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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Audit & Governance Committee

Notice of a Meeting of the Audit & Governance Committee

Wednesday, 15 January 2020 at 2.30 pm

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

Yvonne Rees
Chief Executive

January 2020

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	D. McIlveen	Vacancy
Dr Simon Clarke	Glynis Phillips	
Charles Mathew	Roz Smith	

Co-optee

Dr Geoff Jones

Notes:

- ***There will be a pre-meeting briefing at County Hall in the Members' Boardroom on Friday 10 January 2020 at 9.30am for the Chairman, Deputy Chairman and Opposition Group Spokesman.***
- ***There will be a private Treasury Management briefing at 1.30pm on the day of the Committee meeting in Room 2.***
- ***Date of next meeting: 18 March 2020.***

Declarations of Interest

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

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

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

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

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

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

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

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

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

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

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

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

AGENDA

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

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

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

To approve the minutes of the meeting held on 13 November 2019 and to receive information arising from them.

4. **Petitions and Public Address**

5. **Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21** (Pages 9 - 26)

2.40pm

Report from Director for Finance.

The report contains the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 in compliance with the CIPFA Code of Practice. The report sets out the borrowing and investment strategies for 2020/21 and relevant background information.

The Committee is RECOMMENDED to endorse the Treasury Management Strategy for 2020/21 as outlined in the report.

6. **External Auditors** (Verbal Report)

3.10pm

Representatives from the external auditors Ernst & Young will attend to present a report.

7. **Internal Audit Plan - Progress Report** (Pages 27 - 56)

3.25pm

Report from Director for Finance.

This report presents the Internal Audit progress report for 2019/20.

The Committee is RECOMMENDED to note the progress with the 19/20 Internal

Audit Plan and the outcome of the completed audits.

8. **Audit Working Group Report** (Pages 57 - 60)

3.55pm

Report from Director for Finance.

This report presents the matters considered by the Audit Working Group Meeting of 18 December 2019.

The Committee is RECOMMENDED to note the report.

9. **Work Programme** (Pages 61 - 62)

4.05pm

To review the Committee's work programme and meeting dates.

Close of meeting

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

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 13 November 2019 commencing at 2.00 pm and finishing at 5.00 pm

Present:

Voting Members:	Councillor Nick Carter – in the Chair
	Councillor Tony Ilott (Deputy Chairman) Councillor Paul Buckley Councillor Dr Simon Clarke Councillor Charles Mathew Councillor D. McIlveen Councillor Glynis Phillips Councillor Roz Smith
Non-voting Members:	Dr Geoff Jones
By Invitation:	Richard Lovewell, Skanska Adrian Balmer, Ernst & Young

Officers:

Whole of meeting	Lorna Baxter, Director for Finance; Sarah Cox, Chief Internal Auditor; Colm Ó Caomhánaigh, Committee Officer

Part of meeting

Agenda Item	**Officer Attending**
5	Steve Smith, Head of Commissioning, Communities Directorate
7	Tim Chapple, Financial Manager – Treasury
8	Hannah Doney, Head of Corporate Finance
9	Sean Collins, Service Manager (Pensions)
10	Tessa Clayton, Audit Manager
12	Glenn Watson, Principal Governance Officer
13, 14, 16	George Eleftheriou, Director for Property, Investment and Facilities Management
13	Phil Longford, Soft Services Lead
14	Liz Clutterbrook, Service Delivery Lead Property; Anthony Hulsman, Hard Services Lead
16	Andrew Fairweather, Asset & Investment Team Manager

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

74/19 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

There were no apologies received.

The Chairman noted that he hoped to ensure that the vacant position is filled by the next meeting in January.

75/19 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE
(Agenda No. 2)

In relation to Agenda Item 9 Changes to Constitution of Pension Fund Committee, Councillors Charles Mathew and Roz Smith declared that they are members of the Pension Fund Committee.

76/19 MINUTES
(Agenda No. 3)

The minutes of the meeting on 11 September 2019 were approved and signed.

On Item 66/19 External Auditors, Adrian Balmer confirmed that they met the deadline with the National Audit Office.

On Item 70/19 Internal Audit Plan, Sarah Cox confirmed that new audit staff had been appointed and that the Audit Plan in being reviewed. They expect to deliver all that they were hoping to.

The Health and Safety issue will be updated in the January report.

77/19 UPDATE ON HIGHWAYS PAYMENTS
(Agenda No. 5)

Steve Smith introduced the report. He recapped on the original problem with the SkanWorks system of tracking payments which meant that the Council could not make payments until they had been manually verified. At the peak there was a backlog of £6.5m. Skanska lost five optional one-year extensions on the contract over the problem. The issue has been substantially resolved now but there is a large backlog of payments to be worked through. They currently amount to £2.1m.

Steve Smith and Richard Lovewell of Skanska responded to Members' questions as follows:

- The management actions referred to in paragraph 3 were driven by the Council side. Staff will be trained on the new software once it is confirmed to be bug-free.
- The "mitigation measures" referred to in paragraph 4 are basically not paying until manually checked.
- Sufficient staffing is there to handle business-as-usual – the difficulty is clearing the backlog. It should be cleared by the end of the financial year in March.
- Inspections and KPIs are the primary measures used.

- Asset management are looking at more automated communications, for example in the case of temporary repairs pending more substantial work.
- The employment market is challenging at the moment with so much money being put into infrastructure projects.
- Work done through Oxford Direct Services is not affected.
- Increased efficiencies are being constantly discussed. Graphine is currently being trialed. It's added to the binder and could increase durability by 25 to 50%. It also uses hard plastics that are otherwise difficult to recycle.
- The Skanska contract currently ends in 2023 but there are two possible one-year extensions still to be decided. The procurement process for the next contract will commence early next year.

