



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

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

**Wednesday, 10 January 2018 at 2.00 pm**

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

A handwritten signature in black ink that reads "Peter G. Clark".

Peter G. Clark  
Chief Executive

December 2017

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

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**Membership**

Chairman – Councillor Nick Carter  
Deputy Chairman - Councillor Tony Ilott

*Councillors*

Paul Buckley  
Ian Corkin  
Helen Evans

Charles Mathew  
D. McIlveen  
Les Sibley

Roz Smith

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*Co-optee*

Dr Geoff Jones

**Notes:**

- ***There will be a pre-meeting briefing at County Hall on Date Not Specified at 9.30am in the Members' Boardroom for the Chairman, Deputy Chairman and Opposition Group Spokesman.***
- ***Date of next meeting: 7 March 2018***

## 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](mailto: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 - 6)

To approve the minutes of the meeting held on 8 November 2017 (**AG3**) and to receive information arising from them.

## 4. Petitions and Public Address

## 5. Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 (Pages 7 - 32)

2.10pm

Report from the Director of Finance

The report contains the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 in compliance with the CIPFA Code of Practice. The report sets out the borrowing and investment strategies for 2018/19 and relevant background information.

**The Committee is RECOMMENDED to:**

- a) **endorse the Treasury Management Strategy for 2018/19 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 2018 capital programme. Full indicators will be included when the report is considered by Council in February.**

## 6. Ernst & Young - Audit Plan (Pages 33 - 40)

2.40pm

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

- External Audit Progress Report

## 7. **Constitution Review** (Pages 41 - 44)

3.00pm

Report from the Director of Law and Governance and Chief Monitoring Officer.

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.

This report therefore asks the Audit & Governance Committee to consider the changes that will need to be notified and considered by Full Council in March 2018.

The issues are:

- A legal update of the Constitution to clarify the process on the re-election of a leader of the council, to comply with the Local Government Act 2000, for endorsement
- A summary of changes made by the Monitoring Officer in year for the reasons in paragraph 1 above, for noting.

**The Committee is RECOMMENDED to:**

- a) **endorse the proposed change to the Part 2, Article 6 ('The Cabinet') set out in paragraph 5 of this report;**
- b) **recommend the adoption of the change in (1) to Full Council; and**
- c) **note the changes made to the Constitution by the Monitoring Officer under delegated powers since the last annual Constitution Review report to Council (as outlined in Annex 1).**

## 8. **General Data Protection Regulations** (Pages 45 - 50)

3.20pm

Report from the Director for Law and Governance and Monitoring Officer

On 25 May 2018 the European Union General Data Protection Regulation (GDPR) will come into effect and will replace the Data Protection Act 1998 (DPA). Despite leaving the EU in 2019 the UK will still adopt the GDPR.

The aim of the GDPR is to protect all EU citizens from privacy and data breaches in an increasingly data-driven world that is vastly different from the time in which the Data Protection Act came into force in 1998. Although the key principles of data privacy still hold true, the new regulation reflects advances in technology, and represents a step increase in responsibilities for safeguarding personal data, and maintaining audit trails of what has been done with personal information, when it was done and why.

The report provides a high-level overview of the changes in the GDPR, the actions planned to implement and progress against those plans.

**The Committee is RECOMMENDED to**

- a) **note the contents of the report; and**
- b) **advise of areas of concern.**

## **9. Internal Audit Plan - Progress Report (Pages 51 - 86)**

3.50pm

Report from the Director of Finance.

This report presents the Internal Audit progress report for 2017/18.

**The committee is RECOMMENDED to note the progress with the 17/18 Internal Audit Plan and 17/18 Counter Fraud Plan and the outcome of the completed audits.**

## **10. Audit Working Group Report (Pages 87 - 88)**

4.10pm

This report presents the matters considered by the Audit Working Group Meeting of 6 December 2017.

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

## **11. Work Programme (Pages 89 - 90)**

4.20pm

To review the Committee's Work Programme.

**Close of meeting**

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

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## AUDIT & GOVERNANCE COMMITTEE

**MINUTES** of the meeting held on Wednesday, 8 November 2017 commencing at 2.00 pm and finishing at 5.15 pm

**Present:**

**Voting Members:** Councillor Nick Carter – in the Chair

Councillor Tony Ilott (Deputy Chairman)  
Councillor Paul Buckley  
Councillor Ian Corkin  
Councillor Helen Evans  
Councillor Charles Mathew  
Councillor D. McIlveen  
Councillor Les Sibley  
Councillor Roz Smith

**Non-Voting Members:** Dr Geoff Jones

**By Invitation:** Paul King, David Guest and Ruth Plucknett, Ernst & Young

**Officers:**

Whole of meeting Nick Graham, Director of Law and Governance and Monitoring Officer; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Colm O Caomhánaigh, Committee Officer.

Part of meeting

<b>Agenda Item</b>	<b>Officer Attending</b>
5	Owen Jenkins, Director of Infrastructure Delivery
6	Fiona Percival, Strategic HR Manager; Mark Hopping, Programme Manager
8	Joseph Turner, Financial Manager (Treasury)
9	Graham Shaw, Director of Customer Experience

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

### **59/17 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS**

(Agenda No. 1)

There were no apologies for absence.

## **60/17 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE**

(Agenda No. 2)

There were no declarations of interest.

## **61/17 MINUTES**

(Agenda No. 3)

The minutes of the meeting on 6 September 2017 were agreed and signed subject to the following correction:

Item 51/17 in the second paragraph, delete the final word of the first sentence "homes" and replace with "agencies".

In response to a question from Councillor Roz Smith it was confirmed that no further changes were made to the Statement of Accounts 2016/17 following the last meeting.

## **62/17 PERFORMANCE OF HIGHWAYS PARTNERSHIP CONTRACT**

(Agenda No. 5)

Mr Jenkins introduced the report and drew attention to some key points. The original contract was for 10 years and each year an extension of one year is considered depending on Strategic Performance Indicators (SPIs). So far, three extensions have been added while four were not. The main concern currently surrounds SPI9 and it has been agreed that future extensions would be dependent on complete and successful implementation of the IT system SkanWorks.

Officers responded to issues raised by Members as follows:

- The problems with SkanWorks mean that the Council has to spend more time checking work manually. It is expected that the problems will be resolved by the end of March 2018 – if not their profits will be heavily penalised.
- The red rating on SPI9 and the amber rating on SPI1 are the primary reasons why a contract extension was not awarded this year.
- The data on which OPIs are measured is checked monthly and audited.
- The contract was drawn up at a time when sufficient money was being invested to improve road conditions. Since then budget cuts have meant that the goal has changed to managing a decline in conditions.
- The targets are set taking into account the amount of money invested.
- Any amendments to the contract need to be agreed by Cabinet. Smaller changes would be a performance scrutiny issue.
- HSEQ on page 15 of the Agenda stands for Health, Safety, Environment and Quality.
- A business case has been drawn up for the construction of salt barns. It is expected the £4m investment will be offset by savings over a few years.
- The 28% figure in SPI1 relates to the percentage of A and B roads that are not in an acceptable condition. The current figure of 32.66% is in line with the national average.



- Regarding the use of recycled plastic in road surfacing, the Council is not involved in trials but is monitoring developments. Currently tar bound material is recycled into new surfaces.
- There is nothing in the contract regarding pay rates but given the current difficulties in hiring, pay rates have to be reasonable.
- Complaints from the public are monitored and Skanska must conduct letter drops to residents for feedback.
- Asked why the Finance OPI had declined over the first five months of this year and if the variations in the OPI graph shown on page 16 of the Agenda are seasonal, Mr Jenkins responded that he did not have the information to hand and would circulate it to Members after the meeting.

Members also commented that the report contained a lot of good news and in particularly complimented the performance of and savings made by the 'dragon patcher'.

**RESOLVED: to**

- a) note the contents of the report; and**
- b) advise of areas of operational concern to help inform performance measures for 2018/19.**

**63/17 PRESENTATION ON THE CUSTOMER SERVICE IMPROVEMENT PROGRAMME**

(Agenda No. 6)

Mr Dyson gave a presentation on the Customer Service Improvement Programme. He described how staff using IBC as part of their feedback are asked to give one word to describe the service. A year ago, the resultant word cloud was dominated by negative words whereas now they are mostly positive. There are still some negatives to be addressed.

Members asked if future reports or presentations could include the word clouds and also dashboards giving information on all aspects of improvement.

Officers responded to issues raised by Members as follows:

- The structure of HR information is very inflexible especially when changes are needed. This sometimes results in wrong cost centres being identified.
- Officers do not believe that the Council made the wrong decision in buying in to IBC. The system is improving. Some of the problems were as a result of deficiencies on the Council's own part.
- Apart from advertising positions available, the Council has attended recruitment events, especially in relation to care staff. Events in libraries to assist people in applying for jobs are also planned.

Mr Dyson stated that the financial aspects will be on the agenda for the December meeting of the Audit Working Group.

## **64/17 EXTERNAL AUDITORS**

(Agenda No. 7)

Mr King explained that the letter was a PSAA requirement at the end of the annual audit and was essentially a high-level summary of the audit, the detail of which was included in the Audit Results Report which was presented to the Committee in September. The auditors are working with Council Officers to ensure that next year's audit will be completed for the earlier completion deadline at the end of July.

Mr King and Council Officers responded to questions from Members on the following issues:

- The different views on the service concessions referred to on pages 31 and 32 of the agenda do not currently have a material impact. The Council will consider the auditor's views in relation to the 2017/18 accounts.
- The earlier deadline will not result in an increase in fees, which are set by PSAA and are unchanged for 2017/18. Under the new auditor arrangements with PSAA, scale fees are expected to reduce by about 18% in 2018/19.
- The auditors do not believe that the objections being dealt with, which prevent the formal conclusion of the 2015/16 and 2016/17 accounts, will impact on the Council's reputation.
- The differences on valuations of property, plant and equipment are not unusual. This issue has been a significant focus for auditor regulators. Codes of accounting practice are followed but the Council is reviewing the process.

On hearing that Ms Skivington is leaving the Council, Members thanked her for her excellent work on the accounts and wished her well in the future.

**RESOLVED: to note the report.**

## **65/17 TREASURY MANAGEMENT MID TERM REVIEW 2017/18**

(Agenda No. 8)

Mr Turner presented the report. The Council's cumulative total external debt decreased by £6m between April and September. No new debt financing has been arranged during this year.

Mr Turner responded to Members' questions as follows:

- It is expected that Brexit will mean more expensive borrowing and that credit ratings will suffer.
- Most of the Council's borrowing is at fixed rates so the recent interest rate rise will not have much impact. In fact, there is likely to be a benefit from variable rate investments.
- Information on the weighted average maturity of the Council debt portfolio and ethical investment strategy will be provided to Members after the meeting.

**RESOLVED: to note the report.**

## 66/17 CYBERSECURITY

(Agenda No. 9)

At the request of the Chairman, Mr Shaw gave a presentation on the latest situation regarding Cybersecurity with a view to the Committee receiving a full report at a later meeting. The presentation also covered the European General Data Protection Regulations (GDPR) which come into effect in May 2018 - regardless of Brexit.

Mr Shaw and Mr Graham responded to questions from Members as follows:

- The Council benefits from support from the government's National Cyber Security Centre.
- The security of data is becoming even more important as the Council operates more and more online. It's an important issue in contracts with suppliers and partners.
- The coming GDPR requires a big project plan including the Council's contractors. The new regulations will include very substantial fines.
- Councillors have responsibility for their own data in regard to their local role.

## 67/17 AUDIT WORKING GROUP REPORT

(Agenda No. 10)

Ms Cox presented the report. The group discussed the three red audit reports and will come back to them at the February and April AWG meetings.

Training will be provided to Members on risk management immediately before either the January or March Committee meeting.

**RESOLVED: to note the report as circulated in the addenda.**

## 68/17 WORK PROGRAMME

(Agenda No. 11)

The Chairman encouraged Members to suggest items for the work programme.

The Committee agreed the following changes:

For 10 January 2018:

Change "Cyber Security" to "General Data Protection Regulations"

For 7 March 2018:

Add "Local Code of Corporate Governance"

The question of whether the Transformation Update will come to the January or March meeting will be kept under review by the Chairman.

