / cancelled time, which currently is also displayed) to managers using this report.		IBC Portal users - managers	1353
Expense form minor change • Minor improvement to ensure employees positively pick an expense type. (Some claimants are incorrectly using the default "bike allowance" - a taxable expense).		ESS Lite users	1965
Improvements that impact internal teams only: • An improved PTP process for setting up recurring invoices.		Internal only	1643

• Various improvements to the automated invoice scanning process (VIM / ICC)		Internal only	1832, 1907, 1912, 1913, 1917
• Improvements to workflow, to handle more complex situations without the need for manual intervention (e.g. where managers are missing the correct portal role; where managers are moving or leaving; where no manager (or grandparent manager) is in post		Internal only	1395
• A fix to ensure that when an organisational change is applied (that changes an employee's terms and conditions), the employee is automatically enrolled in the correct pension scheme – avoiding the need to do so manually (as is the case now).		Internal only	201
• Improvements to the "emergency substitutions" process (and handover from IT to IBC MDT)		Internal only	408
• Hampshire Constabulary collar numbers will be delimited when the leaver eForm is completed (to prevent IT problems if a collar number is recycled).		Internal only	513
• Overtime calculations improvements (for staff on salary protection).		Internal only	1465
• Recurring invoices date fix.		Internal only	1650
• Simplification and re-configuration of Soulbury pay scales in SAP, to make them easier to maintain. There is no impact to staff on those pay scales.		Internal only	1688
• Improved process for expense compliance checking, to provide effective assurance that expense and travel policies are being complied with.		Internal only	1297
• Improvements to the inbound HR interface (PI).		Internal only	1406
• Changes to Firewatch to SAP Interface Logical System Code.		Internal only	1852
• A minor SAP fix ('NI Number KC is accepted by HMRC').		Internal only	1974
• Automation of reports extraction for ETE capital programmes.		ETE capital programmes team	1989
• Automation of Pensions report schedule (MARS) to avoid need manual run by IT.		Internal only	1924
• Fix to resolve Pay Slip viewing issue (apparent for a single user only).		Single user only	1460
• "Order to Cash" process improvements.		Internal only	1267

To be released: 2nd January 2017

What's new?	Links	Customers impacted	Ref
PTP improvement • Improvements to goods receipting, to enable customers to reverse a goods receipt themselves instead of having to raise a Lagan enquiry.		All IBC customers	1398

Improvement to emailed invoices/remittance advices • Improvements to emailed invoices and remittance advices, to include more detailed and specific “sender” and “subject” lines. This will identify which organisation the letter has been issued on behalf of, and reduce risk of emails being treated as spam by customers / suppliers (or if placed in spam filter, make it easier for the customer to identify).		Suppliers and customers	1207
“My Team” tile improvements • Improvements to the “My Team” tile (IBC Portal), to provide more information in a more accessible way. • Old “Nakisa” tool will be decommissioned once “My Team” tile improvements are in place.		Managers	1368
Payslip changes • “Pensionable pay” will no longer be included on payslips. The definitive annual pensionable pay figure will remain available from the Annual Benefit Statement issued by the relevant Pension Fund.		All IBC customers	839
• Personnel number of OCC staff with multiple employments will be shown on payslips (correcting an earlier problem which prevented this).		OCC staff with multiple employments	1354
“Manage Customer Record” improvements • Various improvements to the “Request customer account” and “Request customer account change” apps to help the IBC Master Data Team process requests more efficiently (Finance > Manage Customer > Manage Customer Records)		All IBC customers that use the “Manage Customer” apps	50, 91, 392, 551, 657
• Changes to customer/supplier eforms to enable separate grouping of customers and vendors to support statutory reporting (for debtors and creditors) – *subject to review and testing, may be deferred.*		Finance teams	1850
Valuing Performance enhancements • Various VP enhancements and preparation for 2017 cycle.		All HCC staff	1713
“Request employee change” form – minor fix • Minor fix to the form, to ensure “honorarium” entries are in the correct format.		OCC Schools only	996
ESS Lite – fixes • Fix an issue that prevents annual leave requests being raised if flexi-time balance is negative • Fix an issue that prevents some users entering car details in 'My Information' tile. • Fix an issue that prevents leave request error messages from displaying. • Fix an issue in the ‘My expenses’ tile to ensure that unsubmitted draft expense claims are only displayed for this month, last month and the month before (to avoid the impression		ESS Lite users	1612, 1829, 1918, 1828