The Chairman requested that the service better promote to councillors and the public trials that are being carried out.

It was agreed that the situation was no longer urgent and the Committee would await the outcome of the internal audit in the next few months.

RESOLVED: to note progress to date.

78/19 EXTERNAL AUDITORS

(Agenda No. 6)

Adrian Balmer gave a verbal update. He had met with Council officers to review the 2018/19 audit plan with a view to making improvements in the 2019/20 plan. This will be presented to the Committee at the January meeting.

The Chairman, referring to the briefing document provided by Ernst & Young, stated that reports with unnecessary pictures and blank pages for notes will not be acceptable to the Committee in future.

Adrian Balmer summarised the briefing for the local government sector. The NAO consultation is likely to result in more work in annual audits on Value for Money which will be reported by the end of September each year. It is expected that this will result either in a higher audit fee or a separate fee for the Value for Money work. Reviews have suggested that fees are currently too low.

Members expressed the view that transparency suffered in line with reduced fees and that transparency must improve if fees are increased.

Asked about the reference to an expectation gap on Agenda Page 20, Adrian Balmer gave the example of the figure for materiality which members of the public would think is very high.

In reference to whether the briefing document was current, Lorna Baxter confirmed that it has been known since early September that the fair funding review will not be in time to be implemented for the 2020/21 financial year and that the social care grants will continue for another year in 2020/21.

It was agreed to circulate to Members by email, Ernst & Young's responses to the reviews and the Council's response to the Redmond Review.

79/19 TREASURY MANAGEMENT MID TERM REVIEW
(Agenda No. 7)

Tim Chapple summarised the report. The Council achieved an average in-house return for the period of 0.93%, below the budgeted rate of 0.98% set in the strategy. This was because the expected increase in interest rates did not happen. However, due to higher than budgeted cash balances, income receivable will be at least the level budgeted. Dividends from external funds and interest payable are in line with the budget.

Members raised a number of points and Officers responded as follows:

- Because the Treasury announced an increase of an extra 100 basis points over Gilts to PWLB rates in October, the Council was able to benefit from higher interest rates from lending to other local authorities. However, this also makes any borrowing the Council needs to do in the future more expensive.
- Although all the main parties are promising increases in spending, most analysts do not predict an increase in interest rates.
- The strategy for borrowing provides an option to fund new or replacement borrowing up to £100m through internal borrowing. We have only just gone into an internal borrowing position.

RESOLVED: to
a) note the report, and
b) recommend Council to note the Council's Mid-Term Treasury Management Review 2019/20.

80/19 FINANCIAL MANAGEMENT CODE
(Agenda No. 8)

Lorna Baxter introduced the item. The new code will come into full effect for the 2021/22 financial year. Hannah Doney gave a presentation outlining an early assessment of the code.

Officers responded to Members' questions as follows:

- The full guidance is not available yet but it is likely that the term "Leadership Team" is meant to include Members.
- It is proposed that the role of this Committee will be to examine budget processes rather than the numbers, which is the role of the Performance Scrutiny Committee. For example, this Committee could examine how the corporate plan links to the budget and if the budget is based on realistic assumptions. It was suggested that this would probably involve a presentation followed by an hour's discussion once a year. The Committee could focus on different aspects each year.
- We are doing much of this already but must be able to demonstrate it under the new code.

81/19 CHANGES TO CONSTITUTION OF PENSION FUND COMMITTEE

(Agenda No. 9)

Sean Collins summarised the report. The Pension Fund Committee (PFC) was in full agreement that training be required for Members of the PFC to ensure compliance with governance standards. At their meeting in September they discuss the issue of substitutes at PFC meetings and considered two options proposed by officers: that no substitutions be allowed or that only named substitutes be allowed who have completed the training. The option not to allow substitutes was adopted as a recommendation by six votes to four. It was up to the Audit & Governance Committee to recommend this to Council or to take a different view.

Members were agreed with recommendations a), b), d) and e).

Councillor Roz Smith, a Member of the PFC, stated that she could not see any reason why substitutes should not be allowed provided they had completed the training. Members might miss meetings due to unforeseen circumstances. There were only two Members of the PFC representing District Councils and she thought that it was particularly important that they should be able to be substituted.

Councillor Charles Mathew, a Member of the PFC, believed that Members of the PFC needed a sophisticated knowledge of pension law and investment. Substitute members – even if trained – could muddy discussions as a build-up of understanding is important.

Councillor Glynis Phillips asked if items on a PFC agenda were usually urgent or could a meeting be deferred if it looked like attendance was going to be poor. Sean Collins responded that officers can be delegated to make urgent decisions. Most items on an agenda could be deferred if necessary.

The Chairman suggested trialing no substitutes for one year. Councillor Paul Buckley disagreed saying that the situation whereby District Council representatives could not attend might not occur in a one-year period. He suggested as a compromise that substitutes only be allowed for District Council representatives.

The Chairman proposed to put the recommendations from the PFC to a vote. If the vote was not passed, he would put alternatives to a vote.

The recommendations were adopted by 6 votes to 2. Councillor Roz Smith asked for it to be minuted that she was only opposed to recommendation c) and supported the other recommendations.

RESOLVED: to endorse the recommendations agreed by the Pension Fund Committee as set out below and RECOMMEND them to Council:

a) Ask Officers to draw up a Training Policy consistent with the proposals contained in the annex and summarised in paragraph 4 of this report;

b) Agree to amend the Pension Fund Committee Governance Policy to mandate all Members of the Pension Fund Committee to complete training in line with the Training Policy;

c) Amend the constitution so that no substitutions are allowed for Members of the Pension Fund Committee;

d) Ask Officers in consultation with the Chairman, Deputy chairman and Opposition Spokesperson of the Pension Fund Committee to amend their Governance Policy/Terms of Reference to ensure the independence and impartiality of the Pension Fund Committee Members is assured; and

e) Make the appropriate changes to the Terms of Reference and Constitution to formalise the new governance arrangements.