..... in the Chair

Date of signing

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Division(s): N/A

## **AUDIT & GOVERNANCE COMMITTEE – 10 JANUARY 2018**

### **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/19**

**Report by the Director of Finance**

#### **Executive Summary**

1. The Treasury Management Strategy Statement, which incorporates the Annual Investment Strategy for 2018/19, complies with the requirements of relevant legislation, codes of practice and guidance. CIPFA consulted on changes to the Code of Practice in 2017, but has yet to publish a revised Code.
2. The Council is required to approve Prudential Indicators for 2018/19, 2019/20 and 2020/21. 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 13 February 2018.
3. The strategy for financing prudential borrowing during 2018/19 maintains the option to use temporary internal balances.
4. The Annual Investment Strategy for 2018/19 is based on an average base rate of 0.63% and assumes an average in-house return of 0.70%. The average cash balance for 2018/19 is forecast to be £333.0m, including externally managed funds. Due to the early timing of the report, forecast cash balances and the average in house rate of return represent an initial position based on information available to date. Work to further improve the accuracy of these forecasts is continuing alongside the preparation of the 2018/19 budget and should this create a materially different position then updated figures will be reported to Cabinet on 23 January.
5. The lists of proposed specified and non-specified investment instruments are set out in full in Appendices B and C respectively. The maximum maturity and duration limits for counterparties are currently determined by matrices based on Fitch credit ratings. The matrices proposed for 2018/19 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 65 to 80.
6. 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.
7. 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.

8. 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.
9. 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 2018/19**

### **Background**

10. 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.
11. 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.
12. 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."
13. The proposed strategy for 2018/19 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)<sup>1</sup>, 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;

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<sup>1</sup>Comprising the Director of Finance, Service Manager (Pensions), Strategic Finance Manager (Treasury & Banking) and Financial Manager (Treasury Management).

- Treasury Management Prudential Indicators for 2018/19, 2019/20 and 2020/21;
  - the current treasury position;
  - prospects for interest rates;
  - the borrowing strategy;
  - the borrowing requirement and
  - the Annual Investment Strategy.
14. 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 2018/19 to 2020/21**

15. 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.
16. The Authorised Borrowing Limit requires the Council to ensure that total capital investment remains within sustainable limits and that the impact upon future council tax levels is 'acceptable'.
17. 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 2018/19 to 2020/21**

18. 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).

19. 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

20. 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 2017/18 and the Treasury Management Mid-Term Review 2018/19, which will be considered in July and November 2018 respectively.

### Forecast Treasury Portfolio Position

21. The Council's treasury forecast portfolio position for the 2018/19 financial year comprises:

	<b>Principal £m</b>	<b>Average Rate %</b>
<b>Opening External Debt Balance</b>		
PWLB	317.383	4.358
LOBO	45	3.943
Money Market Loans	5	3.950
<b>TOTAL EXTERNAL DEBT</b>		
<u>2018/19 Average Cash Balance</u>		
Average In-House Cash	264.349	
Average Externally Managed	68.651	
<b>TOTAL INVESTMENTS</b>	<b>333.000</b>	

22. The average forecast cash balance for 2018/19 is comprised of the following:

	Average Balance £m
Earmarked Reserves	62.000
Capital and Developer Contributions	189.397
General Balances	17.600
Cashflow and Working Capital Adjustments	47.353



Provisions and Deferred Income	13.650
TOTAL	333.000

## Prospects for Interest Rates

### *Economic Background – Provided by Arlingclose*

23. The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.
24. In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

### *Credit outlook – Provided by Arlingclose:*

25. High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.
26. 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. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.
27. 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 remain very low.

### *Interest rate forecast – Provided by Arlingclose:*

28. The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

29. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

### *Treasury Management Strategy Team's View*

30. 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 2018/19 and over the medium term. TMST forecast a 25 bps rise in the UK Bank Rate during 2018/19 on the basis that UK inflation will continue to overshoot the Bank of England's target, a position supported by the Bank of England's November 2017 Inflation Report. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2018/19 0.63% (increase from 0.50% to 0.75% in October 2018)
- 2019/20 0.88% (increase from 0.75% to 1.00% in October 2019)
- 2020/21 1.00%
- 2021/22 1.00%

31. 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 0.75% in 2018/19, reducing to 2.5 basis points above the forecast average base rate for 2019/20 and 5 basis points below the forecast average base rate for 2020/21 and 2021/22. These rates have been incorporated into the strategic measures budget estimates:

- 2018/19 0.70%
- 2019/20 0.88%
- 2020/21 1.00%
- 2021/22 1.00%

## **Borrowing Strategy**

### *Arlingclose's View*

32. 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 1.70%, increasing gradually to 1.950% by December 2020.
  - The 20 year gilt yield is expected to start the financial year at 1.85%, rising to 1.93% by the end of the forecast in December 2020.

- The 10 year gilt yield is expected to start the financial year at 1.25%, rising to 1.36% by December 2020.
  - The 5 year gilt yield is expected to start the financial year at 0.75% and to reach 0.89% by December 2020.
33. Arlingclose's forecasts have an upside variation range of between 25 and 40 basis points, and a downside variation range of between 25 and 50 basis points depending on the economic and political climate.

### *Treasury Management Strategy Team's View*

34. It is expected that the Bank Rate will increase by 25 basis points to 0.75% during 2018/19 and that there will continue to be a high "cost of carry<sup>2</sup>" 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.
35. 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.
36. 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 its successor) and market rates exceed those currently available. This could result in higher financing costs over the long term.
37. 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.
38. 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 £50m 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.
39. If market conditions change during the 2018/19 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.

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

40. As the Accountable Body for OxLEP Ltd, the Oxfordshire Local Enterprise Partnership, the Council will be required to prudentially borrow £42m on behalf of OxLEP for project funding from 2018/19 onwards. 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 2017/18 if it is determined to be cost-effective. This is consistent with the expectation that interest rates and Gilt yields will continue to rise over the period.
41. The Council will be able to apply for the new Local Infrastructure Rate, at a discounted interest rate of gilts + 60 basis points. The borrowing on behalf of OxLEP may be eligible as the schemes are all major infrastructure schemes. In 2017/18, OxLEP were able to borrow through the Public Work Loan Board (PWLB) project rate at a discounted rate 40 basis point below the standard rate across all loan types and maturities. As at 30 November 2017 this had not been required.
42. 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.
43. 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*

44. 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.
45. 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.

46. 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.
47. 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 40.
48. 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.
49. The Council's external debt is forecast to exceed the CFR in 2017/18. In 2018/19, 2019/20 and 2020/21, external debt will fall below the expected CFR, resulting in an internal borrowing requirement.

### *Borrowing Instruments*

50. The TMST's forecast for the period 2018/19 – 2021/22 for 20 and 50 year PWLB rates over the medium term are an average rate of 2.26% and 2.19% per year respectively.
51. 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 2017 to 31 October 2018.
52. An annual application will be made to renew eligibility for the Certainty Rate, in order to maintain the option should it be required.
53. 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 2018/19. As at 30 November 2017, LOBOs represent 12.05% of the total external debt.
54. The Council has four £5m LOBO's with call options in 2018/19, three of which have two call options in year, whilst one has 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**

55. 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
56. 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.
57. 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 D. Cabinet is recommended to recommend Council to approve the Treasury Management Policy Statement.

### *Investment Instruments*

58. Investment instruments identified for use in the 2018/19 financial year are set out at Appendices B and C under the 'Specified' and 'Non-Specified' Investment categories.
59. 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.
60. 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.
61. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.

62. 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.
63. A maximum of 50% of the portfolio will be held in non-specified investments.

### **Changes to Instruments**

64. There are no proposed changes to instruments for 2018/19

### ***Credit Quality***

65. 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.
66. 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 77 and 78 respectively.
67. 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.
68. 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.
69. 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 77 and 78), that counterparty will be immediately removed from the lending list.
70. 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.
71. 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***

72. 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*

73. 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.

74. 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 77 and 78 will still apply.

75. Counterparty limits as set out in paragraphs 77 and 78, 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.

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

77. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2018/19. 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 Long Term Rating	Short 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

78. 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**

79. 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**

80. As at 30 November 2017, 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**

81. As at 30 November 2017, the Council had £57.3m invested in external funds (excluding MMFs), representing 14% 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.
82. 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.
83. In order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.
84. The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns.
85. 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**

86. 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 2018/19.
87. The weighted average maturity (WAM) of in-house deposits as at 30 November 2017 was 232 days. This was made up of £47.1m of instant access balances with a maturity of 1 day, and £339.8m of deposits with a WAM of 264 days.
88. The in-house WAM has increased from 210 days, reported on 30 November 2016. The small increase in WAM is mainly due to a higher investment balance on the 30 November 2017 than on the same day in 2016 meaning a larger proportion of the portfolio could be committed long term while still ensuring sufficient liquidity.
89. With continued uncertainty over the timing of further rises in the 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, while also enabling the

Treasury Management team to respond to any increases in interest rates in the short-term.

90. 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.
91. 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**

92. 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.
93. 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.
94. 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.
95. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2018/19. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

### **Performance Monitoring**

96. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.
97. 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.
98. 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.
99. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2017/18, and the Treasury Management Mid-Term Review 2018/19, which will be considered in July and November 2018 respectively.

### **Investment Training**

100. 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.
101. The Council has opted up to 'professional client' categorisation with under the second Markets in Financial Instruments Directive (MiFID II). In order to achieve this, evidence was required that the person(s) authorised to make investment decisions on behalf of the authority have at least one year's relevant professional experience and the expertise and knowledge to make investment decisions and understand the risks involved. Members of the TMST currently meet these criteria and training needs will be regularly monitored and reviewed to ensure continued compliance.

### **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 2017.

### **RECOMMENDATIONS as part of Cabinet Report**

103. When the report is considered by Cabinet on 23 January it will be  
RECOMMENDED to RECOMMEND to Council to:
  - a) approve the Prudential Indicators for 2018/19, 2019/20 and 2020/21 as set out in Appendix A;
  - b) approve the Treasury Management Strategy Statement & Annual Investment Strategy 2018/19;

- c) continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;
- d) approve the continued delegation of changes required to the Annual Treasury Management Strategy Statement & Annual Investment Strategy to the Director of Finance in consultation with the Leader of the Council and Cabinet Member for Finance;
- e) approve the Draft Treasury Management Policy Statement as set out at Appendix D.

## **RECOMMENDATIONS**

### **104. The Committee is RECOMMENDED to:**

- a) **endorse the Treasury Management Strategy for 2018/19 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 2018 capital programme. Full indicators will be included when the report is considered by Council in February.**

**LORNA BAXTER**  
Director of Finance

Contact officer:  
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January 2018

## Appendix A

### Prudential Indicators 2018/19, 2019/20 and 2020/21

Indicators i to vi will only be available on finalisation of the 2019 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.

<b>Total External Debt as at 31.03.17</b>	<b>£m</b>
External Borrowing	385.383
Financing Liability	23.989
<b>Total</b>	<b>409.372</b>

#### 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.

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
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The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.
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#### 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:

	2017/18	2018/19	2019/20	2020/21
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.

<b>Maturity structure of fixed rate borrowing during 2018/19</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>
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:**

	2017/18	2018/19	2019/20	2020/21
Net principal re fixed rate borrowing / investments	£350m	£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:**

	2017/18	2018/19	2019/20	2020/21
Net principal re variable rate borrowing / investments	£0	£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 to maintain the upper limit at £85m in 2018/19 before reducing the limit to £65m in 2019/20 and 2020/21. This is to reflect the forecast reduction to in-house cash balances over the period.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Upper limit on principal sums invested longer than 364 days	85	85	65	65



**Specified Investments**

<b>Investment Instrument</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	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	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes <sup>3</sup>	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	N/A	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

<sup>3</sup> 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

<b>Investment Instrument</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total Investments</b>	<b>Max Maturity Period</b>
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	N/A	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	25 years

<b>Investment Instrument</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total Investments</b>	<b>Max Maturity Period</b>
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
Collective Investment Schemes <sup>4</sup> 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	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	20 years
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.