that older ones can be submitted).			
"View Supplier Invoice" fix • Fix an intermittent invoice image quality issue.		Users who view invoices	1214
OCC revaluation / transfer date • Regular housekeeping to update SAP revaluation / transfer date (to 31/3/16) to enable OCC to process asset transfers and revaluations in 2016/17.		OCC Corporate Finance	1962
Improvements that impact internal teams only: • Pensions Admin improvements, to support internal processes.		Internal only	1381, 1384
• Improvements to the "Organisational Change Eform" processing program, to reduce amount of manual intervention needed		Internal only	686, 883, 1592
• A fix to ensure that the correct "unpaid leave" pay deductions are automatically made for OCC and OFRS (without the need for manual IBC work, as is the case now).		Internal only	985
• Minor bug fix to the WCN (recruitment system) to HantsFile interface.		Internal only	1872
• Role changes: ○ to allow the "Order to Cash" and Corporate Finance teams to use functions previously run by IT on their behalf ○ to support improvement Transactional HR and Payroll processes. ○ to allow Finance to perform a role previously done by the IBC. ○ in support of the move of BACS processing to Payroll Support team. ○ to fix H2R team issue viewing e-forms in PDF format.		Internal only	1374, 1717, 1730, 1732, 1737, 1927
• Fix to allow payroll team to resolve any incorrect Student Load deductions through payroll (as per HMRC guidelines).		Internal only	1424
• "Order to Cash" process improvements.		Internal only	1642, 1718
• Process improvement and bug fixes for VIM / PTP team.		Internal only	1797, 972
• Minor starters PDF fix.		Internal only	1634
• Changes in support of Key2 (Hampshire Transport) application planned upgrade.		Internal only	1314
• New wage type for OCC sleep in payments		Internal only	1226
• Fix to an internal payroll program (DME) to avoid manual intervention		Internal only	1442
• Give access (to a maintenance tool) to various IT support userids		Internal only	1454
• Resolve access issue for individual support staff member		Internal only	1644
• Improvement to the portal inbox count message to avoid technical problem		Internal only	1775
• Preventative fix to ensure correct rates for HCC school booster class payments are applied.		Internal only	1904

• The amount to be paid for the LSA Qualification Allowance for Oxfordshire CC (wage type 2743) to be corrected (to £69.66 per month), to remove need for manual correction.		Internal only	1936
• Annual housekeeping of SAP calendars for Hampshire and Oxford Schools (to add school and bank holidays for 2017) and regenerate work schedules.		Internal only	1811
• Resolve an issue to ensure that when a multiple employee is set up as a late starter (but also made a leaver in the previous period) NI is calculated correctly.		Internal only	1849

To be released: 18th December 2016

What's new?	Links	Customers impacted	Ref
"Create enquiry" form improvements: • New facility which allows customers to add attachments to their IBC enquiries, enabling customers to provide screenshots and other useful documents to support the investigation and resolution of their enquiries. • Rationalisation of the drop down options customers have available to choose from when raising enquiries, making it simpler for customers to select an appropriate option that will then route to the correct support team. (Also a minor error message typo fix). • The on-line Enquiry Forms accessed by ESS Lite and the Portal will be unavailable to all customers from 4.30pm on Friday 16 December until 11pm on Sunday 18 December. Users attempting to make an enquiry will be re-directed to a landing page which will include an email address they can use to raise any urgent queries.		All IBC customers	1311, 1312, 1215, 1157
New dashboards available to Oxfordshire CC (excl. schools): • HR sickness dashboard: OCC managers can now view summary sickness information about their team from the IBC portal (HR > HR Dashboards). • Income and debt dashboard: OCC managers and administrators can now view information about invoices raised, invoices outstanding, age of debt and debt write-offs for their area, from the IBC portal (Finance > Reports > Income and Debt).		Oxfordshire CC (excl. schools)	1831, 1801, 1901
New report available to Oxfordshire CC and Oxfordshire schools: • Improved Goods Receipt / Invoice Receipt report, enabling manages to view balances caused by differences in quantities posted at the Goods Receipt stage and the Invoice Receipt stage (Finance > Reports > GR/IR Report).		Oxfordshire CC (incl. schools)	1831
Improvements that impact internal teams only:		Internal only	1853

• Annual housekeeping to ensure that BW reports continue to work after 31 Dec 2016.			
• New housekeeping report for IT (to identify help resolve Failed Workflow Actions)		Internal only	2008

To be released: 2nd December 2016

What's new?	Links	Customers impacted	Ref
• ESS Lite may be intermittently unavailable to customers from 11pm Friday 2nd December until 6am Saturday 3rd December. This is due to essential maintenance work in preparation for the 18th December release.		All ESS Lite users	

Released 27th November 2016

What's new?	Links	Customers impacted	Ref
HR workforce dashboard • New dashboard, providing managers with information about their org units such as Headcount and FTE changes by grade, diversity data and turnover data. Available on the IBC Portal (HR > HR Dashboards) – from Thursday 30th November.	New help page: HR Workforce Dashboard	HCC managers only (excluding schools)	1320, 1324, 1400, 1708, 1709, 1890, 2020
Journal and internal trading uploads • Addition of self-service upload functionality for journals, accruals, and internal trading on the IBC portal.	New help pages: Create journal Create accrual Create annualised bill plan Change annualised bill plan Create ad-hoc trading document	IBC portal users	1347, 1392
Finance reports • Corporate Aged Debt Analysis Report - fix issue (associated with partial payments). • Three BPC report fixes.		Corporate Finance (HCC, HC and OCC)	1985, 1947, 1823, 1894
Customer invoice – minor fix • The URL used on customer invoices ("How to pay your invoice" section) is being corrected, to make on-line payment easier for customers.		Customers receiving invoices	1530
Improvements that impact internal teams only: • CIC system (Lagan) improvements to support internal processes.		Internal only	776, 1498, 1499, 814, 1535