82/19 UPDATE ON COUNTER FRAUD STRATEGY AND PLAN FOR 2019/20

(Agenda No. 10)

Sarah Cox summarised the report. Although a candidate had been identified for the position of Investigation Officer, they declined the offer. Options within the Council are now being explored. Training for Members is needed and there will be a survey of awareness among officers.

Sarah Cox and Tessa Clayton responded to Members' questions as follows:

- There are currently three cases under police investigation, none of them substantial.
- Discussions with Bucks County Council about joint-working are all early conversations.
- WODC uses the Glocs service – we are having discussions with both. South & Vale have a small resource. Cherwell uses the City service. We want to make sure there is a strong fraud response across all Councils.
- A Deprivation of Assets project coordinator has been appointed and is currently examining processes in other authorities. This involves identifying cases where people transfer assets to try to avoid care costs. A Council needs to decide how hard it wants to be on this issue. There can also be safeguarding issues.
- The new fraud case management system, Opus, went live in September.
- The figure of 2,379 bus passes cancelled is over two years. A reminder is included in information for surviving relatives.

RESOLVED: to note the progress with delivery of Counter Fraud Strategy and Plan for 2019/20.

83/19 AUDIT WORKING GROUP REPORT

(Agenda No. 11)

Sarah Cox introduced the report and asked if Members wanted the S106 issue to come before the Committee. It was agreed that it was sufficient for it to be reviewed at the AWG in June but that update will be critical.

Councillor Charles Mathew expressed great concern that the S106 and security bonds issues had both continued for over a year. He understood the recruitment challenges but the Council needed to make sure such problems were advanced.

Sarah Cox responded that the Chief Executive had made it clear that the situation is not acceptable. The AWG was more encouraged by the latest update which indicated that a new culture was being instilled. It is expected that the required software will be procured by June 2020.

RESOLVED: to note the report.

84/19 AUDIT & GOVERNANCE COMMITTEE TERMS OF REFERENCE

(Agenda No. 12)

Sarah Cox introduced the report. The new Terms of Reference do not material change anything, it's about clarity of wording. The CIPFA template was used and Glenn Watson ensured that any local requirements were covered.

Glenn Watson clarified that, although the December Council meeting had been cancelled, it falls to the Monitoring Officer to bring the changes into effect. This must be reported to Council but Council's approval is not required.

Councillor Roz Smith asked that training be provided for Members on Value for Money. Sarah Cox said that she would follow that up.

RESOLVED: to approve the updated terms of reference for the Audit & Governance Committee and request that this is included within the December 2019 review and update of the Constitution.

85/19 CORPORATE SECURITY UPDATE

(Agenda No. 13)

George Eleftheriou gave a verbal update. Currently security processes are dispersed and work has been going on in determining what is there in order to bring them into one service which will be under the Director for Property, Investment and Facilities Management.

The survey showed that most processes are functioning well but some were lacking. The next phase is to package them and see if particularly expertise is needed. Other work such as the Health and Safety Review is being incorporated.

Phil Longford added that they are working with all sections of the Council including the fire service and HR for example. They are looking at information governance and supply chain issues as well.

Members agreed that issues for lone workers are of high importance and asked that there should be some training for Members also on dealing with risks that they face.

86/19 CARILLION RECOVERY PLAN UPDATE
(Agenda No. 14)

George Eleftheriou summarized the report. It was now known, line-by-line, what needs to be done. The items will be broken down into three categories and contracts will be bundled to ensure the most efficient delivery. Work will start on the ground next year. All Headteachers have been informed and it is expected that most work will be completed by the end of next year.

Members thanked officers for the progress to date.

RESOLVED: to note the contents of the report.

87/19 EXEMPT ITEM
(Agenda No. 15)

The Chairman asked if any Member wished to discuss specific information in the exempt report in which case the meeting would have to continue in private. It was agreed that there was no need to go into private session.

88/19 CARILLION LEGACY PROGRAMME - NEGOTIATION ACTIVITY
(Agenda No. 16)

George Eleftheriou reported that the Council had done everything that was needed on its side. It was now up to the liquidators to respond.

Members agreed and asked for the matter to be brought back if there are any material changes.

RESOLVED: to note the contents of the report.

89/19 WORK PROGRAMME
(Agenda No. 17)

The following changes were agreed:

- Add Counter Fraud Update to the 18 March 2020 meeting.
- The meeting on 15 January 2020 will start at 2.30pm.
- The meeting in September 2020 will be changed to 16th.

.... in the Chair

Date of signing ....

Division(s): N/A

AUDIT & GOVERNENCE COMMITTEE – 15 January 2020

Treasury Management Strategy Statement & Annual Investment Strategy for 2020/21

RECOMMENDATION

1. **The Committee is RECOMMENDED to endorse the Treasury Management Strategy for 2020/21 as outlined in the report.**

Executive Summary

2. The Treasury Management Strategy & Annual Investment Strategy for 2020/21 outlines the Council's risk appetite and strategic objectives in terms of its debt and investment management for the financial year 2020/21.

3. The forecast average cash balance for 2020/21 is £396m. The Council will maintain the £101.m invested in strategic pooled funds, with the remaining £295m being managed internally with a mixture of short, medium and long-term deposits.

4. The Bank of England Base Rate is forecast to remain at 0.75% for the foreseeable future, with heavy risk weighting to the downside.