<sup>4</sup> Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

## **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 Director of Finance, who will act in accordance with this Policy Statement, Treasury Management Practices and CIPFA’s Standard of Professional Practice on Treasury Management.

8. The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
9. Council will receive reports on treasury management policies, practices and activities including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

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# Oxfordshire County Council

Audit and Governance Committee

External Audit Progress Report

December 2017





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Audit and Governance Committee  
Oxfordshire County Council  
County Hall  
New Road  
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19 December 2017

Dear Committee Members

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2017/18 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the Audit Plan or the Audit Results Report.

Our audit is undertaken 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.

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

Yours faithfully

Paul King  
Associate Partner  
For and behalf of Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance 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.

## 2017/18 audit

### Planning

We are currently carrying out our planning procedures on the 2017/18 audit and intend to present our 2017/18 Audit Plan to the Audit and Governance Committee in March 2018. Thereafter we will keep the plan under review and will inform you of any changes to our risk assessments and planned work.

### Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we continue to meet key officers regularly to ensure the 2017/18 audit runs as smoothly as possible and identify any risks at the earliest opportunity. This includes meetings with staff to discuss issues arising from the 2016/17 audit and to examine ways to enhance the audit process for the 2017/18 accounts as well as continuing discussions with officers on key technical accounting issues.

### Interim visit

#### Systems

We undertook our interim work to identify the Council's material income and expenditure systems and to walk through these systems in December 2017. These walkthroughs cover both the elements carried out by the Integrated Business Centre in Hampshire and the elements carried out by Oxfordshire County Council. There are no issues arising from this work.

#### Early Substantive Testing

We have also carried out early substantive testing in December 2017 on key items of income and expenditure at that point in the year. There are no issues arising from this work.

We have a further audit visit planned in March to carry out more extensive early substantive procedures which will include further tests of income and expenditure, as well as testing on payroll and on property, plant and equipment. It is our intention to bring as much testing as possible forward to this visit in order to reduce the amount of testing required after the year end and facilitate the earlier close timetable.

In addition to the above work we have communicated our year-end working paper requirements to key officers. To ensure a smooth delivery of the year end we will continue to have regular meetings with key officers as part of our ongoing audit process.

### Value for money

The Comptroller and Auditor General (C&AG) issued Auditor Guidance Note 3 (AGN 03) – Auditors' work on VFM arrangements. We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in the use of resources.

For 2017/18 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.

Our work on the value for money conclusion is ongoing.

### **Other areas of work completed – Teachers’ Pensions**

Since the last Audit and Governance Committee we have completed our work on the Council’s Teachers’ Pension return for 2016/17.

This identified one minor finding reconciling the teachers and employers contributions back to the system (£89 and £489 respectively). The Council will correct these in 2017/18.

### **Audit and Governance Committee**

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

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2017/18 Audit and Governance Committee cycle.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit and Governance Committee timetable</b>	<b>Deliverables</b>
High level planning, risk assessment and setting of scopes	November 2017- January 2018	March 2018	Audit Plan
Testing routine processes and controls and early substantive testing	December 2017 – March 2018	April 2018	Progress report
Year-end audit	June – July 2018		
Completion of audit	July 2018	July 2018	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and our value for money conclusion). Reporting to the NAO on the Whole of Government Accounts return. Audit completion certificate
Conclusion of reporting	July- August 2018	September 2018	Annual Audit Letter

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## Ernst & Young LLP

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Division(s):

## AUDIT & GOVERNANCE COMMITTEE – 10 JANUARY 2018

### CONSTITUTION REVIEW

Report by the Director of Law and Governance 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 asks the Audit & Governance Committee to consider the changes that will need to be notified and considered by Full Council in March 2018.
4. The issues are:
  - A legal update of the Constitution to clarify the process on the re-election of a leader of the council, to comply with the Local Government Act 2000, *for endorsement*
  - A summary of changes made by the Monitoring Officer in year for the reasons in paragraph 1 above, *for noting*

#### Potential change – Council approval needed

##### *Re-election of a leader of the Council*

5. The Constitution (Part 2, Article 6) contains provisions for the election, resignation and removal of any person appointed as the leader of the Council. This complies with the Local Government Act 2000 Section 9I and 9IA. To make the provisions fully compliant with the Act, there needs to be a more specific reference to the process for *re-electing* a leader where a vacancy in that office has occurred. Article 6 sets out the circumstances (listed as “(a) to (d)” in the Act) in which a vacancy would occur (e.g. resignation, ceasing to be a councillor, suspension as a councillor, removal from office). It is suggested

that the following additional wording, to comply with Section 9I, be inserted in paragraph 3 of Article 6 immediately after the circumstances in which a vacancy occurs:

*“In the event that the circumstances in (a) to (d) above occur to create a vacancy in the office of leader of the council, an election to fill the vacancy will be taken at the next ordinary meeting of the Council or at an extraordinary meeting of the Council. In the case of (d) [removal from office by resolution of the Council] the election to fill the vacancy should occur, where possible, at the same meeting at which the resolution removing the leader is passed. The newly elected leader will remain in office for the remaining term of the Council subject to paragraphs 3(a) to (d).”*

6. The Committee is asked to endorse this change and recommend its adoption by Full Council.

### **Consequential amendments made in year**

7. The Annex to this report summarises the changes that have been made since the last Constitution Review that were consequential from decisions of the Council or were otherwise required under the Monitoring Officer’s delegated powers to keep the Constitution up to date.
8. The Committee is asked to note these changes.

### **Legal and procedural implications**

9. The legal requirement for the change suggested in paragraph 5 above is contained within the Local Government Act 2000 Section 9I(a). The procedural authority for the changes suggested in paragraph 7 are contained within the Council’s Constitution (Part 2, Article 1, paragraph 5.2).

### **RECOMMENDATION**

10. **The Committee is RECOMMENDED to:**
  - a) **endorse the proposed change to the Part 2, Article 6 (‘The Cabinet’) set out in paragraph 5 of this report;**
  - b) **recommend the adoption of the change in (1) to Full Council; and**
  - c) **note the changes made to the Constitution by the Monitoring Officer under delegated powers since the last annual Constitution Review report to Council (as outlined in Annex 1).**



## Constitution Review

### Amendments made during the year under delegated authority

#### Consequential amendments during since March 2017

##### Changes consequent on the Annual Meeting (16 May 2017):

**Part 2, Article 6:** Cabinet appointments

**Part 2, Article 13:** Officers (senior managers – consequent on adoption of the Scheme of Delegation)

**Part 5.1:** Membership of committees and sub-committees

**Part 7.2:** Scheme of Delegation

##### Changes to sub-delegation made by Remuneration Committee (28 September 2017):

**Part 2, Article 11:** Pension Benefits Sub-Committee – sub-delegation amended to reflect that the Sub-Committee will determine early retirement cases only where the Council has discretion e.g. ill health retirement.

**Part 2, Article 11:** addition of a new paragraph 6 to reflect that the Remuneration Committee delegates consideration and approval or all other early retirement cases (save those delegated to Pension Benefits Sub Committee) to council directors with concurrence from the Strategic HR Manager.

**Part 2, Article 11:** addition of a new paragraph 7 to reflect that the Remuneration Committee wishes to receive a report each quarter on all redundancies and early retirements including associated costs.

##### Change consequent on 11 July 2017 Full Council (Minute 146/17)

###### **Part 3.1: Council Procedure Rules**

Addition of new paragraph to the Council Procedure Rules to reflect an arrangement of reciprocity for City/District and County Councillors in addressing meetings of each other's Councils. As follows:

New Section 10 New Part 4

10.4

- (i) City and District Councillors be given their own speaking slot at meetings of the County Council's Planning & Regulation Committee at the discretion of the Chairman of the Committee and normally only where County Councillors enjoyed a similar privilege at District and City planning meetings.
  
- (ii) Where that reciprocal arrangement was not in place then District and City Councillors would retain the right to apply alongside other members of the public.

**END**

## AUDIT & GOVERNANCE COMMITTEE – 10 January 2018

### Implementation of General Data Protection Regulations

#### Report by Director of Law & Governance

#### Introduction

1. On 25 May 2018 the European Union General Data Protection Regulation (GDPR) will come into effect and will replace the Data Protection Act 1998 (DPA). Despite leaving the EU in 2019 the UK will still adopt the GDPR.
2. This report provides a high-level overview of the changes in the GDPR, the actions planned to implement and progress against those plans.

#### Background

3. The aim of the GDPR is to protect all EU citizens from privacy and data breaches in an increasingly data-driven world that is vastly different from the time in which the Data Protection Act came into force in 1998. Although the key principles of data privacy still hold true, the new regulation reflects advances in technology, and represents a step increase in responsibilities for safeguarding personal data, and maintaining audit trails of what has been done with personal information, when it was done and why.
4. The main changes are as follows:
5. Consent: The conditions for consent have been strengthened, and organisations will no longer be able to use long illegible terms and conditions full of legalese. The request for consent must use clear and plain language, and be distinguishable from other matters. It must be as easy to withdraw consent as it is to give it.
6. The default age at which a person is no longer considered a child is 16, but GDPR allows member states to adjust that limit to anywhere between 13 and 16. Data controllers therefore must know the age of consent and cannot seek consent from anyone under that age. Instead, they must obtain consent from a person holding parental responsibility. They must also make “reasonable efforts” to verify that the person providing that consent is indeed a parental figure
7. Breach Notification: Breach notification is mandatory where a data breach is likely to “result in a risk for the rights and freedoms of individuals”. This must be done within 72 hours of first having become aware of the breach.
8. Right to Access: Part of the expanded rights of data subjects outlined by the GDPR is the right for data subjects to obtain from the data controller confirmation as to whether or not personal data concerning them is being processed, where and for what purpose.

9. Right to be Forgotten: Also known as Data Erasure, the right to be forgotten entitles the data subject to have their personal data erased, cease further dissemination of the data, and potentially have third parties halt processing of the data. The conditions for erasure include the data no longer being relevant to original purposes for processing, or a data subjects withdrawing consent. The exception to this right is if the personal data belonging to the data subject is related to the delivery of a statutory service.
10. Data Portability: Data portability is the right for a data subject to receive the personal data concerning them, which they have previously provided, in a “commonly use and machine readable format” and have the right to transmit that data to another controller.
11. Privacy by Design: Privacy by design requires the inclusion of data protection from the onset of the design of systems or process, rather than as an addition; i.e. think about data protection at the beginning and throughout the design process. Organisations should only process the data that is necessary for the completion of its duties, as well as limiting the access to personal data to those needing to act out the processing.
12. Penalties: Under GDPR organisations in breach of GDPR can be fined up to 4% of annual global turnover or €20 Million (whichever is greater). This is the maximum fine that can be imposed for the most serious infringements, e.g. not having sufficient customer consent to process data or violating the core of Privacy by Design concepts. There is a tiered approach to fines, e.g. an organisation can be fined 2% for not having their records in order, not notifying the supervising authority and data subject about a breach or not conducting an impact assessment.
13. Data Protection Officers: It is mandatory to appoint a Data Protection Officer.
14. Increased Territorial Scope: The extended jurisdiction of the GDPR mean that it applies to all organisations processing the personal data of data subjects residing in the Union, regardless of the organisation’s location.
15. The implementation of the GDPR at Oxfordshire County Council is being coordinated centrally, but privacy and data protection will be everyone’s responsibility. Support will be given to staff through a range of tools, including guidance, toolkits, templates and training, in order to help them engage with the changes and implement them in their service areas
16. The Information Commissioner’s Office (ICO) published guidance - “Preparing for the General Data Protection Regulations (GDPR) 12 steps to take now” – has been used as the basis for the implementation plan and this report.

## **Preparation for the General Data Protection Regulations – ICO guidelines**

17. Below are the ICO guidelines used as the basis for the implementation plan and the current progress against each one.