• VP preparation for 2017 cycle.		Internal only	1711, 2021
• Internal PTP process improvement, to ensure that invoices follow the correct automated processing route (Vendor PO flag).		Internal only	1645
• Pensions Admin improvements to support internal processes.		Internal only	1382, 1679
• Minor fix to tool used by the IT (to create console files to enable Windows files to be processed by Interface Manager utility).		Internal only	1712
• BW (reporting) internal fixes and housekeeping.		Internal only	1338, 1856, 1862, 1938

Released mid November 2016

What's new?	Links	Customers impacted	Ref
• BPC reporting fix – to stop descriptions (of cost centres, cost centre groups, cost elements and cost element groups) being truncated. *(Released 20th November 2016).*		Finance BPC users (HCC and HC only)	1919
• New posting rules for electronic bank statement – to help internal business process. *(Released 20th November 2016).*		Internal only	1967
• The nationally agreed 1% pay award is being applied to Soulbury Pay Scales, with effect from 1 September 2016. *(Released 15th November 2016).*		HCC and OCC staff on Soulbury pay scales	1898
• Minor VP fix. *(Released 13th November 2016)*		Internal only	1952
• HCC cheque book schools moved to new e-forms. *(Released 7th November 2016)*		HCC cheque book schools	396

Released 30th October 2016

What's new?	Links	Customers impacted	Ref
Remittance advice slip format improvements • Improvements to remittance advice slip format, to help suppliers reconcile payments they receive.	See the updated supplier pages ("purchase orders and payments" section)	All suppliers (of organisations serviced by the IBC)	798
CARM4 upgrade (internal only) • Hampshire Constabulary's CARM system is being upgraded (from v3 to v4). Some changes to IBC systems are being made as part of HC's upgrade plans, ready for first runs of		Internal only	1412

CARM4/SAP interfaces in November / December 2016.			
BPC Forecasting Input Form (OCC only) • Minor fix to the BPC Revenue Forecast Input Form, correcting the drill through to monthly actuals.		OCC only	1647
Schools Workforce Census preparation • Changes required in preparation for the 2016 school workforce census return. (HCC schools complete the return using the IBC portal. OCC schools complete the return using other systems. IBC complete returns on behalf of HCC and OCC for centrally employed staff).		HCC Schools (and IBC internal)	1468

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Date	24th November 2016
To:	OCC / HCC Senior Sponsors
From:	Gary Westbrook
Title:	Review of OCC Payroll Configuration – Terms of Reference

Contact: gary.westbrook@hants.gov.uk

1 Introduction and Context

1.1. Oxfordshire County Council (OCC) on-boarded to the Integrated Business Centre (IBC) operating model in July 2015. The payroll operating model is underpinned by the design and build of a SAP payroll solution, including a full fit gap analysis, data validation and sign off and User Acceptance Testing (UAT) of payroll outputs through programme governance channels.

1.2. In October 2016, 2 issues were formally raised by OCC colleagues through formalised governance channels, following a letter from the Pension Fund Administrators to OCC's Director of HR:

- During a 3 month cutover period following on-boarding, LGPS pension scheme members on maternity leave required a corrective adjustment to record an accurate Assumed Pensionable Pay (APP) figure. An adjustment was made in July 2015, but the remaining time limited adjustments were not made. This is not deemed to be a payroll configuration issue, but the failure to implement a number of time-limited manual adjustments in the 3 month period following on-boarding.
- Anomalies were identified in the LGPS Career Average Revalued Earnings (CARE) scheme due to an incorrect APP figure being calculated and reported for half day absences. This appears to be due to the payroll system not being configured to accommodate half day absence from a pensions perspective.

1.3. An issue has also been identified relating to National Insurance employer contributions for Apprentices under the age of 25 not being implemented at the beginning of the financial year. This was not a formally recorded decision in either HCC or OCC.

1.4. An automated monthly data file (MARS) to OCC's LGPS Pension Fund Administrators was released in July 2016 following extensive UAT by the IBC, OCC as an employer and the Pension Fund Administrators. Issues have been identified following the release of the MARS date file, primarily associated with formatting. Standardised format validation checks were introduced in October 2016.