5. UK Government Gilt yields are likely to remain below 1.40% for the foreseeable future, however the PWLB[1] have increased their borrowing rates to 180 basis points over gilts.

6. With the prospect of interest rates remaining lower for longer, and cash balances being higher than previously forecast over the medium term, it is recommended to increase the long-term lending limit from £180m to £200m in 2020/21, tapering down to £150m by 2023/24.

7. As a result of PWLB increasing their lending rates, peer to peer lending rates have increased. To take advantage of higher lending returns in peer to peer lending, it is recommended to increase the during of deposits with other Local Authorities from 3 years to 5 years.

8. Changes to the Treasury Management Strategy will be delegated to the Director of Finance in consultation with the Leader of the Council and Cabinet Member for Finance

Environmental Impact

9. This report is not expected to have any negative impact with regards to the Council's zero carbon emissions commitment by 2030.

[1] Public Works Loans Board

10. The Treasury Management Strategy Team (TMST) will consider investments that may make a positive contribution to the Council's carbon commitment when appropriate opportunities become available. The TMST will continue to explore Ethical, Sustainable and good Governance investment practices.

11. The Treasury Management team are actively looking at ways to work in a more environmentally friendly way, including reducing paper consumption and more remote working capabilities which may reduce the requirement for staff to travel.

Background

12. 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.

13. 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.

14. 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."

15. The proposed strategy for 2020/21 is based upon the views of the Council's Treasury Management Strategy Team (TMST)[2], informed by market forecasts provided by the Council's treasury advisor, Arlingclose Limited.

16. It is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy, continue to be delegated to the Director of Finance in consultation with the Leader of the Council and Cabinet Member for Finance.

Treasury Limits for 2020/21 to 2023/24

17. 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'.

18. The capital investment relevant to this indicator 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.

[2] Comprising the Director of Finance, Service Manager (Pensions), Head of Corporate Finance and Treasury Manager.

Forecast Treasury Portfolio Position

19. The Council's treasury forecast portfolio position for the 2020/21 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance		
PWLB	291.383	4.493
LOBO	45.000	3.943
Money Market Loans	5.000	3.950
TOTAL EXTERNAL DEBT	341.383	
2019/20 Average Cash Balance		
Average In-House Cash	294.775	
Average Externally Managed	101.006	
TOTAL INVESTMENTS	395.781	

20. The average forecast cash balance for 2020/21 is comprised of the following:

	Average Balance £m
Earmarked Reserves	68.000
Capital and Developer Contributions	174.012
General Balances	28.000
Cashflow and Working Capital Adjustments	110.188
Provisions and Deferred Income	15.581
TOTAL	**395.781**

Treasury Management Advisors

21. Arlingclose continue to provide the Council's Treasury Management Advisory Service, following the award of a three-year contract via a competitive procurement process

Prospects for Interest Rates

Economic Background – Provided by Arlingclose

22. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

23. Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility

rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

24. In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook – Provided by Arlingclose:

25. Credit conditions for larger UK banks have remained relatively benign over the past year. There remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

26. Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast – Provided by Arlingclose:

27. Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

28. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Treasury Management Strategy Team’s View

29. 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 2020/21 and over the medium term. TMST forecast no change in base rate over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2020/21 0.75%
- 2021/22 0.75%
- 2022/23 0.75%
- 2023/24 0.75%

30. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target in-house rate of return as set out below. These rates have been incorporated into the strategic measures budget estimates:

- 2020/21 0.85%
- 2021/22 0.75%
- 2022/23 0.75%
- 2023/24 0.75%

31. The Treasury Management Strategy Team continues to monitor the risks relating to Brexit.

Borrowing Strategy

32. It is expected that the Bank Rate will remain at 0.75% during 2020/21 and that there will continue to be a high "cost of carry[3]" 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.

33. The Council only needs to borrow to finance prudential borrowing schemes. The Council's Capital Programme Financing Principles 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.

34. 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.

35. The Council's TMST have agreed that they should maintain the option to fund new or replacement borrowing up to the value of £100m 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.

36. If market conditions change unexpectedly during the 2020/21 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.

37. As the Accountable Body for OxLEP ltd, the Council will be required to prudentially borrow £41m on their behalf for project funding from 2020/21 onwards. The loans will be repaid through the retained business rates of the enterprise zone. The TMST monitor interest rates and will consider forward borrowing on behalf of OxLEP at the end of 2019/20 if it is determined to be cost-effective.

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

38. 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.

39. 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.

40. 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

41. The Council's Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing. 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 36 and increased investment in the Council's Capital Programme, and the previously agreed £120m infrastructure investment.

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

Borrowing Instruments

43. The main source of borrowing for the Council is the PWLB. The borrowing rate from the PWLB is directly linked to UK Government Gilt yield. There are three rates offered by the PWLB; the standard rate, the certainty rate and local infrastructure rate, which are 200, 180 and 60 basis points over gilts, respectively.

44. In October 2019, the PWLB increased the standard and certainty rates from 100 and 80 basis points to 200 and 180 basis points.

45. The Council will apply to qualify for the certainty rate and infrastructure rate each year as appropriate.

46. The TMST forecast for available rates from the PWLB over the medium term are as follows:

    - 3.10 – 3.20% for the Certainty rate

- 1.90 – 2.00% for the Infrastructure rate

47. 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 2020/21. As at 30 November 2019, LOBOs represent 14.06% of the total external debt.

48. The Council has five £5m LOBO's with call options in 2020/21, three of which have two call options in year, whilst two have a single call option in year. At each call date, the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid. The TMST is also exploring early repayment of LOBO's where there is a financial benefit to do so.