## **Awareness**

18. CLT have been briefed and agreed to provide their support.
19. Two half day key stakeholder workshops were held on 14<sup>th</sup> November; this was aimed at service manager level. The workshop covered the fundamentals of the GDPR; the plan for implementation and progress against the plan as well as workshops covering Privacy notices and Consent, and Security Incidents.
20. There was a GDPR stand at the staff conference. Materials were prepared covering the ICO 12 steps, individual rights, consent, privacy notices and privacy by design as well as a GDPR quiz, a 'guess the ICO fine' competition and a countdown clock showing how many days, hours and minutes until 25<sup>th</sup> May 2018.
21. Members training will be held in February 2018.
22. A series of monthly GDPR intranet headlines starting in May 2017 up to May 2018; each with a different GDPR related subject.
23. Regular posting on the GDPR Yammer group.
24. A series of site surgeries were held at Speedwell, Abbey House, Samuelson House, Knights Court, County Hall, Mount House and Nash Court between 20<sup>th</sup> November and 7<sup>th</sup> December. The materials produced for the staff conference were also distributed at the site surgeries.
25. Following the stakeholder workshop and site surgeries there are a series of targeted briefings to individual teams; these briefings cover the basics but are also tailored to each team.
26. The data protection e-learning course is being revamped and will include GDPR updates. The plan is to launch this at the end of January/beginning of February and for it to be mandatory for all staff. It will be modular so that there will be sections that everyone has to complete and other more specific e.g. consent that only certain groups of staff will need to complete.
27. There will be a set of Information Security videos coming out in January; one of these will be GDPR specific.
28. A GDPR toolkit is being devised and content released as it is available; this will eventually replace some of the Information Management intranet content.

## **Information you hold**

29. The identification of all business information, however it is held, is being gathered and recorded in the Information Asset Registers for all service areas. These registers will identify all the information we hold across the council and some of the information about that asset e.g. how and where it is shared, what records retention is applied, what consent is sort, what format it is e.g. database, excel etc, what types of information is held in the asset.

30. There are approximately 55 interviews in total. Once each one is complete it is analysed to identify areas of concern e.g. no sharing agreement, no consent etc. and marked for action. The aim is for all Information Asset Registers to be complete by the end of January 2018
31. Once a group of registers are complete for a service area an action plan will be developed to address the areas of concern and to create a data map and information process map for that service area. Following this the security of processing and legality of processing will be assessed, and changes made as needed.
32. It is also intended for these to be used to identify information for individual rights post go-live.

#### **Communicating privacy information**

33. A standard privacy notice has been created. It has been designed to contain all that is needed but to be generic and not service specific. The reasoning behind this is that we will have one privacy notice on the website that can be used by all services rather than different privacy notices with different wording which could cause confusion. It will also mean that if it needs to be changed we only have to change in one place.

#### **Individuals' rights**

34. As previously stated we will use the Information Asset Registers to identify where we hold personal data.
35. The work to create the processes for data portability, data correction and the right to be forgotten has started.

#### **Subject access requests**

36. The Subject Access Request process has been revised to account for the reduced time period of 30 days.

#### **Lawful basis for processing personal data**

37. The privacy notice includes the lawful basis for processing data.
38. The processing of data by the council and on the council's behalf will be audited and assessed for legality.

#### **Consent**

39. The consent processes and notices are being reviewed.
40. The design of the process and system to collect and record consent is in progress.

#### **Children**

41. This is included in the other consent work.

#### **Data breaches**

42. The security breach procedure has been revised to reduce the timings for initial breach reports to be returned to the Information Management team within 1 working

day. The Information Management team will assess whether this should be passed onto legal for consideration of reporting the breach to the ICO.

43. The new procedure went live on the 8<sup>th</sup> September to allow time for it to be refined if needed before May 2018.

#### **Data Protection by Design and Data Protection Impact Assessments**

44. The digital platform team and the Project Management Office have been made aware of the requirements for Privacy by Design for any new systems or processes.
45. Privacy by Design was discussed at the stakeholder workshop, site surgeries and team specific briefings.
46. Privacy by Design guidance will be included in the GDPR toolkit.
47. Data Protection Impact Assessment templates and guidance have been produced and are being used.

#### **Data Protection Officers**

48. The Data Protection Officer role will be allocated to an individual within the council.

#### **International**

49. We do not have to do anything with this requirement.

#### **Other Work**

50. All Information Governance/Management policies are being reviewed to include relevant GDPR content. The opportunity is being taken to consolidate policies where relevant.
51. All providers and suppliers are being contacted to request evidence of their compliance with GDPR, and a variation to contract applied where appropriate.
52. Information Governance requirements for tenders and contracts is being revised
53. Information Management Risk Assessments have been revised to include GDPR

#### **Issues**

54. Information from the ICO is still being released; therefore, some assumptions have to be made until the information from the ICO is clearer. This issue is being mitigated by gathering information and advice through networking with other local authorities and partner organisations, attending conferences, engaging with webinars and attending workshops.
55. At this stage it is not known what the impact of the new regulations will be post go-live. There is the potential for an increase in demand regarding the new and enhanced individual rights that may result in the need for additional resource to be allocated to managing the requests.

56. With the hard deadline and a lot of work to be done there is a possibility we may not be fully compliant by 25 May 2018. However, there is an action plan in place to deliver by May and progress is being made to the expected deadlines.

## **Summary**

57. Good progress has been made in some areas but there is still a lot of work to do.

58. This is a good opportunity to review the council's policies, processes, consent and sharing agreements, and data management; and renew and consolidate where appropriate. The result will be a more streamlined and transparent governance of data within the organisation.

## **RECOMMENDATION**

**59. The Committee is RECOMMENDED to**

- a) note the contents of the report; and**
- b) advise of areas of concern.**

Nick Graham  
Director of Law & Governance

Contact Officer: Caroline Parker  
December 2017



Division(s): N/A

## **AUDIT and GOVERNANCE COMMITTEE – 10 JANUARY 2018**

### **INTERNAL AUDIT 2017/18 PROGRESS REPORT**

**Report by the Director of Finance**

#### **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. The two Senior Auditors on secondment from an external firm are now working with us and covering the chargeable audit days lost through the maternity leave absence of the Principal Auditor. The Principal Auditor has returned from maternity leave, after 5 months' absence, on reduced hours until January. Using the external resource to cover the shortfall in days means that the 2017/18 plan is still on track for delivery.
3. The two Auditors within our team are currently undertaking professional study, both are undertaking the IIA's Certified Internal Auditor Qualification, one has recently passed her final exam and will now be progressing to study the next level to become a Chartered Internal Auditor, the other is due to sit her final exam at the beginning of February.

#### **2017/18 INTERNAL AUDIT PLAN - PROGRESS REPORT**

4. The 2017/18 Internal Audit Plan, which was agreed at the 26 April Audit & Governance Committee, is attached as Appendix 1 to this report. This shows current progress with each audit.
5. There have been six amendments to the plan, since the last update. Full details are outlined in appendix 1.

Directorate	2017/18 Audits	Opinion
Communities	S106 *	Red
Resources - ICT	Mobile Computing	Green
People - Public Health	Public Health - Combined Contract Management Audit / Counter Fraud Review	Green
People - Children	Thriving Families - October Claim	n/a
People – Children	Fostering	Amber
People – Adults	AMHPs (Adult Mental Health Professionals)	Amber
Resources - ICT	PSN (Public Services Network) Code of Connection Review	Amber
Resources	Sickness Management	Amber
Resources	Establishment Review & HR data	Amber

\*The full report of S106 was presented to the October meeting of the Audit Working Group. Officers attended to discuss the weaknesses identified and planned actions to address and will be attending the February meeting of the Audit Working Group to provide feedback on implementation of the agreed action plan.

**Grant Claim Certification:**

6. The following grant claims have been reviewed and certified by Internal Audit since the last update to the Audit & Governance Committee:

Local Growth Fund

Integrated Transport and Highways Management Block Grant

Highways Maintenance Challenge Fund

Pot Hole Action Fund

Disabled Facilities Grant

Bus Subsidy Revenue Grant

## PERFORMANCE

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

Performance Measure	Target	% Performance Achieved for 17/18 audits (as at 12/12/17)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	48%	Previously reported year-end figures: 2016/17 60% 2015/16 58% 2014/15 52%
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	100%	Previously reported year-end figures: 2016/17 94% 2015/16 96% 2014/15 83%
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	85%	Previously reported year-end figures: 2016/17 75% 2015/16 48% 2014/15 69%

The other performance indicators are:

- % of 2017/18 planned audit activity completed by 30 April 2018 - reported at year end.
- % of management actions implemented (as at 12/12/17) - 73%.

Of the remaining, there are 13% of actions that are overdue and 14% of actions not yet due.

(At 6 September 2017 A& G Committee the figures reported were 72% implemented, 9% overdue and 19% not yet due)

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

## **EXTERNAL ASSESSMENT UPDATE**

8. Internal Audit have just undergone their external assessment against the Public Sector Internal Audit Standards (PSIAS). This was completed by Cipfa and a copy of the report is included as Appendix 4. The assessment outcome was very positive with only a small number of minor improvements to documentation required. The overall conclusion recorded in the report is that;

*“The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, in particular where evidence was not available to demonstrate compliance.”*

Attached to the report in Appendix 4 is the agreed action plan to address the minor issues identified.

## **COUNTER-FRAUD UPDATE**

9. The 2017/18 Counter-Fraud Plan, which was agreed at the 26 April Audit & Governance Committee, is attached as Appendix 3 to this report. This shows current progress.
10. Internal Audit are continuing to work with Adult Social Care to provide Fraud Awareness Training as part of the directorate's direct payment training. Adult Social Care has determined this to be mandatory training for all staff involved in direct payments. Internal Audit have also provided counter fraud training materials for sessions delivered by the Schools Finance Team, directly to schools' staff, which focused on purchasing cards, cash and expenses.
11. Development of arrangements for working with the City Council Investigation Team, for Counter-Fraud continues. Work is currently being scoped with the City Council Investigation Team for them to lead on the work required to update the fraud risk assessment / register and delivery of proactive counter-fraud activities. They continue to work on Single Person Discount initiative. Future arrangements are now being discussed and the potential for a partnership arrangement to deliver counter fraud from April next year is currently being explored.

12. There have been a minor number of issues received during 2017/18, these have been referred to the relevant service area and are currently being investigated. Internal Audit will monitor and report on the outcome of these as completed.
13. The proactive work has been completed in Public Health, reviewing a small number of contracts to look at whether there are any data accuracy issues and to see whether the contract monitoring is sufficient to identify any potential anomalies. The executive summary for this has been included within the finalised audit reports, see Appendix 2 of this report.
14. Following the last pro-active Blue Badge Operation, led by the Service in partnership with Oxford City Council Investigations Team they have successfully identified and prosecuted the first case of misuse and abuse of the blue badge scheme in Oxfordshire. A second prosecution is currently being conducted. The Service asked that it be noted that the prosecution was undertaken by our own County Council legal team and would like to compliment them on their guidance and professionalism throughout the process which has allowed OCC to successfully prosecute the first case taken to court.
15. The Service have also undertaken a further Blue Badge Operation across Oxfordshire. This ran for 4 days in December in the run up to Christmas. The activity now also included enforcing the use of Disabled Parking Bays with the support of OCC's own Civil Enforcement Team.

### **National Fraud Initiative (NFI)**

16. Work is ongoing to review the various match reports returned in the most recent NFI exercise. For Payroll and Creditors, the majority of these reports have now been worked through with recommended matches and random samples selected for review. There are a couple of reports to be completed. For the completed payroll reports no issues were identified. For creditors, a large number of duplicate payment matches were highlighted, these were sampled on a risk/value based approach. Further review identified a number of these were duplicate payments however these had already been identified and recovered. One duplicate payment had not been identified prior to the NFI (value £29k), this has now been recovered. The Corporate Procurement Team have been given access to the duplicate creditors (by record), so they can feed into the data cleansing exercise being carried out by the IBC.
17. Payroll to Companies House - this is a new match group this year, a review has been conducted against companies' house to identify

current employees that were listed as possible directors. This is currently being reviewed against the register of interest to ensure all potential conflicts of interest have been declared, where relevant.