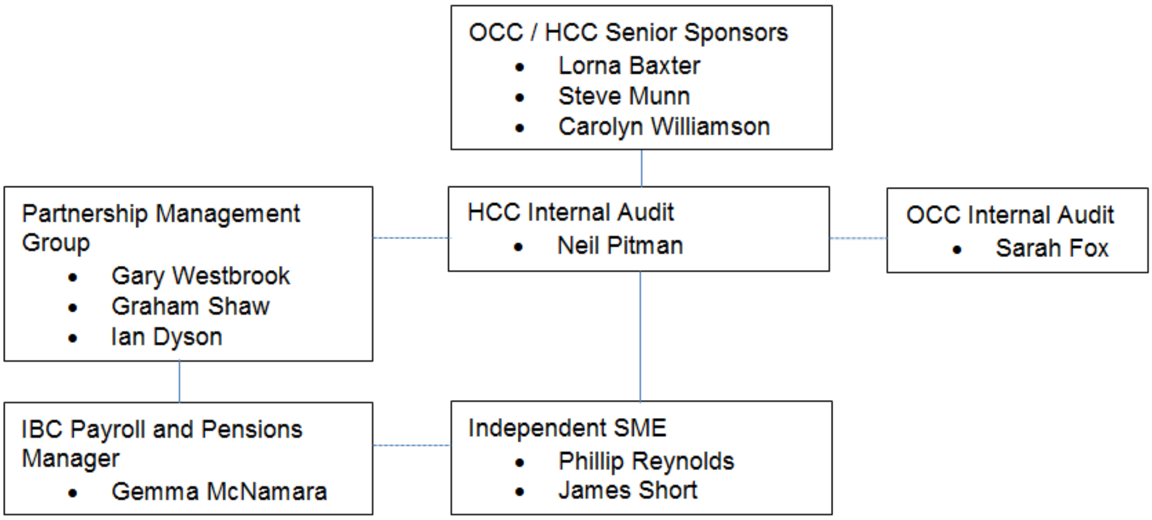
1.5. In October 2016, the annual refresh of GMB union deductions was deducted twice for 50 employees in OCC schools. This refresh was a first time event.

1.6. There are a number of Change Requests relating to payroll configuration that have been included in Appendix B for completeness. These are currently being managed through manual processes to ensure pay is correct, but are being reviewed and automated to ensure where possible the solution is automated and system driven.

1.7. Given the issues identified above, concerns have been raised by OCC relating to assurances on the configuration of the payroll solution for calculating, actioning and reporting statutorily compliant payroll transactions. It has therefore been agreed to perform an independent review of payroll configuration.

2. Approach

2.1. To retain independence, a payroll and pensions Subject Matter Expert (SME) will be appointed in December 2016 to conduct the review. For purposes of the this project, the SME will report directly into the Chief Internal Auditor and into the Partnership Senior Sponsors to maintain independence from the business operation. The existing Partnership Management Group will provide oversight of the existing operation and be the key point of senior contact into HCC and OCC.



2.2. The review will be based on the verification of rules using SAP payroll outputs, performing parallel calculations and understanding / explaining any variances for a range of risk based scenarios. The scope of the scenarios that will be validated will be a risk based assessment and formally signed off by OCC and HCC during the first week of the review. An evidence file will be collated of all the tested scenarios, with any unexplained variances captured and reported as part of a closure report.

2.3. To give assurances that future configuration changes are processed accurately and in a compliant manner, the change control process will be reviewed for first time events. This will be designed to ensure that changes are fully tested and released to give assurances on the future integrity of the system.

3. Objectives

3.1. This review will assess the current and future ability of the SAP Payroll system to calculate, process and report payroll (and associated) transactions in statutorily compliant, accurate and timely manner.

4. Scope

4.1. As part of the mid-year review of internal controls, External Audit successfully completed a range of payroll testing in 2016/17 covering key statutory deductions including National Insurance and Income Tax across all partner organisations. Given the anticipated caveats that will be placed upon the assurance from External Audit, it is proposed that deductions tests are re-performed.

4.2. The final scope of scenarios will be signed off in week 2 of the project, but is anticipated to focus on areas of high risk based on complexity, volume and value. Employee and Employer pensions deductions and associated reporting to Pension Fund Administrators will be included across all pension schemes and employee groups based on the issues identified in October 2016. A draft matrix by pension scheme has been included in Appendix A.

4.3. Exclusions:

- SAP payroll actions are reliant on Wage Types which were reviewed and signed off during the on-boarding programme. A key principle of the review will not be to question the Wage Type instructions, but to ensure that the payroll system appropriately and accurate outputs based on this instruction.
- The agreed operating model is driven by Self Service actions from the employee or their line-manager. The review will not be considering whether this initial instruction is appropriate.
- The governance of communications and escalation of issues between payroll teams, OCC employer teams and Oxfordshire Pension Fund will be separately reviewed.

5. Reporting and Deliverables

5.1. **Scoping Document** – a full scoping document of all proposed risk based testing scenarios will be developed in week 1 of the project and agreed in week 2 of the project by the Partnership Management Group.

5.2. **Scenario Test Scripts** – A full evidence pack of scenarios tested, including SAP generated outputs and manually calculated comparisons.

5.3. **Exceptions Report –** A summary of exceptions including explanations for all variances.