49. Other sources of funding be available to the Council include the money market, other Local Authorities and the Municipal Bond Fund. The TMST will consider all available funding sources when entering into any new borrowing arrangements.

Arlingclose's View on borrowing rates

50. Arlingclose have forecast gilt yields and borrowing rates over the medium term to be as follows:

Duration	Gilt Yield %	PWLB Infrastructure Rate %	PWLB Certainty Rate %
50 year	1.20 – 1.40	1.80 – 2.00	3.00 – 3.20
20 year	1.20 – 1.40	1.80 – 2.00	3.00 – 3.20
10 year	0.75 – 1.00	1.35 – 1.60	2.55 – 2.80
5 year	0.50 – 0.60	1.10 – 1.20	2.30 – 2.40

51. Arlingclose's forecasts have an upside variation range of between 30 and 45 basis points, and a downside variation range of between 40 and 60 basis points depending on the economic and political climate.

Treasury Management Prudential Indicators for Debt

Gross and Net Debt

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

Upper Limit of net debt:	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Net Debt / Gross Debt	70%	70%	70%	70%	70%

Upper and lower limits to maturity structure of fixed rate borrowing

53. 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.

54. 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.

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

Maturity structure of fixed rate borrowing during 2018/19	**Lower Limit %**	**Upper Limit %**
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	40	95

Annual Investment Strategy

56. The Council complies with all relevant treasury management regulations, codes of practice and guidance. The Council's investment priorities are: -

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

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

58. The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. Council approved the statement in February 2019.The statement has been reviewed and there are no revisions proposed.

Investment Instruments

59. Investment instruments identified for use in the 2020/21 financial year are set out in the Specified and Non-Specified instrument tables below

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

61. Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It

should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

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

Specified Investment Instrument	Minimum Credit Criteria	Use
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
UK Government Gilts	N/A	In-house on a buy and hold basis and Fund Managers
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[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	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

[4] 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.

Specified Investment Instrument	Minimum Credit Criteria	Use
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

63. Non-specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one-year investments and have high credit ratings.

64. A maximum of 50% of internal investments, and 100% of external investments will be held in non-specified investments.

Non-Specified Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period	Non-Specified Investment Instrument
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	5 years	Term Deposits – other Local Authorities (maturities in excess of 1 year)
UK Government Gilts with maturities in excess of 1 year	N/A	In-house and Fund Managers	5 years in-house, 10 years fund managers	UK Government Gilts with maturities in excess of 1 year
Collective Investment Schemes[5] but which are not credit rated	N/A	In-house and Fund Managers	Pooled Funds do not have a defined maturity date	Collective Investment Schemes[6] but which are not credit rated
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	5 years	Registered Providers
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years	Term Deposits – Banks and Building Societies (maturities in excess of 1 year)

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

Non-Specified Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period	Non-Specified Investment Instrument
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years	Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)
Bonds issued by Multilateral Development Banks	AAA	In-house and Fund Managers	25 years	Bonds issued by Multilateral Development Banks
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	5 years in-house	Bonds issued by a financial institution which is guaranteed by the UK Government
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	5 year in-house, 30 years fund managers	Sovereign Bond Issues
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	3 years	Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.
Covered Bonds	AAA	In-house and Fund Managers	20 years	Covered Bonds

Changes to Instruments

65. With the prospect of interest rate remaining low for the medium term, and with an increase in peer to peer lending rates amongst Local Authorities, it is proposed to increase the duration for deposits with other Local Authorities to 5 years (from 3 years)

Credit Quality

66. The CIPFA Code of Practice on Treasury Management (2017) 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. 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 75 and 76 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. Appropriate action will be taken for any change in rating.

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 75 and 76), that counterparty will be immediately removed from the lending list.

70. 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

71. The Council forecasts its cash flow 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

72. 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.
- Actively seeking to reduce exposure to banks with bail in risk

73. 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 75 and 76 will still apply.

74. Counterparty limits as set out in paragraphs 75 and 76, 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.

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

76. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2020/21. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings is included for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded.

LENDING LIMITS - Fitch Rating	Short Term Rating	
Long Term Rating	F1+	F1
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

77. 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

Structured Products

78. As at 30 November 2019, 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

79. 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. And, in order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

80. As at 30 November 2019, the Council had £101m invested in external funds (excluding MMFs), representing 21% of the Council's total investment portfolio.

81. The external funds have a higher targeted income return than in house deposits of 3.75% which has been incorporated into the medium-term financial plan.

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

83. The TMST will aim to maintain the balance between medium and long-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.

Treasury Management Indicators for Investments

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

84. 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.

85. During 2019/20 the limit for longer term lending was increased from £150 to £180m to reflect the higher than forecast cash balances and to take advantage of high peer to peer lending rates. Cash balances were higher than forecast due to higher levels of Developer Contributions and slippage in the capital programme. It is proposed to increase this limit to £200m for 2020/21, then reduce back down to £150m by 2023/24 as the average forecast balance reduces.

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Upper limit on principal sums invested longer than 364 days	200	170	155	150

Other Treasury Management Prudential Indicators

Upper limits on fixed and variable rate interest exposures

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

<u>Fixed interest rate exposure</u>

87. 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	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Net principal re fixed rate borrowing / investments	£350m	£350m	£350m	£350m	£350m

88. 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.

<u>Variable interest rate exposure</u>

The council will maintain a zero (or negative) net variable interest rate exposure. This is maintained by insuring the Council's variable rate debt is lower than variable rate investments

89. 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 2019/20 and the Treasury Management Mid-Term Review 2020/21, which will be considered in July and November 2020 respectively.

Policy on Use of Financial Derivatives

90. 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.

91. 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.

92. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2020/21. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

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

94. 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.

95. 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.

96. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2019/20, and the Treasury Management Mid-Term Review 2020/21, which will be considered in July and November 2020 respectively.

Investment Training

97. 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.

98. 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.

LORNA BAXTER
Director of Finance

Contact officer: Tim Chapple – Treasury Manager
Contact number: 07917 262935
December 2019

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Division(s): N/A

AUDIT and GOVERNANCE COMMITTEE – 15 JANUARY 2020

INTERNAL AUDIT 2019/20
PROGRESS REPORT

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the progress with the 19/20 Internal Audit Plan and the outcome of the completed audits.**

EXECUTIVE SUMMARY

2. This report provides an update on the Internal Audit Service, including resources, completed and planned audits. A separate update is made on counter-fraud activity, which will next be reported to the March Audit & Governance Committee.
3. We have successfully recruited two of the three vacant Senior Auditor posts. The third successful candidate unfortunately had to withdraw due to personal reasons, so recruitment has now commenced again. The Counter-Fraud Officer post is now being covered with the part-time secondment of a Trading Standards Officer. Recruitment of the AAT trainee will commence in the new year.
4. The report includes the Executive Summaries from the individual Internal Audit reports finalised since the last report to the September 2019 Committee. Since the last update there has been one further report issued with the grading of Red, Officers attended the December Audit Working Group to provide an update on the response to the report and implementation of the agreed action plan. Previous reports with the grading of Red continue to be monitored by the Audit Working Group for implementation.

PROGRESS REPORT:

RESOURCES

5. At the November Committee meeting the members were informed that the recent recruitment activity to appoint three Senior Auditors had been very successful with three offers made. Since then two of the Senior Auditors have now started with us. Unfortunately, prior to starting the third candidate withdrew due to personal issues. We have now initiated a new recruitment process to fill the remaining vacant post.

6. Within the new finance structure (implemented from 2 December 2019), Internal Audit no longer has a dedicated part-time administration resource, instead the team includes a new full time AAT trainee. This is part of the “grow your own” strategy within Finance. We will look to initiate the recruitment process for this in the new year.

7. We were unsuccessful in the recruitment of the counter fraud officer. However, since then we have started to develop a collaborative working approach with Trading Standards. One of the Trading Standards Officers has joined us from the beginning of December on a 3 day a week secondment undertaking the role of Counter Fraud Officer. There are also other resources within Trading Standards that we are looking to access as part of the arrangement, for example Financial Investigation Resource, access to intelligence databases and subscriptions. We are trialling this initially for a 6-month period.

2019/20 INTERNAL AUDIT PLAN - PROGRESS REPORT

8. The 2019/20 Internal Audit Plan, which was agreed at the May Audit & Governance Committee, is attached as Appendix 1 to this report. This shows current progress with each audit.

9. To date, there have been 11 amendments to the plan for 2019/20, 3 additions to the plan and 8 audits that have been deferred/removed until 2020/21. These are also recorded in Appendix 1. The plan and plan progress is reviewed quarterly with the individual directorate leadership teams.

10. There have been 11 audits concluded since the last update (provided to the September meeting of the Audit and Governance Committee); summaries of findings and current status of management actions are detailed in Appendix 2. The completed audits are as follows:

Directorate	2019/20 Audits	Opinion
Finance	Pension Fund	Amber
ICT	IT Project Governance	Amber
Communities	Oxford City Agency Agreement	Red
Communities / Finance	Oxfordshire LEP Partnership	Green
Adults	Hospital Social Worker Teams	Green
Childrens	Thriving Families Claim 2	n/a
Communities / Finance	Security Bonds	n/a
ICT	Datacentre Refresh Project	Green
Adults / ICT	Call Confirm Live IT Application Audit	Amber
Childrens	Placement Decisions	Amber
Childrens	Thriving Families Claim 3	n/a

The following grants were reviewed and signed off by Internal Audit at the end of September 2019:

- Local Transport Capital Block Funding (consists of Highway Maintenance Block, Highways Maintenance Incentive, Integrated Transport Highways Management Block Grant)
- Pot Hole Action Fund (PAF) Grant
- Disabled Facilities Grant (DFG)
- Bus Subsidy Revenue Grant

PERFORMANCE

11. The following performance indicators are monitored on a monthly basis. Due to the staffing position within the team for the first 8 months of the year, which has included managing vacancies, managing staffing issues and considerable days spent on recruitment activities, this has impacted on the time taken to complete audits and also the timeliness of the production of draft reports. With the two new Senior Auditors and Counter Fraud Secondment now in post, performance against these targets will improve for the final quarter.

Performance Measure	**Target**	**% Performance Achieved for 19/20 audits (as at 12/12/19)**	**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)	54%	Previously reported year-end figures: 2018/19 69% 2017/18 80% 2016/17 60% 2015/16 58%
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	74%	Previously reported year-end figures: 2018/19 82% 2017/18 95% 2016/17 94% 2015/16 96%
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	92%	Previously reported year-end figures: 2018/19 85% 2017/18 92% 2016/17 75% 2015/16 48%

The other performance indicators are:

- % of 2019/20 planned audit activity completed by 30 April 2020 - reported at year end.

- % of management actions implemented (as at 3/12/19) - 75%.
  Of the remaining there are 13% of actions that are overdue and 12% of actions not yet due.

(At Sept 2019 A&G Committee the figures reported were 72% implemented, 17% overdue and 11% not yet due)

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

COUNTER-FRAUD

12. The 2019/20 Counter-Fraud Plan progress update was presented to the November 2019 Audit & Governance Committee, the next update will be reported to the March 2020 Audit and Governance Committee.