18. Blue Badges, Concessionary Travel Passes and Residential Permits - These have been passed across to the service who are working through them to establish whether there are any issues. There are a large number of these to work through so the final results of this exercise are not expected until Spring 2018.
19. Private Residential Care Homes - Recommended matches have been reviewed, this highlighted £270k worth of overpayments, of which £173k had already been identified and recovered. The remaining £97k highlighted through the NFI has now also been recovered. Additional work has been carried out to identify providers that have appeared in both the 2014/15 and 2016/17 exercise. This analysis has been provided to the service, along with information on whether the issues of recording the death appeared to be on the OCC side or lack of notification from the provider. One provider has been placed on closer monitoring as they have come up in the last three exercises.
20. Direct Payments and also Insurance - Recommended matches have been reviewed, along with a sample of other matches in the reports, no issues were found.
21. Pensions - The pensions matches have been reviewed, a small number have now been passed across to the Pensions Manager to review further. Death certificates for these have been requested, and once received a view will be taken as to whether they need to be investigated further / any recovery of funds to be sought.

## **RECOMMENDATION**

22. **The committee is RECOMMENDED to note the progress with the 17/18 Internal Audit Plan and 17/18 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 - 2017/18 INTERNAL AUDIT PLAN - PROGRESS REPORT

### INTERNAL AUDIT PLAN PROGRESS 2017/18

Directorate	Audit	Planned start	Status	Conclusion
People	Safer Recruitment	Q3	Fieldwork	
Adults	Payments to Residential and Home Support Providers	Q1	Final Report	Amber
Adults	Client Charging (including ASC debt)	Q3	Fieldwork	
Adults	Personal budgets including Direct Payments	Q4	Scoping	
Adults	Mental Health	Q4	Scoping	
Adults	Adult Mental Health Practitioner Service	Q2	Final Report	Amber
Childrens	Thriving Familes – October Grant Claim	Q2	Final Report	N/A
Childrens	Thriving Familes – January Grant Claim	Q4	Scoping	
Childrens	Thriving Familes – March Grant Claim	Q4	Planned for March	
Childrens	CEF Contract Management	Q3	Scoping	
Childrens	Fostering Service	Q2	Final Report	Amber
ICT / Childrens	Childrens Social Care IT System Replacement	Q4	Scoping	
Public Health	Combined Contract Management Audit / Counter Fraud Review	Q2	Final Report	Green
Communities & Resources	Capital Programme - including follow up of 16/17 audit findings	Q4	Planned for Feb/March	
Communities	S106	Q1	Final Report	Red
Communities	Supported Transport	Q3	Fieldwork	
Communities	Research and Innovation	Q3	Fieldwork	

Communities	Highways Contract Payment - follow up	Q4	Scoping	
Finance	Pensions Administration	Q3	Fieldwork	
Finance	Pensions Fund	Q4	Scoping	
Finance	Accounts Receivable	Q4	Planned for March	
Finance	Payroll	Q4	Planned for February/March	
Finance	Purchasing / Procurement	Q3	Fieldwork	
Finance	VAT	Q3	Draft Report	
Finance	Insurance	Q4	Scoping	
Finance / Corporate	Grant Certification	Q1- Q4	6 complete	n/a
Finance / Communities	Security Bonds	Q3	Fieldwork	
Corporate / ICT	Fit for the Future - Digital First Platform - Programme Governance Review	Q2	Final Report	Amber
HR / Corporate	Sickness management	Q1/Q2	Final Report	Amber
HR / Corporate	Establishment control / HR data	Q1/Q2	Final Report	Amber
ICT	Cyber Security	Q2	Final Report	Amber
ICT	Disposal of Equipment	Q1	Final Report	Amber
ICT	PSN compliance (Public Services Network)	Q3	Final Report	Amber
ICT	Mobile Computing	Q3	Final Report	Green
ICT	ICT backup and recovery	Q4	Scoping	
ICT / Childrens	Childrens Social Care IT System Replacement	See above under Childrens	See above under Childrens	See above under Childrens



Since September 2017 update to Audit & Governance Committee the following amendments have been made to the Internal Audit Plan:

People (Adults & Children)	<b>Removed</b> from plan: Transitions - from Children's to Adults Service	This audit has been removed from the plan due to the fundamental review currently in progress with significant work underway to improve the processes with transitioning from Children's to Adults. This will be considered again as part of 2018/19 audit planning.
Resources – Finance	<b>Removed</b> from plan: Main Accounting – Feeder Systems. <b>Replaced</b> with VAT Audit.	The audit of Feeder Systems has been removed from the plan as some of the key feeder systems were being tested as part of other individual audits within the plan. The audit was replaced with VAT. This audit was requested by management due to a gap in governance being highlighted. The audit activity focussed on Output VAT charged on the income from our sales of supplies and services and has tested the level of compliance across the organisation.
People - Children's	<b>Removed</b> from plan: EDT (Emergency Duty Team)	From April 2017, the EDT was split into Children and Adults. The audit of AMHPs (Adult Mental Health Practitioners) has been completed however the Children's Audit of EDT has been removed from the plan due to the fundamental review and service redesign currently underway. This will be considered again as part of 2018/19 audit planning.
Resources – ICT	<b>Removed</b> from plan: ICT Incident Management	The audit has been removed from the plan as the future of the current IT incident management system is dependent on the decision on the future delivery model of ICT at the end of March. No further developments of the existing system are being undertaken.
Corporate	<b>Removed</b> from plan: Contract Management System	As reported to the AWG, Procurement and Commercial, encompassing contract management oversight, is being reviewed as it is an area identified for transformation. An Interim Head of Procurement and Commercial has been appointed to develop a new strategy, systems, processes and governance. This is being undertaken in conjunction with the work PWC are completing including an analysis of our third party spend. This audit had planned to review the implementation and utilisation of the new contract management system including the business intelligence reporting to the Commercial Service Board. The audit has been removed from the plan as it has already been <b>recognised</b> by management that the system is currently not being used to its full potential. There is a newly established ECMS Steering Group who will be overseeing the improvements required. The Commercial Services Board has not met for the last 5 months, and has been suspended pending the outcomes of the review.  Therefore, assurance on contract management this year will be provided via individual audits. The individual audits covering contract management during 2017/18 are CEF Contract Management, Supported Transport, Public Health, and Capital follow up. Contract

		<p>payments have also been reviewed as part of Adult Social Care Payments to Providers and Highways Payments audits.</p> <p>This will be considered again as part of 2018/19 audit planning.</p>
Corporate	<b>Removed</b> from plan: Programme Management Office	<p>This has been removed from the plan as this area is currently subject to review as part of the work being undertaken with PWC. This will be considered again as part of 2018/19 audit planning.</p>

## **APPENDIX 2 - EXECUTIVE SUMMARIES OF COMPLETED AUDITS**

These are the completed audits since last report to the Audit & Governance Committee in September 2017.

### **S106 2017/18**

Opinion: Red		
Total:31	Priority 1 = 5	Priority 2 = 26
Current Status:		
Implemented	3	
Due not yet actioned	3	
Partially complete	1	
Not yet Due	24	

### **Overall Conclusion is Red**

It is acknowledged that there are a number of reviews ongoing within the Communities directorate at present with the aim of improving processes. The Review of Single Response and the Development Processes Review have been taken into account by Internal Audit wherever possible in noting findings and any actions already identified as necessary as a result of these reviews.

### **Strategic Reporting**

- The audit has identified a lack of strategic reporting on S106.
- It was also noted that there is currently no reporting on projects in the capital programme which have been forward funded and include an element of Section 106 contributions as part of the funding.

### **Over Reliance on Key Staff and Staff Guidance**

- It was noted that there is also over reliance on several key members of staff.
- Testing has identified areas where staff guidance requires updating.

### **IT Systems**

- There are various spreadsheets, databases and systems in use throughout the processes involved in dealing with a planning application and producing and managing a Section 106 agreement. The systems don't talk to each other, the spreadsheets are complicated and difficult to interpret for those who are not familiar with them.

### **Working Arrangements**

- Silo working appears prevalent throughout the planning application and section 106 processes.

### Roles and Responsibilities

- It was noted that there is a lack of clarity over roles and responsibilities in some areas.

### Monitoring of Key Planning Application Information

- There is no systematic and consistent monitoring of committee dates, reports and recommendations or of outcomes from the planning application process.

### Securing of Community Infrastructure Levy (CIL) Monies

- There is no protocol in place for the Council to secure monies for Districts where CIL has been adopted.

### Lack of Sign Off of Contributions Secured via S106 Agreement

- There is no sign off, of contributions secured via a S106 agreement.

### Single Response Sign Off and Scheme of Delegated Powers

- Not all single responses are currently signed off and for those that are, sign off arrangements are unclear and inconsistently applied.

### Single Response Deadlines and Escalation Process

- There is no clear and consistent escalation process in place for MPAT (Major Planning Applications Team) to chase late team responses
- Performance in meeting District Council deadlines for single response is below target

### Planning Appeals, Management and Recording

- Inconsistencies and omissions were identified in the recording of appeals information on the PANDA database and with appeals information saved to individual appeals folders.
- Inaccuracies were noted in the information recorded on pooling spreadsheets

### Lack of Clear Evidence Trail

- Instances were identified within the single response, planning negotiations and planning obligations processes, where evidence trails were incomplete.

### Review Process Once S106 Agreements are in Place

- It was noted that there are differences in the way in which Planning Obligations staff record their monitoring of live S106 agreements
- It is not clear whether there is sufficient monitoring of whether invoices have been raised as part of the review process.

### Accuracy of Information Recorded on DFACS (Developer Funding Accounts Sheet)

- An instance was identified where the accuracy of the information recorded on DFACS was queried by a Service. It has not been possible to confirm whether the inaccuracy was with DFACS or with service records / understanding.

### **Mobile Computing Review 2017/18**

Opinion: Green	04 October 2017	
Total: 3	Priority 1 = 0	Priority 2 = 3
Current Status:		
Implemented	1	
Due not yet actioned	2	
Partially complete	0	
Not yet Due	0	

### **Overall Conclusion is Green**

The Council's Fit for the Future initiative has seen a significant increase in the number of mobile devices. The majority of technology users at the Council have been issued with a new laptop and smartphone as part of the Connecting You programme.

The use of mobile devices is adequately covered by a number of corporate policies, including the Acceptable Use Policy, Removable Media Policy and the Remote Working Policy. These policies cover security standards, including physical security, logical security and the requirement for mobile devices to be encrypted. Staff awareness of their responsibilities in regard to using mobile devices is through an e-learning course that is based on the Acceptable Use Policy. Whilst the course is mandatory, we have previously reported that users are not followed up if they have not completed it.

An inventory of all laptops, tablets, mobile phones and USB memory sticks is held and maintained up to date. The laptop inventory is available on Microsoft System Center Manager and the other inventories are on spreadsheets.

All laptops are encrypted during the build process using Microsoft Bitlocker. Microsoft Intune is used to enforce a security policy on smartphones that requires password authentication and encryption. It also allows devices to be wiped if they are reported as lost or stolen. The timeout setting on Microsoft Intune is 15-minutes and we understand that this is the maximum that can be set and that the default setting is one minute. Allowing a mobile device to be set with a 15-minute timeout increases the risk of unauthorised access. A new version of Microsoft Intune has recently been implemented and allows a granular level of access to be defined. It should be appropriately configured given that on the previous version the majority of users have full access.

Corporate policies stipulate that only USB memory sticks supplied by ICT should be used but this is not enforced by any technical solution. This risk has previously been reported and ICT have reviewed technical solutions and found that they are not practical to implement. In addition to the risk of unauthorised data disclosure, the control of USB memory sticks is also key

from a cyber risk perspective and hence it is important that it be kept under review by adding it to the risk register.

### **Public Health Proactive Fraud Review 2017/18**

There are not any management actions for this report

#### Overall Conclusion is Green

Public Health spends around £26m on contracting out health services, such as smoking cessation, weight management and sexual health services. Payment arrangements for the contracted service vary per contract, however a number of the contracts pay a proportion of the payments as incentives based on performance.

There have been a small number of other local authorities who have been subject to attempts by providers of public health services to produce false information when submitting data for payment. The objective of the review was to provide assurance on the robustness of contract monitoring and payments processes to ensure that any potential irregularities are identified and queried.