5.4. **Findings and Closure Report** - A summary report to be presented to the OCC / HCC Senior Sponsors in January 2016.

6. Timing

6.1. The review will commence w/c 5th December 2016 and is anticipated to run for 6 weeks until project close. An interim update will be reported to OCC / HCC Senior Sponsors at the end of week 3.

Appendix A – Draft

Pension Scheme	Family Friendly Leave	Sickness Absence	Half day Absence	Unpaid Absences	Pension Banding	Backdated pay changes	Wage Type Accumulators	Year end reporting
LGPS CARE (OCC)								
TEACHERS PENSION SCHEME CARE (OCC)								
TEACHERS PENSION SCHEME (OCC)								
NHS CARE SCHEME								
FIRE CARE (OFRS)								
NEW FIRE PENSION SCHEME (OFRS)								
FIRE PENSION SCHEME 1992 (OFRS)								

Appendix B – OCC Payroll Configuration Change Requests

CR Reference	Description	Date Raised
1895	Apprentice National Insurance	19/10/16
1849	National Insurance Payments after leaving	05/10/16
1479	Unpaid leave not being deducted if date after cat 6 and time eval jobs are run	27/06/16
1384	Er contributions rate shown on O6% OCC LGPS pension scheme in SAP incorrect	30/09/16
985	OCC Unpaid Leave not deducting for weekends	18/01/16
1766	Starter eform contains incorrect pay scales for casuals	31/08/16

Oxfordshire County Council

Year ending 31 March 2017

Audit Plan

January 2017

Ernst & Young LLP

Building a better working world

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Members of the Audit and Governance Committee
Oxfordshire County Council
County Hall
New Road
Oxford
OX1 1ND

9th December 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Oxfordshire County Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 11 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Executive Director
For and behalf of Ernst & Young LLP
Enc

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies '. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – 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, you may take the issue up with your usual partner or director contact. 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. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Oxfordshire County Council (the Council) give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

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

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

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

- Strategic, operational and financial risks relevant to the financial statements;

- Developments in financial reporting and auditing standards;

- The quality of systems and processes;

- Changes in the business and regulatory environment; and,

- Management's views on all of the above.

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

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date.
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions ► Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- Identifying fraud risks during the planning stages;

- Enquiry of management about risks of fraud and the controls to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address any identified risks of fraud, and
- Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
For 2016-17 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

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

- Accounts receivable
- Procure to pay including Adult Social Care system
- Payroll

Analytics

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

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- Give greater likelihood of identifying errors than random sampling techniques.

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

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	The pension fund's actuary and EY pensions team
Valuations	The Councils valuer and our third party specialists

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source date is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;

- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statement of the Council is £10,270,440 based on 1% of gross expenditure. We will communicate uncorrected audit misstatements greater than £ 7,702,830 to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Oxfordshire County Council is £109,958.

4.6 Your audit team

The engagement team is led by Paul King, who has significant experience on Oxfordshire County Council. Paul King is supported by Alan Witty who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit and Governance Committee’s cycle in 2016/17. These dates are determined to ensure our alignment with PSAA’s rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	**April 2016**	**April 2016**	Audit Fee Letter
Risk assessment and setting of scopes	**December 2016**	**January 2017**	Audit Plan
Testing routine processes and controls	**January 2017 and March 2017**	**April 2017**	Progress Report
Year-end audit	**July 2017**		
Completion of audit	**August 2017**	**September 2017**	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and, [by exception] overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**October 2017**	**November 2017**	Annual Audit Letter

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

5. Independence

5.1 Introduction

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

Required communications

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

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King, the audit engagement Director and the audit engagement team have not been compromised.

5.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	109,958	109,958	109,958	
Total Audit Fee – Code work	**109,958**	**109,958**	**109,958**	
Assurance report Teachers Pensions*	TBC*	N/A	10,000*	

All fees exclude VAT.

* *We produced a limited assurance engagement report for the Council in respect of certification of the Council's 2015-16 return to Teachers' Pensions. At the date of this Audit Plan the Council have not engaged us formally to certify the 2016-17 return.*

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

- ► Officers meeting the agreed timetable of deliverables;
- ► The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ► We can rely on the work of internal audit as planned;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

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

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit and Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balances on initial audits [delete if not an initial audit]	► Audit Results Report
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Audit Results Report
Fraud ► Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Audit Results Report
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Audit Results Report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of.	► Audit Results Report

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	► Audit Plan ► Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	► Audit Results Report
Significant deficiencies in internal controls identified during the audit	► Audit Results Report
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Audit Results Report ► Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ey.com

Division(s): N/A

AUDIT AND GOVERNANCE COMMITTEE – 11 JANUARY 2017

PROGRESS REPORT ON THE ACTIONS IN THE 2015/16 ANNUAL GOVERNANCE STATEMENT

Report by the Chief Legal Officer and Monitoring Officer

Introduction

1. The Audit & Governance Committee approved the Annual Governance Statement (AGS) for 2015/16 in September 2016. This included eight actions to be followed up by the relevant corporate lead and/or directorates during 2016/17. This report gives an update on the progress with these actions as at the end of December 2016.