LORNA BAXTER
Director of Finance

Background papers: None.
Contact Officer: Sarah Cox, Chief Internal Auditor: 07393 001246

APPENDIX 1 - 2019/20 INTERNAL AUDIT PLAN - PROGRESS REPORT (as at 13/12/19)

Audit	Planned Qtr start	Status	Conclusion
Corporate / Cross Cutting			
Contract Procurement – Decision Making	Q3	Deferred to 20/21 – see notes below.	-
Governance – Directors Assurance	Q3	Fieldwork	
Governance – Service / Establishment audit	Q3/Q4	Deferred to 20/21 – see notes below.	-
Induction	Q1	Final Report	Amber
Risk Management	Q4	Planned for Q4	
Performance Management	Q4	Planned for Q4	
Transformation Governance	Q3/Q4	Removed from plan – see notes below	-
Follow up – Health & Safety	Q4	Fieldwork	
Follow up – Business Continuity	Q4	Scoping	
Oxfordshire Local Enterprise Partnership	Q2	Final Report	Green
Adults / Children			
Transitions from Children to Adult Services	Q4	Deferred to 20/21 – see notes below.	-
Adults: Hospital Social Work Teams	Q1	Final Report	Green
Adults: Payments to Providers	Q3	Scoping	
Adults: Client Charging	Q3	Scoping	
Adults: Direct Payments	Q3	Fieldwork	
Adults: Contract Management	Q2	Fieldwork	
Adults: IT Audit Application Review – CM2000	Q2	Final Report	Amber
Children: Payments via ControCC	Q4	Scoping	
Children: LCS Social Work Recording	Q4	Fieldwork	
Children: Placement Decisions	Q1	Final Report	Amber
Children: Family Safeguarding Model	Q3/Q4	Fieldwork	

Children: Children Missing Education	Q2	Exit Meeting	
Children: SEND	Q3	Scoping	
Children: Troubled Families – Claim 1	Q1	Complete	n/a
Children: Troubled Families – Claim 2	Q2	Complete	n/a
Children: Troubled Families – Claim 3	Q3	Complete	n/a
Children: Troubled Families – Claim 4	Q4	March 2020	
Children: School Admissions	Q2	Exit Meeting	
Communities			
Oxford City Agency Agreement for Highway Maintenance	Q1	Final Report	Red
Property & Facilities Management	Q3/Q4	Scoping	
Highways Contract Payments	Q3	Scoping	
Communities / Resources			
Capital Programme – Formulation and Prioritisation	Q4	Deferred to 20/21 – see notes below.	-
Capital Programme – Procurement	Q2	Fieldwork	
Oxfordshire Housing and Growth Deal – Accountable Body	Q3/Q4	Deferred to 20/21 – see notes below.	-
Resources			
Pensions Administration	Q3	Fieldwork	
Pension Fund	Q1/Q2	Final Report	Amber
Accounts Payable – 19/20 Duplicate Payments	Q1	Final Report	Amber
Payroll	Q4	Planned for Q4	
IT Audits			
Backup and Recovery	Q4	Planned for Feb 2020	
IT Incident Management	Q4	Deferred to 20/21 – see notes below.	-
Data Centre Refresh	Q3	Final Report	Green
Cyber Security	Q1/Q2	Final Report	Amber
IT Disaster Recovery Planning	Q3	Deferred to 20/21 – see notes below.	-
IT Project Governance	Q2	Final Report	Amber
NHS Data Security and Protection Toolkit	Q4	Fieldwork	
(IT Application Review – see Adults plan)	-	-	-

Amendments to 2019/20 plan:

Amendments to plan - agreed with Director of Finance – to be reported to January 2020 A&G Committee:	
Deferred to 20/21 plan: Contract Procurement – Decision Making	*The audit will provide assurance that, prior to taking decisions to make a financial commitment with a third party, there is compliance with the Council's Contract Procedure Rules, a clear business need has been identified and appropriately reviewed, there is a sound commercial/commissioning strategy to ensure value for money is achieved, supply risk is managed and service objectives are met. The audit will include review of exemptions to ensure these are only granted in exceptional circumstances in line with the Council's Exemption Procedure.* Due to the current work being completed as part of the review of the Provision Cycle, the audit will be deferred until 2020/21. The audit will be able to provide assurance on the newly developed arrangements and processes. Assurance work has been completed in this area during 19/20 – with the additional work completed by Internal Audit on the Review an individual contract award process.
Deferred to 20/21 plan: Governance – Service / Establishment audit	*A small sample of service/establishment audits will be undertaken from areas across the Council to provide assurance on compliance with key Governance, HR and Financial Management policies by cost centre managers and their teams.* This will be considered for the 2020/21 Internal Audit Plan
Deferred to 20/21 plan: Transitions from Childrens to Adult Services	*The arrangements for transitions between Children and Adults has been subject to review. Following on from that work, the audit will provide assurance over the processes and governance arrangements in place to provide a smooth and coordinated transition for young people.* There are now dedicated posts within Adults to manage transitions from Children's to Adult Services. This is an interim arrangement whilst the service is subject to re-design, with a proposal within the 2020/21 budget for Children's and Adults to create a new permanent team. It has been agreed with both Deputy Directors in Children's and Adults that the timing of this audit should be deferred until 2020/21 to review the arrangements and processes once implemented.