The review looked at a sample of three contracts, considering the accuracy and integrity of source data, the robustness of contract monitoring including the review of trends and potential irregularities and also the payments processes were tested.

From the sample of contracts reviewed there were no major concerns or indications of potential fraudulent activity. It is concluded that the contract monitoring applied to each of the contracts sampled was proportionate to the value of the contract and level of risk. Whilst it is acknowledged that the risk of fraud cannot be completely mitigated, the service has established a good balance between control and risk of loss.

### **Troubled Families Claim October 2017/18**

Opinion: N/A	04 October 2017	
Total: 3	Priority 1 = 1	Priority 2 = 2
Current Status:		
Implemented	0	
Due not yet actioned	3	
Partially complete	0	
Not yet Due	0	

Phase 2 of the Troubled Families Programme started in September 2014, and OCC has submitted between two and three claims per year since September

2015. All management actions from the audit of the previous claim (March 2017) have been reported as implemented by the responsible officer. The current claim is due to be submitted by the 31st October, and consists of 193 families for Significant & Sustained Progress (SSP) and 1 family for Continuous Employment.

19 families were removed from the SSP claim, and 4 from the Continuous Employment claim, following Internal Audit testing, due to issues with Criminality data checks, duplication with previous claims and family composition errors.

These had not been identified prior to the submission of the claim to Internal Audit. Subsequently additional data verification checks were carried out to ensure the issues found did not apply to any other families, so Internal Audit are satisfied that the current claim can therefore be signed off. The related project management issues will now be addressed during a review of the submission process which will be undertaken by the Troubled Families team.

### **Fostering Service 2017/18**

Opinion: Amber	16 November 2017	
Total: 15	Priority 1 = 2	Priority 2 = 13
Current Status:		
Implemented	1	
Due not yet actioned	2	
Partially complete	0	
Not yet Due	12	

### **Overall Conclusion is Amber**

This audit covered both external foster placements where children are placed with carers employed by Independent Fostering Agencies (IFAs) and internal foster placements where children are placed with foster carers employed directly by the Council. The audit followed up on the management actions agreed following the Internal Audit of Foster Care Payments undertaken in 2015/16.

In relation to external placements, since the start of the audit, the Placement Service Manager has left. It is also noted that it is planned that the Placement Service will become part of Joint Commissioning. Whilst exact timescales for this move are not clear, it is noted that this move could result in changes to responsibilities and processes around both arrangement of new external placements and contract monitoring arrangements.

In relation to internal foster placements, the Service Manager responsible has recently changed.

It is acknowledged that the Service are in the process of sourcing and implementing a new IT system which will replace Frameworki. This has

been considered during the audit and the management actions agreed have been discussed with a view to how processes could change when the new system is implemented.

### **IFA Foster Carer Payments**

It was found that there are still missing and incomplete Individual Placement Agreement's (IPAs) for externally placed children. From a sample of 20 new placements, no IPA had been completed for sign off for 2 placements, for a further 10 in the sample the draft IPA had not been signed by OCC and / or the Independent Fostering Agency (IPA). The management action agreed in 2015/16 to reconcile current placements to IPAs held has not been completed. The IPA is the agreement between the Council and the IFA in relation to the foster placement, it is where the agreed fee rate should be documented and also contains key information on the placement, including carer details and expected outcomes for the child.

Although not to the same degree as noted during the previous audit, it was found that there are still issues in getting the information required to produce an IPA from Placement Officers. There still does not appear to be an effective process in place for escalating missing information. There is also no systematic process in place to monitor or follow up on the return of outstanding IPAs with external agencies.

Inconsistencies were again noted between the fee rates documented in the IPA or draft IPA and the fee rates that the Council were being invoiced for / paying. This included both higher and lower than expected rates. There were some instances where it appeared that the rate recorded in the IPA was incorrect, there were other instances where it was reported that the rate payable had changed from that recorded in the IPA, but there was no documentation confirming this change in arrangements (documentation of these changes was covered by a management action agreed as part of the previous audit). An instance where the Council had been overcharged by the provider was noted, it is not clear whether or not the overpayments made have been recovered. Action agreed as a result of the previous audit to provide clarity between the Placement Team, Administrators and Business Support on the rate the Council should be paying does not appear to be in place. There is no systematic process in place to ensure that fee rates agreed for individual placements are correct and in line with standard rates agreed under the two framework agreements. It is also apparent that there is no systematic monitoring or review of payments being made to ensure that these are in accordance with the IPA or with documented, appropriately approved instructions to pay charges which vary from those agreed.

A number of inconsistencies were noted between IPAs (the Council's agreement over the external placement with the IFA), Frameworki (the current Childrens management information system) and the live agency placements spreadsheet (used for monitoring and processing of payments to IFAs for external placements). There were not of the same level as noted during the previous audit, but there were some inconsistencies which could impact on financial reporting or forecasting or could cause unnecessary confusion. A management action to review inconsistencies identified as a result of the previous audit has not yet been fully implemented.



In addition to the inconsistencies noted from Internal Audit testing, in September 2017, Corporate Finance identified, through the monthly budget monitoring process, a £1M change in forecast which prompted further investigation. Whilst it was reported that not all of the £1M change was found to be in relation to placements, investigations identified inconsistencies in information recorded on Frameworki and the live agency placements spreadsheet. Work is ongoing by the Service to fully check records held for existing placements.

There is a lack of clarity over how one off payments to IFAs should be documented and approved. It was also noted that for the sample reviewed, a high proportion of purchase orders (POs) for one off payments are still being raised retrospectively. Again, this is an issue that was raised during the previous audit. Although the instruction from senior management that POs must be raised in advance of invoices being sent in by providers was given, there does not appear to have been any feedback or escalation where these instructions are not being followed.

Some delays were noted in the raising of POs for new external placements and in the processing of invoices. Improvements in both areas can be seen from the previous audit and it is acknowledged that staffing capacity issues have been reported both in relation to Placement Admin and Business Support (Finance).

From sample testing undertaken on provider invoices, there were numerous examples where providers are still addressing invoices to Oxfordshire County Council postal addresses rather than Hampshire IBC. 10 different providers covering 13/20 new placements tested and 3/4 one off payments tested were still found to be addressing invoices to OCC postal addresses. This was raised during the previous audit with a management action agreed.

### **Internal Foster Care Payments**

Issues were noted with the timeliness of completion of movement forms. The service has a requirement that movement forms are completed and approved within 24 hours of a new placement starting. From review of all movement forms completed during 2016/17 it was found that 59% had not been approved within 24 hours of the placement start date. On average, movement forms were found to be being approved 6 working days after the placement start date.

Timeliness of completion of movement forms has been raised in the audits of Foster Care Payments carried out in 2011/12 and 2015/16. A management action is currently outstanding from the 2015/16 audit covering the production and review of management information on time taken to complete movement forms for new placements. Internal Audit have identified that management reports can be run from Frameworki and discussions have been held with the Service Manager Placements in relation to review of this information going forward.

### **Policies and Procedures**

No significant weaknesses were identified from testing undertaken as part of this audit. It is noted that the Foster Carer Handbook has recently been

updated and will be published following review by the Service Manager Fostering.

### **Vetting & Assessment**

Processes and controls tested in this area were found to be operating effectively. No significant findings to report.

### **Training & Ongoing Support**

Although some issues were noted in relation to monitoring of completion of reviews and training by management in one area, it has been reported that this was due to management staff turnover. It has been reported that staffing has settled down. It has been reported that improved management information on the annual review process is now being produced from Frameworki with reporting on mandatory training in the process of being developed.

## **Adult Mental Health Professionals Service 2017/18**

Opinion: Amber	16 November 2017	
Total: 6	Priority 1 = 2	Priority 2 = 4
Current Status:		
Implemented	1	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	5	

### **Overall Conclusion is Amber**

In April 2017, the Adult Mental Health Professional Services split from the Emergency Duty Team, as part of a service redesign. Since then it has been a standalone service.

Policies and Procedures maintained by the AMHPs team contain references to national guidance, as such help to ensure that AMHPs work in line with national and legal requirements. However, the documentation is not easily accessible, there are a number of out to date versions that are easier to access than the most up to date version.

A sample of referrals and assessments were reviewed and there were no issues noted. All had been signed appropriately and had the doctors' notes on file, from the required two doctors. Dependents needs were also taken care of, where applicable.

A lot of useful information is being recorded on referrals and assessments however it is not currently being used to support the running of the service, identify trends, or highlight issues.

Rotas were reviewed and it was found that the service were able to cover the 24-hour obligation, which is somewhat helped by reliance on agency staff.

There is an ongoing issue with HR errors with AMHP records, and inconsistencies between IBC and SAP, however the AMHP Manager is continually working through these with HR, on a monthly basis. One individual was found during the audit testing to still be in receipt of their rota'd AMHP allowance when they had taken up a substantive post. The casual and bank staff tested were found to have been paid correctly for time worked.

There is a known overspend on the AMHPs budget, mainly due to the dependency on the use of agency staff. Steps have been taken to try and reduce this, including redesigning the service and recruiting eight substantive posts. Due to recruiting issues however, not all of these positions have been filled, therefore in the interim there is still a reliance on agency staff, to be able to maintain the service. Effective forecasting is being undertaken and the data is being updated as often as possible. This helps to give the most accurate forecasting position. The position is also being accurately reported to Cabinet.

Where clients are known to both the NHS and OCC, OCC staff do not currently have access to the NHS information. This potentially creates a safety issue for staff and clients, if they are not completely aware of the clients' mental health history. Some staff also work for the NHS and use the NHS systems and email addresses. Whilst AMHPs staff have been reminded of the need to use OCC email addresses, and send data securely, without a single document repository, and two systems to work on, there remains an inherent risk that data could be transported insecurely. This has already been acknowledged by management and efforts are being made to try and get OCC staff access to NHS systems, to at least allow for a complete history of clients to be obtained.

### **PSN (Public Services Network) Code of Connection Review 2017/18**

Opinion: Amber	22 November 2017	
Total: 4	Priority 1 = 0	Priority 2 = 4
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	4	

### **Overall Conclusion is Amber**

The Information Management team are responsible for all areas of IT compliance, including PSN compliance, and a member of the team has been allocated responsibility for leading on this work. The current PSN compliance certificate is valid until 21<sup>st</sup> April 2018 and there is a high-level plan in place to ensure the next submission is made ahead of this date. We have found that all PSN documents are held on the network and are accessible to all users in ICT. As some of the documents contain sensitive information regarding

security configurations and vulnerabilities, access to them should be restricted to only those staff that require it.

A core area of the PSN Code of Connection is complying with a number of Information Assurance (IA) conditions. Previously organisations were expected to demonstrate explicit compliance with these conditions, but the submission has now been simplified and compliance is referenced in the commitment statement signed by the Chief Executive. We found that no details are held of how individual conditions are met through policies, procedures and processes and hence there is a risk that any potential gaps are not identified and addressed, and that compliance cannot be evidenced should OCC be subject to an on-site PSN assessment. OCC's cloud services have also not been security assessed against the stipulated Cloud Security Principles, which is guidance issued by the National Cyber Security Centre. We also note that a declaration is made on the CoCo that two specified risks have been accepted by the business and authorised by a Senior Officer, but there is no evidence to confirm this.

An IT Health Check (ITHC) is commissioned annually and performed by an appropriately accredited supplier. The most recent ITHC was completed in October 2017 and the scope was confirmed to be in accordance with PSN requirements. The ITHC has highlighted a number of vulnerabilities and Remedial Action Plans (RAP's) are being developed to address these. A number of the remedies require patches to be applied and it is noted that the corporate patching policy is in the process of being reviewed and updated. A review of security patching was included within the cyber security audit undertaken in May 2017 and hence has not been revisited here in any detail. However, we would re-emphasise the importance of applying patches on a timely basis and both PSN and other cyber security standards suggest that critical vulnerabilities should be patched within 14 days. This is not reflected in the revised patching policy as we understand that resourcing a 14-day patch cycle is an issue. There is an open management action from the cyber security audit in regard to this point and we have further discussed the issue with the Information Services Manager to ensure it is reconsidered before the patching policy is finalised.