Update on actions.

2. The Annex to this report sets out the progress on each of the actions. As at the end of December, progress has been made on all of the actions. Some of the actions are now complete or have moved on to the next phases and will therefore continue to be monitored, under the revised timescales indicated in the Annex.

3. A further update on the actions will be provided to Audit & Governance Committee on 26 April 2017 as part of the process of finalising the Annual Governance Statement.

RECOMMENDATION

4. **The Committee is RECOMMENDED to note the progress on the actions.**

NICK GRAHAM
Chief Legal Officer and Monitoring Officer

Background papers: Annual Governance Statement 2015/16 is published as part of the "Statement of Accounts" and is available on the council's website (see pages 173 to 202 of the linked pdf.): https://www.oxfordshire.gov.uk/cms/content/annual-accounts-and-audit

Contact Officer: Glenn Watson, Principal Governance Officer
07776 997946

ANNEX – ANNUAL GOVERNANCE STATEMENT

ACTIONS FOR 2016/17 - UPDATE

	Action 2016/17	**Update**
1	Staff supporting, managing and maintaining ICT systems and supplier relationships. Review to be carried out to identify how the systems are being managed and the effectiveness of the controls. 31 December 2016	A review is being undertaken as part of the Business Efficiencies workstream within the Transformation Programme to identify staff, contracts and expenditure outside the control of ICT with the intention to consolidate within ICT. Updated timescale to 31 March 2017.
2	Data reporting and information governance by third party partners and suppliers of services Review to be carried out to verify that our data is being secured, maintained and reported in accordance with agreed service responsibilities. 31 October 2016	The suppliers of the priority 1 systems have been contacted and provided their data governance standards; these are being reviewed and actioned in line with item 3 below. Updated timescale to 31 March 2018.
3.	Data quality, duplication and storage De-duplication of data collection and storage prior to migration of data ahead of decommissioning of Data Centre; to include verification that commissioned/partnership services follow Council's data storage policies 31 October 2016	The Managing Information Effectively proposal was approved at CCMT subject to some revision of timescales for data retention. This will be implemented as part of the Master Data Management initiative within the Transformation Programme. Updated timescale to 31 March 2018.

	Action 2016/17	Update
4	Financial Control Improvement Plan Improve the clarity of financial roles, procedures and data issues and the oversight of financial controls – through implementation of a Financial Control Improvement Plan developed in consultation with stakeholders, partners, with the Financial Leadership Team. 31 March 2017	There has been good progress with defining roles and responsibilities, updating procedures and oversight of financial controls through management reporting. Further improvements are on-going. Renamed Finance Improvement, this is now part of the Business Efficiencies work stream within the Transformation Programme. The scope of activity has extended to reflect the integration with that Programme, with the focus on strategic review and redesign of financial systems and related internal controls. Progress updates are routinely being presented to Audit Working Group and Audit & Governance Committee meetings.

	Action 2016/17	Update
5	Commercial Services Board (CSB) To strengthen/extend the role and effectiveness of the CSB (including the quality assurance/management information) through the action plans of the Gateway Review Panel, the Commercial Gateway Process and the work of the dedicated Corporate Procurement Lead. 31 March 2017	The Gateway Review Panel is now embedded as part of the commissioning cycle, and reports to the CSB. A new contract management system is currently being procured that will be a major improvement to the management oversight of contracts and the future commissioning pipeline. The Transformation Programme is looking at decision making and a project is underway to review the role of meetings and advisory boards in supporting decisions. The CSB will be included in that review. The decision making process will be integral to the future operating model in the Council, so the CSB will be developed depending on the outcome of that review. From January the CSB will be receiving routine monthly performance highlight reports for all “Platinum” contracts. One area that is still to be delivered by the CSB is reporting to CCMT. It was anticipated that a commentary on the outcomes of the CSB meetings would be presented to CCMT, for information and to support decision making. This process is still not established, but it is expected will be more clearly defined by the project considering the operating model and decision making which should be complete by 31 March 2017.

	Action 2016/17	Update
6	Transformation Organisational transformation necessary during 2016/17 to meet the Council's plans, priorities and challenges (including any changes to senior management structures), will put sound governance at the core – including effective consultation, and legal and constitutional compliance. 31 March 2017	Update at the meeting.
7	Health & Safety – repairs and maintenance (R&M) in schools To support schools (community, voluntary controlled, special and maintained nurseries) in the deployment of their delegated funding for R&M. To ensure compliance through the provision of information, training and effective monitoring procedures. Additional action will include schools completing a building maintenance annual return which will be collated as part of the schools H&S Monitoring visit and used to monitor statutory compliance. Completed returns will be feedback to Property and Facilities for review and action. 31 March 2017	To gain greater assurance that schools are meeting their delegated responsibilities, commencing in January 2017 Property and Facilities will be arranging six monthly premises visits to monitor compliance and performance and to inspect repairs and maintenance items (through a Premises Visit Report, in place of the previously proposed action through the Schools H&S monitoring visits programme. Carillion do offer compliance services to schools although only a small number of schools buy back (Approx. 18 out of 161) since the majority appear to prefer to use their own local contractors. Currently schools are able to access training provided by the Council including Health and Safety for Managers, Asbestos Awareness, Legionella Awareness etc. The Schools H&S Team (CEF) are currently looking to develop further training aimed at premises maintenance management.

	Action 2016/17	**Update**
8	Corporate Security Implement actions to ensure the ongoing security of the Council's buildings, principally those with public access. 31 March 2017	Update at the meeting.

Division(s): All

AUDIT AND GOVERNANCE COMMITTEE – 11 JANUARY 2017

CONSTITUTION REVIEW

Report by the Chief Legal Officer and Monitoring Officer

Introduction

1. Under the Constitution, the Monitoring Officer is required to monitor and review the operation of the Constitution to ensure that its aims, principles and requirements are given full effect. This includes making recommendations to Council on any necessary amendments. The Monitoring Officer is authorised to make any changes to the Constitution which are required to:

   - Comply with the law
   - Give effect to the decisions of Council (or Cabinet, Committees etc.)
   - Correct errors and otherwise for accuracy or rectification

2. Other changes will only be made by Full Council, following a recommendation of the Monitoring Officer.

3. This report therefore:
   - Recommends one change for this Committee's endorsement before submission to Full Council for approval; and
   - Lists certain changes already made by the Monitoring Officer under his delegated powers, *for noting*.

Potential change

Write off of debts – Financial Procedure Rules

4. There is currently an inflexibility in the Financial Procedure Rules (Part 8.2 of the Constitution) where those procedures conflict somewhat with the Chief Legal Officer's delegated power (under Part 7.2) to "settle any legal proceedings…where the Chief Legal Officer considers that such action is necessary to protect the Council's interests".

5. The difficulty is that the current Financial Procedure Rules (paragraph 90) specifies that the delegated limit for officers to write off debts is £10,000 in any one case; otherwise "approval shall be required from the Cabinet". In some circumstances, the act of settling legal proceedings as envisaged in the scheme of delegation will necessarily involve detailed negotiations in order to reach a settlement in the public interest; routinely to involve Cabinet in such circumstances is impractical and counterproductive.

6. It is therefore suggested that it would be appropriate to harmonise these requirements while retaining the necessary financial principles within the

Procedure Rules. As such it is proposed that the write-off limits should continue to apply except in the cases where the Chief Legal Officer is involved in legal proceedings where integral negotiations may require an effective write off in the public interest. Any such write off would need to be discussed and agreed with the Chief Finance Officer before conclusion and Cabinet should be informed of the outcome. It is suggested that the amended text to paragraph 90 of the Financial Procedure Rules should be (new text in **bold**):

"For the purposes of the General Operational Powers of the County Director and Directors set out in Part 7.2 of the Constitution, the limit for the writing off of uncollectable debts (including bad debts) in any one case is £10,000. Over this limit, approval shall be required from the Cabinet **except in cases where the Chief Legal Officer is involved in the settlement of legal proceedings. In such cases, where an associated write off is involved, the write off will be approved in advance by the Chief Finance Officer. Cabinet will then be informed of the outcome. In any such circumstance, if the Chief Finance Officer considers that Cabinet's approval for the write off should be sought in advance, this will be arranged.**"

Amendments made during the year under delegated authority

7. Annex 1 to this report lists the changes made to the Constitution during the year by the Monitoring Officer under his powers. Each of these was either consequential on a decision of the Council, was required for legal reasons or was needed in order to bring greater clarity to the provisions in question.

8. Of course, during the course of the new year, the Monitoring Officer will also make any amendments that are consequential on the implementation of any agreed senior management structures. These will be similarly tabulated and reported in future.

Legal and procedural implications

9. There are no legal implications and the procedural implications relate to the respective provisions in the Council's Constitution which have been outlined in paragraphs 1, 2, 4 and 6 in this report.

RECOMMENDATION

10. The Committee is RECOMMENDED to:

a) endorse the proposed change to the Council Procedure Rules outlined at paragraph 6 of this report (Financial Procedure Rules, write off provisions);
b) agree to the Monitoring Officer proposing the change for Full Council's approval; and
c) note the changes made to the Constitution by the Monitoring Officer under delegated powers since December 2015 (i.e. since the last annual Constitution Review report to Council).

Annex 1

Constitution Review

Amendments made during the year under delegated authority

Amendments simply to reflect change of post title (to County Director)
Part 2, Article 10: Health and Wellbeing Board
***Part 2, Article 13*:** Officers
Part 4.4: Delegated Decisions by individual cabinet members
Part 6.2: Overview and scrutiny procedure rules
Part 7.2: Scheme of Delegation
Part 8.2: Financial Procedure Rules

Part 3.1: Council Procedure Rules
Paragraph 13.5.1 (ii)(a) to reflect Council's decision to amplify the meaning of 'significant expenditure' in the context of treatment of motions. The definition of significant had been recognised as "expenditure of £10,000 or more".