### **Sickness Management 2017/18**

Opinion: Amber	14 December 2017	
Total: 4	Priority 1 = 2	Priority 2 = 2
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	4	

### **Overall Conclusion is Amber**

The implementation of IBC in July 2015 resulted in changes to the process of recording and managing sickness absence. Staff became responsible for

recording their own sickness absence on IBC. IBC placed greater responsibility on managers to monitor sickness absence within their teams.

From sample testing undertaken on 10 non-school teams with little or no sickness absence recorded on IBC, 50% had sickness episodes which had not been recorded on IBC. There was one example noted where a period of sickness absence of approximately 5-6 weeks had not been recorded, the manager was not aware of this prior to being advised by Internal Audit. Sickness absences identified as missing from IBC during testing, at the time of writing this report, have not been updated.

From sample testing undertaken on 10 schools with little or no sickness absence recorded on IBC, 90% had sickness episodes which had not been recorded on IBC. 4 schools reported that they only record long term absence on IBC as inputting of sickness data is a duplication of information which has to be entered on to their Management Information System for the schools' census. Another school reported that they only record unpaid sickness leave on IBC. 3 schools sampled reported that they were not aware that they needed to record sickness absence on IBC

Where sickness absence is not recorded accurately on IBC incorrect payments may be made to staff, managers information on sickness will be inaccurate and the accuracy of strategic workforce data will be affected.

From review of the guidance available, it was found that there is clear guidance available for staff and managers on recording and managing sickness absence. Management information available to team managers via IBC and the HR dashboard was also found to be clear and comprehensive. It was noted that strategic information produced has recently been reviewed and refreshed.

Testing undertaken on both schools and non-schools staff where sickness triggers had been reached, found that although there was not always evidence of formal sickness review meetings having taken place, there was evidence that managers were reviewing and discussing sickness absence with staff.

**Establishment Control & HR Data 2017/18**

Opinion: Amber	14 December 2017	
Total: 5	Priority 1 = 1	Priority 2 = 4
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	5	

## Overall Conclusion is Amber

Issues with the accuracy of establishment data are recognised by Corporate HR. Reference was made to this in the Director of HR's 2016/17 Corporate Lead Statement where it was reported that 'the accuracy and credibility of workforce data is not robust'. The statement highlighted the need for data cleansing and continuous maintenance, as well as improvements to the visibility of and access to staffing data. Since then, there has been a review of organisation management which has acknowledged the critical importance of the org structure as it drives payroll, workforce planning and budget management, however it has also been acknowledged that there are challenges around the time it takes to correct this information on SAP, particularly when significant re-structures need to be reflected. It has been reported that this has been discussed at the IBC Shared Services Board and has now been referred to the IBC Strategic Partnership Board so that the issues can be reviewed and resolved.

Whilst testing undertaken as part of this audit has focussed on the accuracy of establishment data in terms of team structures, posts within the team etc, a separate audit of sickness management has identified issues with the robustness of sickness data. Testing undertaken as part of the sickness management audit identified significant instances of sickness absence not being accurately recorded on IBC.

As detailed above, the accuracy of OCC HR establishment data is a known issue. From the establishment report reviewed by Internal Audit, it was noted that there were 1931 unoccupied posts as of the 30th June 2017, many of which are obsolete and will not be recruited to in the near future. In response to this, arrangements have been made for the Information Systems Officer to receive training on the Hampshire SAP system with a view to enabling OCC access to the Hampshire system so that errors in establishment data can be corrected, vacancies can be reviewed and obsolete posts removed. There are ongoing discussions with Hampshire in relation to this.

A reminder has also been sent out to managers regarding keeping team structures up-to-date. However, currently there are clear issues with the quality of establishment data available to management and Strategic HR, reducing its usefulness for decision making and strategic planning.

**Establishment Structure:** Sample testing showed that 8 of 10 teams had some errors in their establishment structure or data. This mainly related to unoccupied posts (6/10 teams included obsolete posts in their structure), however there were also issues with inaccuracies in job titles and employees without an assigned line manager on the system (as of the end of June there were 95 non-casual employees without a listed line manager, and 186 unoccupied posts). This appears to be caused by a line manager leaving or moving to a new post. In these cases, any line management tasks should redirect to the next line manager in the structure, however again this causes issues with the accuracy of establishment data in the organisation. On a

positive note, job descriptions were in place and up-to-date for all 10 teams sampled.

Testing of honoraria payments identified a number of instances where honorariums were being paid where an employee was temporarily taking on additional line management responsibilities and so should have been “acted up” into the post. Where an employee is paid an honorarium instead of acting up in a role, they may not have the required system access and permissions.

**Service Restructures:** Restructures affecting over 10 staff are managed by the HR Business Partner, who works with the service area to determine the changes to be made and then liaises with the IBC to process these changes on the system. However, there have been issues with adhering to the timescales set by the IBC for providing the relevant data, due to longer consultation periods and difficulties with receiving the required information from managers. Minor data errors were identified during testing of service restructures, which did not affect pay. The establishment structure was not generally affected, and where this had happened the issue had been identified and corrected prior to the audit.

However, as discussed above, action is being taken by Strategic HR to enable closer working between OCC and HCC to improve the accuracy of OM restructure data.

**Management Information:** Line managers are able to access reports on the IBC portal in relation to their team structure. Information available includes areas including sickness, diversity, pay and DBS checks. However, accuracy issues have been identified in relation to sickness data (see separate report on Sickness Management 2017/18) with audit testing highlighting significant levels of sickness not being recorded on IBC, and the accuracy of information on DBS checks. Recording in relation to DBS checks is to be reviewed as part of the 2017/18 Safer Recruitment audit.

### **APPENDIX 3 - 2017/18 COUNTER FRAUD PLAN - PROGRESS REPORT**

<b>Activity</b>	<b>Planned Qtr Start</b>
Review and update of fraud risk register. Identification of new fraud risk areas.	Ongoing
NFI 2016 match - review and investigation of data matches	Q1 - ongoing
Reactive investigations - continued from 2016/17 plus new referrals.	Ongoing
Fraud awareness sessions.	Ongoing
Proactive Fraud Review - Travel and Expenses	Complete - Final Report Green
Proactive Fraud Review - Procurement Cards	Complete - Final Report Amber
Combined contract management audit / proactive fraud review - Public Health	Complete – Final Report Green
Continue with development of working arrangements with the City Council for Counter Fraud to include: <ul style="list-style-type: none"> <li>- Single Person Discount Review (including extending to other reliefs/discounts)</li> <li>- Support with the NFI 2016 data match (focus on areas which have previously returned positive results)</li> <li>- Support with reactive investigations</li> <li>- Development of a plan of proactive fraud reviews, potential areas for 17/18 include Procurement, Direct Payments, Deprivation of assets/Non declaration of income and Insurance.</li> </ul>	Q1 - Q4





## **Validation of the self-assessment of the Internal Audit Service**

### **Oxfordshire County Council**

**Lead Associate: Elizabeth Humphrey, CPFA**

**Internal QA: Diana Melville, Governance Advisor, CIPFA**

**18<sup>th</sup> December 2017**

## Validation of the self-assessment of the Internal Audit Service at Oxfordshire County Council (November 2017)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017. The standards require periodic self-assessments and an assessment or validation of a self-assessment by an external person every five years. Now that the standards have been in place for four years, Oxfordshire County Council's Internal Audit Service has undertaken the required self-assessment and commissioned this validation. The self-assessment also included checking conformance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The validation was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed two audits carried out during the 2016/17 financial year and, as part of the self-assessment, a further five audits were checked. I examined key documents, including the Charter, Strategy and reports to the Audit and Governance Committee.

The service is highly regarded within the Council and provides useful assurance on its underlying systems and processes. I identified some minor areas of non-compliance with the standards, in particular where evidence was not available to demonstrate compliance.

I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards. The Chief Internal Auditor (CIA) will need to take action to implement them and an action plan is included as appendix 1.

### Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Mission	Full	The Charter includes the mandatory internal audit mission		
<b>Core principles of internal audit</b>	Full	The core principles have been integrated into the work of internal audit and I was provided with many examples of this. One area for development is around demonstrating the alignment of the service to the strategies, objectives and risks of the organisation	See R5 and R8	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>Code of Ethics</b>	Full	All interviewees stressed the emphasis placed on integrity by the audit team and their independence and objectivity There is no reference to the <i>Seven Principles of Public Life</i> (the Nolan Principles) in any of the key documents	Include details of the <i>Severn Principles of Public Life</i> in the Charter or Manual	R1
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	Full	The Charter and Strategy contain almost all the required details and are routinely discussed with senior management and the Joint Audit Committee <b>LGAN p8</b> The Charter does not explicitly state that internal audit's remit extends to the entire control environment of the Council	Include a statement in the Charter to state that internal audit's remit extends to the entire control environment of the Council	R2
<b>1100</b> Independence and objectivity	Full	The independence and objectivity of the audit section was emphasised by all interviewees		
<b>1200</b> Proficiency and due professional care	Full	The working papers showed that audits are well planned and undertaken with care <b>Standards 1210.A2, 2120.A2 and 2210.A2</b> There was little evidence of broader fraud risks (ie, those where the gain was not immediately financial or involved collusion, etc) being considered as part of audit planning	Improve thinking about fraud risks to consider frauds that do not have an immediate financial gain, collusion, etc	R3
<b>1300</b> Quality assurance and	Full	There is a detailed QAIP plan that covers all the required aspects.		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
improvement programme		<p><b>Standard 1311</b> Self-assessments are currently carried out within the audit section, with the monitoring officer undertaking an independent satisfaction survey. It could be useful to involve others in the self-assessment process, especially the Audit and Governance Working Group</p>	Invite others from within the Council, for example the Audit and Governance Working Group, to contribute to self-assessments	S1
<b>Performance standards</b>				
<p><b>2000</b> Managing the internal audit activity</p>	Partial compliance	<p><b>Standards 2010, 2010.A1 and LGAN p15</b> Although the annual audit plan is risk-based, there is no formal methodology for drawing it up. The report accompanying the annual audit plan does not include some of the specific requirements:</p> <ul style="list-style-type: none"> <li>• A statement about how the service will be developed</li> <li>• The connection to the Audit Charter</li> <li>• How the service contributes to delivering organisational objectives and priorities</li> <li>• Prioritisation of assignments</li> <li>• The resources required for each assignment</li> <li>• The split between assurance and other audit work</li> </ul>	<p>Document the methodology used to draw up the annual audit plan Include in the annual plan or covering report:</p> <ul style="list-style-type: none"> <li>• Reference to how the team will be developed (for example, outlining the training being undertaken)</li> <li>• Information regarding planning in accordance with the Charter</li> <li>• The contribution made to delivering organisational priorities and objectives</li> </ul> <p>Identify on the plan:</p> <ul style="list-style-type: none"> <li>• Assignment priorities</li> <li>• An estimate of the resources required for each assignment</li> <li>• The split between assurance and other audit work</li> </ul>	<p>R4</p> <p>R5</p> <p>R6</p>

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>2100</b> Nature of work	Partial compliance	<b>Standard 2110.A1</b> Ethics-related objectives, programmes and activities are not routinely considered when planning audits	Undertake audits of the Council's ethical arrangements, either as a one-off or by building ethical matters into relevant audits	R7
		<b>Standards 2120.A1 and 2130.A1</b> There is no specific reference to Council objectives in audit plans. Making this link would show how audit contributes to the achievement of Council objectives	Improve audit planning by making specific references to Council objectives	R5
		<b>Standard 2120.A2</b> See above for comments regarding considering fraud risks in planning audits		R3
<b>2200</b> Engagement planning	Partial compliance	<b>Standards 2201 and 2210.A3</b> Audit planning and the terms of reference do not specifically address:	Amend the audit terms of reference to address the required items	R8
<ul style="list-style-type: none"> <li>• The strategies and objectives of the activity and how it controls its performance</li> <li>• The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a framework</li> <li>• Opportunities to add value</li> </ul>		R3		
<b>Standard 2210.A2</b> See comments above regarding planning around fraud risk <b>Standard 2240.A1</b> Detailed work programmes (RACE) are drawn up to support each audit, but these are not routinely formally	Ensure that the RACE is approved before implementation	R9		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		approved before implementation		
<b>2300</b> Performing the engagement	Full	Audit working papers are clear and easy to follow. They deliver the objectives of the terms of reference. <b>Standard 2330.A1</b> There is no reference to internal audit in the Council's retention schedule and the information on retention in the manual is incomplete	Develop and document a retention schedule for internal audit's records	R10
<b>2400</b> Communicating the results	Partial compliance	<b>Standard 2450</b> The annual audit opinion does not explicitly refer to the strategies, objectives and risks of the Council nor does it make explicit reference to governance and risk arrangements, focussing only on internal control The opinion for 16/17 does not include a PSIAS conformance statement nor reference to this validation of the self-assessment <b>LGAN p19</b> Audit terms of reference give details of the report circulation list but this is not included on the audit report. If the accompanying email is detached, this information is not available to readers of the report	Revise the annual audit opinion to address the strategies, objectives and risks of the Council. Include specific reference to governance and risk management arrangements  Include the report distribution list on audit reports	R11  R12
<b>2500</b> Monitoring progress	Full	The follow-up process is robust and meets the requirements of the standards		

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
<b>2600</b> Communicating the acceptance of risks	Full	Unmitigated risks have been raised with senior management and the board and resolved through this approach		

The Chief Internal Auditor has details of the findings, standard by standard.