Part 4.1: Membership of Cabinet and Shadow Cabinet
To reflect the change in Cabinet Membership (addition of Cllr Harrod) and the changes to the names of two portfolios (to Children's Services and Education respectively).

Part 8.3: Contract Procedure Rules (*Competitive Quotes and Tenders Section)*
Paragraphs 5.4 (i) and (ii): minor amendments to the threshold levels of required to meet changes to the EU directive thresholds applicable from 1 January 2016 to 31 December 2017.

Part 9.1, Annex 1: Members who are also members of a district council in Oxfordshire
List updated to reflect the outcome of the May 2016 city/district council elections.

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AUDIT and GOVERNANCE COMMITTEE – 11 JANUARY 2017
REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group met on Wednesday 14 December 2016

Attendance:
Full Meeting:
Chairman Dr Geoff Jones; Cllr Sandy Lovatt, Cllr Alison Rooke; Cllr Nick Hards; Cllr David Wilmshurst; Nick Graham Chief Legal Officer; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Joanne Hilliar (minutes)

Part Meeting:
Alan Witty, External Audit

Matters to Report:

AWG 16.20 - Internal Audit Update

The group received an update from the Chief Internal Auditor on progress against the Internal Audit Plan and the Counter Fraud Plan.

There were no material issues identified in the audit reports finalised since September 2016, with the exception of the audit of Mental Health which received an overall grading of Red. The Audit Working Group had previously reviewed the Mental Health report and the Deputy Director for Adult Social Care has attended the group and subsequently provided a further update. The group were encouraged by the positive response received so far. The Group will continue to monitor progress of implementation of the actions and will be receiving a detailed update for review at the February meeting.

An emerging issue was reported to the Group regarding the audit of the Capital Programme which was just being concluded. The initial overall grading is Red; therefore the Group requested that officers attend the February 2017 AWG to discuss the report and action plan.

The group noted the work undertaken on the Counter Fraud Plan and recent outcomes from the proactive review of travel expenses. The group reviewed the overdue Priority 1 management actions. These are subject to continued monitoring and escalation by Internal Audit to the Directorate Leadership Teams, in addition to a number of follow up audits included within the 16/17 plan.

AWG 16.21 Update on Finance Improvement Plan

The group received an update from the Assistant Chief Finance Officer (Assurance), including emerging issues and current progress in financial control improvement, which will be included in the full update to the January 2017 Audit & Governance Committee.
The date of the next meeting is Wednesday 8 February 2017, 14.00 - 16.00.

Recommendations

The Committee is recommended to note the report.

Lorna Baxter
Chief Finance Officer

Contact: Officer: Sarah Cox, Chief Internal Auditor
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AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME - 2017

11 January 2017
Update on Hampshire Partnership – HR Update (Steve Munn)
Internal Audit Plan – Progress Report (Sarah Cox)
Ernst & Young Audit Plan (Alan Witty)
Progress update on Annual Governance Statement Actions (Glenn Watson)
Treasury Management Strategy (Donna Ross)
Report from the Councillor Profile Working Group (Andrea Newman) [not needed]
Constitution Review (Glenn Watson)

8 March 2017
Update on Hampshire Partnership (Lorna Baxter)
Ernst & Young Progress Report (Alan Witty)
Review of effectiveness of internal audit (Glenn Watson)

26 April 2017
Annual Governance Statement (Glenn Watson)
Annual Report of the Chief Internal Auditor 2016/17 (Sarah Cox)
Internal Audit Strategy & Annual Plan 2017/18 (Sarah Cox)
Audit Committee Annual Report to Council 2016
Ernst & Young Progress Report (Alan Witty)
Annual Scrutiny Report (Policy)
Hampshire Update

12 July 2017
Treasury Management Outturn 2016/17
Ernst & Young Progress Report (Alan Witty)
Update on Hampshire Partnership – HR Update

13 September 2017
OCC Accounts 2016/17 (Stephanie Skivington)
Local Government Ombudsman's Review of Oxfordshire County Council (Nick Graham)
Ernst & Young – Audit Results Report (Alan Witty)
Internal Audit Plan – Progress Report (Sarah Cox)
Regulation of Investigatory Powers Act (Richard Webb)
Monitoring Officer Annual Report (Nick Graham)

8 November 2017
Ernst & Young: Annual Audit Letter (Alan Witty)
Treasury Management Mid Term Review (Donna Ross)
Constitution Review (Glenn Watson)

Standing Items:

- Audit Working Group reports
  (Sarah Cox)

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

- Transformation Update (**Quarterly**)

- Update on Financial Control Improvement Plan (Ian Dyson)