Elizabeth Humphrey CPFA

## Appendix 1: action plan

### Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include details of the <i>Severn Principles of Public Life</i> in the Charter or Manual	These are listed for all staff on the intranet. The Charter will be updated to list these Principles.	Sarah Cox	January 2018 to update the Charter. Next presented to Audit & Governance Committee in July 2018.
R2	Include a statement in the Charter to state that internal audit's remit extends to the entire control environment of the Council	The Charter currently states that "Audit work is included to ensure an opinion can be given on the whole of the control environment". The Charter will be updated to make this more explicit.	Sarah Cox	January 2018 to update the Charter. Next presented to Audit & Governance Committee in July 2018.
R3	Improve thinking about fraud risks to consider frauds that do not have an immediate financial gain, collusion, etc	Whilst there is evidence that the team are considering fraud risks throughout their evaluation of controls, this external assessment has highlighted that evidence of the consideration of this was not always documented in detail at audit planning stage. Fraud risk is considered and documented in scoping notes, specific fraud references are included in some terms of reference where appropriate, whilst others have generic wording. At the team meeting in January there will be a session to discuss improvements to recording of fraud risk at the planning stage and how this should be documented in scoping notes, TOR and RACE. Improvements to the fraud risk register which are currently underway will assist with the documentation of fraud risk.	Sarah Cox	January 2018 team meeting to agree improvements in evidencing fraud risk considerations.



No	Recommendation	Response	Responsible officer	Action date
R4	Document the methodology used to draw up the annual audit plan	The outline methodology is documented in audit planning working papers and the overall approach outlined in the Internal Audit Strategy and Annual Plan, however it is acknowledged that a further working paper to support the final inclusion of audits within the plan should be maintained.	Sarah Cox	February 2018 as part of 2018/19 Internal Audit Planning Process.
R5	Include in the annual plan or covering report: <ul style="list-style-type: none"> <li>• Reference to how the team will be developed (for example, outlining the training being undertaken)</li> <li>• Information regarding planning in accordance with the Charter</li> <li>• The contribution made to delivering organisational priorities and objectives</li> </ul>	<p>The Internal Audit Strategy and Plan for 2018/19 will include reference to team development. It will also confirm the connection to the Internal Audit Charter.</p> <p>Audit planning has already commenced for 2018/19 and improvements already in place to ensure that the plan for next year will be linked to the revised corporate objectives and be more closely aligned to the risk management process and the recently improved strategic risk register. The overall methodology documented within the Internal Audit Strategy and Plan will be updated to reflect the improvements to the planning process.</p>	Sarah Cox	April 2018 – Internal Audit Strategy and Plan 2018/19
R6	Identify on the plan: <ul style="list-style-type: none"> <li>• Assignment priorities</li> <li>• An estimate of the resources required for each assignment</li> <li>• The split between assurance and other audit work</li> </ul>	<p>The audit plan for 2018/19 will include a priority assessment of each assignment, using H, M, L.</p> <p>For 2018/19 whilst not intended to provide an estimate on the individual resources for each assignment, there will be more detail provided on the estimated overall days for different work, e.g. audits assignments, advice, other chargeable and non-chargeable activities.</p>	Sarah Cox	April 2018 – Internal Audit Strategy and Plan 2018/19
R7	Undertake audits of the Council's ethical arrangements, either as a	Examples were discussed as part of the external assessment as to how ethical matters are	Sarah Cox	Team meeting in January 2018.

No	Recommendation	Response	Responsible officer	Action date
	one-off or by building ethical matters into relevant audits	considered as part of individual audits, for example highlighting weaknesses with management behaviours, etc. This will continue to be the approach however to ensure this continues to be considered where relevant there will be a session at the team meeting in January.		
R8	Amend the audit terms of reference to address the required items	The standard wording in the terms of reference will be reviewed and changes agreed at the team meeting in January.	Sarah Cox	Team meeting in January 2018
R9	Ensure that the RACE is approved before implementation	The RACE is always reviewed by either one of the Principal Auditors or the Chief Internal Auditor, prior to commencement of fieldwork, however this is not formally evidenced. A box can be added to the sign off section of the RACE to document this.	Sarah Cox	January 2018
R10	Develop and document a retention schedule for internal audit's records	The Council's retention schedule covers Finance and not specifically Internal Audit. This can be made more explicit for Internal Audit retention of records within our Internal Audit Procedures Manual.	Sarah Cox	January 2018
R11	Revise the annual audit opinion to address the strategies, objectives and risks of the Council. Include specific reference to governance and risk management arrangements	The wording of the annual audit opinion will be reviewed and revised where appropriate for inclusion in the Annual report for 17/18.	Sarah Cox	April 2018
R12	Include the report distribution list on audit reports	The template report will be updated to include the final audit report distribution list.	Sarah Cox	January 2018 – all reports finalised from this date.

## Suggestions

<b>No</b>	<b>Suggestion</b>	<b>Response</b>	<b>Responsible officer</b>	<b>Action date</b>
S1	Invite others from within the Council, for example the Audit and Governance Working Group, to contribute to self-assessments	This will be discussed further with the Monitoring Officer who leads the independent review of the Effectiveness of Internal Audit	Sarah Cox	April 2018

## Appendix 2: interviewees

<b>Person</b>	<b>Position</b>
Lorna Baxter	Director of Finance and s151 Officer
Jot Bougan	IT Auditor
Peter Clark	Chief Executive
Tessa Clayton	Principal Auditor
Georgina Cox	Auditor
Sarah Cox	Chief Internal Auditor
Ian Dyson	Assistant Chief Finance Officer
Martin Dyson	Senior Auditor
Nick Graham	Director of Law and Governance
Joanne Hilliar	Auditor
Owen Jenkins	Director for Infrastructure Delivery
Dr Geoff Jones	Chair, Audit Working Group
Katherine Kitashima	Principal Auditor
Graham Shaw	Director of Customer Experience

## **AUDIT and GOVERNANCE COMMITTEE – 10 JANUARY 2018**

### **REPORT OF THE AUDIT WORKING GROUP (AWG)**

The Audit Working Group met on Wednesday 6 December 2017.

#### **Wednesday 6 September:**

Attendance:

Full Meeting:

Chairman Dr Geoff Jones; Cllr Nick Carter; Cllr Roz Smith; Cllr Helen Evans; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Georgina Cox (minutes)

Part Meeting: Clair Pollock, Corporate Income and Finance Improvement Manager

#### **Matters to Report:**

##### **AWG 17.31 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.

Reports graded red status from 2016/17 of Capital Programme and Mental Health, and from 2017/18 the audit of S106, continue to be monitored by the AWG. Officers will be attending the February and April 2018 AWG meetings to provide updates on implementation of action plans.

The group noted their concerns with the recent audit of the Fostering Service, which followed up from the audit in 2015/16. Whilst the overall conclusion was Amber, the area of external foster care payments was graded red. Weaknesses identified in relation to the controls in place around IPAs (individual placement agreements) identified in the initial audit in 2015/16 had not been sufficiently addressed and therefore have been reported again. The executive summary of the report will be presented within the routine Internal Audit update to the Audit & Governance Committee in January. Prior to that the group have requested a written update from Children's to be provided to the Chair of the Audit & Governance Committee and Chair of Audit Working Group prior to the January Audit Committee providing an update on how the weaknesses will be addressed and timescales.

The group noted that the recent audit of PSN (executive summary to also be included in the Internal Audit update to January Audit & Governance Committee) referred to the outstanding management action from the Cyber Security audit regarding the patching policy. The group acknowledged the presentation and update provided by Graham Shaw, Director of Customer Experience at the November Committee meeting and that for the January Committee could a verbal update to confirm the implementation progress of the actions outstanding from the Cyber Security Audit be included in the GDPR (General Data Protection Regulation) item.

The group noted the work undertaken on the Counter Fraud Plan.

The group noted the position with overdue 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 17/18 plan.

### **AWG 17.34 Finance Update**

The group received an update from Ian Dyson, Assistant Chief Finance Officer (Assurance) on current developments which Finance are leading on. The group were also updated on the position of the Finance restructure and current work being undertaken within the organisation led by PWC.

The group were pleased to hear the good progress made in the areas of debt recovery and the BDU (bulk data upload). They noted the ongoing work regarding duplicate payments, purchase to pay system, cheque payments, and direct payments. It was highlighted that there was a gap in governance around VAT and an Internal Audit has been commissioned to test the level of compliance across the organisation in relation to income.

Date of next meeting Wednesday 7 February 2017 at 14:00.

### **Recommendations**

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

Lorna Baxter  
Director of Finance

Contact: Officer: Sarah Cox, Chief Internal Auditor  
07393 001246 [sarah.cox@oxfordshire.gov.uk](mailto:sarah.cox@oxfordshire.gov.uk)

## **AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2018/19**

### **7 March 2018**

Ernst & Young - Progress Report (David Guest)  
Local Code of Corporate Governance (Glenn Watson)  
Scale of Election Fees and Expenditure (Glenn Watson)  
Progress update on Annual Governance Statement Actions (Glenn Watson)

### **25 April 2018**

Annual Governance Statement (Glenn Watson)  
Annual Report of the Chief Internal Auditor 2017/18 (Sarah Cox)  
Internal Audit Strategy & Annual Plan 2018/19 (Sarah Cox)  
Audit Committee Annual Report to Council 2017 (Sarah Cox)  
Annual Scrutiny Report (Policy Team)  
Ernst & Young - Progress Report (David Guest)  
OFRS Statement of Assurance 2017-18 (Kerry Blair)

### **25 July 2018**

Statement of Accounts 2017/18 (Lorna Baxter)  
Ernst & Young – Final Accounts Audit (David Guest)  
Treasury Management Outturn 2017/18 (Joseph Turner)  
Review of effectiveness of internal audit (Glenn Watson)  
Internal Audit Charter (Sarah Cox)

### **12 September 2018**

Local Government Ombudsman's Review of Oxfordshire County Council (Nick Graham)  
Internal Audit Plan – Progress Report (Sarah Cox)  
Surveillance Commissioner's Inspection and Regulation of Investigatory Powers Act (Glenn Watson / Richard Webb)  
Monitoring Officer Annual Report (Nick Graham)  
Ernst & Young - Progress Report (David Guest)

### **14 November 2018**

Ernst & Young: Annual Audit Letter (David Guest)  
Treasury Management Mid Term Review (Joseph Turner)

### **9 January 2019**

Internal Audit Plan – Progress Report (Sarah Cox)  
Ernst & Young - Audit Plan (David Guest)  
Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20 (Joseph Turner)  
Constitution Review (Glenn Watson)

### ***Standing Items:***

- Audit Working Group reports (Sarah Cox)
- Audit & Governance Committee Work Programme – update/review (Committee Officer/Chairman/relevant officers)

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