Deferred to 20/21 plan: Capital Programme – Formulation and Prioritisation	*The audit will provide assurance on the governance and processes in place for formulation and prioritisation of projects to be included within the capital programme.* Due to the current work being completed to review the capital programme governance and processes, the audit will be deferred until 2020/21. Assurance work is being completed in this area with the audit of Capital Programme – Procurement as part of the 19/20 plan.
Deferred to 20/21 plan: Oxfordshire Housing and Growth Deal – Accountable Body	*The Deal, as announced by Government in November 2017, provides £215 million of additional government funding for Oxfordshire, to deliver the key infrastructure required to underpin proposed housing development, and additional funds to increase the supply of affordable housing.* *Delivery of the Deal is overseen by the Oxfordshire Growth Board. The Growth Board is a statutory joint committee of the 6 Oxfordshire Local Authorities, the LEP and key strategic partners.* *The audit will look to provide assurance that Oxfordshire County Council has robust processes in place to deliver its role as the accountable body.* It has been agreed with the Director of Finance, that as the Accountable Body responsibilities and arrangements are still being developed that it would be appropriate to defer this until 2020/21.
Deferred to 20/21 plan: ICT – Incident Management	*A new IT service management tool is being implemented in 2019. This audit has been c/f from 2018-19. The audit will review how incidents and service requests are reported to the IT service desk and managed through to resolution.* The new IT Service Management (ITSM) tool is still in the procurement phase. It has been agreed that the audit will be deferred until Q1 of 2020/21, and reviewed once implemented.
Deferred to 20/21 plan: ICT – Disaster Recovery Planning	*Following on from the audit of Business Continuity undertaken in 2018-19, this audit will provide assurance over the adequacy of plans in place to recover IT systems and services, within agreed timescales, following a disaster event.* This is part of the data centre refresh project, the technology for which will be in place by March 2020, however there will still be work in developing the supporting processes. The audit has been deferred until Q1 of 2020/21 and will review the new arrangements.

Removed from 20/21 plan: Transformation Governance	*The audit will follow up on the audit of Transformation Governance Arrangements undertaken during 2018/19, reviewing governance processes that have since been refined and implemented. The detailed scope is to be agreed but will include review of the robustness and accuracy of reporting against key project deliverables.* The audit has been removed from the plan as the current transformation governance arrangements are in the process of being remodelled. However, assurance on the governance of major transformation programmes is still being provided for 19/20 through the audit of Family Safeguarding Model, being undertaken in quarter 4.	
Amendments to plan – agreed with Director of Finance, previously reported to Sept 19 CEDR and Sept 19 A&G Committee:		
Addition to agreed plan: Security Bonds	An Internal Audit of Security Bonds was completed in 2017/18 which had an overall conclusion of red. One of the areas where key control weaknesses were identified was in relation to the recording and administration of security bonds. Following the audit, concerns were also raised about the processes for recording, reducing and returning cash bonds, agreed for some S278 and S38 agreements. Work has been undertaken within the service to identify cash bonds currently in place, however there has been no reconciliation of cash expected to cash actually held by the Council on SAP. The audit will focus on a probity review of transactions to provide assurance that security bonds, in particular cash bonds, are recorded completely and accurately, that monies received are properly accounted for and that the processes in place for the reduction and return of cash bond monies held are appropriate.	Final Report
Addition to agreed plan: Q1 advice to schools	1) Internal Audit were requested to independently review the methodology used by Finance to confirm the financial positions of three schools following their defederation. – This has been completed and confirmed as appropriate and reasonable. 2) Advice provided to a new Chair of Governors for and IEB of a primary school where weaknesses with governance and internal control arrangements of	Complete Complete

	previous management had been identified. Additional work undertaken by Internal Audit to analyse procurement card expenditure.	
Addition to agreed plan: Adults: Review of an Individual Contract Award Process	Internal Audit were requested to undertake a review into a recent Contract Award process. Concerns were raised by management due to the award and transfer process failing at the last minute, resulting in the incumbent provider being requested to continue in the interim.	Final Report

APPENDIX 2 - EXECUTIVE SUMMARIES OF COMPLETED AUDITS

Summary of Completed Audits 2019/20 since last reported to Audit & Governance Committee Sept 2019:

The below executive summaries of Pension Fund, IT Project Governance, Oxford City Agency Agreement, Oxfordshire LEP Partnership, Hospital Social Worker Teams, Thriving Families Claim 2, Security Bonds have already been reported and considered by the Dec AWG.

Since then Data Centre Refresh Project, Call Confirm Live Application, Placements and Thriving Families Claim 3 have also been finalised and are included in this report.

Pension Fund

Overall conclusion on the system of internal control being maintained	**A**

RISK AREAS	**AREA CONCLUSION**	**No of Priority 1 Management Actions**	**No of Priority 2 Management Actions**
A: Pension Fund, Governance and Strategy	**A**	**0**	**2**
B: External Provider Performance	**A**	**0**	**2**
C: Transactions	**G**	**0**	**0**
D: Pension Fund Assets	**G**	**0**	**0**
		0	**4**

Opinion: Amber	04 September 2019	
Total: 4	Priority 1 = 0	Priority 2 = 4
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	4	

Since the conclusion of the previous internal audit of the Pension Fund, reported on in the spring of 2018, the Oxfordshire Pension Fund, along with 9 other local authority pension funds, has formally become part of the Brunel Pension Partnership (BPP) which pools the investment assets through a limited company jointly owned by the administering authorities of the participating funds. There is a Service Agreement and transition plan in place for the transitioning of funds over to the management of the BPP. Transfer of assets to the Brunel Pension Partnership began in April 2018 and based on the current participants will deal with approximately £30bn of assets. The Oxfordshire Pension Fund currently has assets valued at just over £2.5bn (as at March 2019).

The audit, in addition to reviewing the governance and strategy arrangements in place over the management of the Oxfordshire Pension Fund by County Council staff, considered the adequacy of BPP governance arrangements to provide the Oxfordshire Pension Fund and its members with assurance that the new partnership arrangements are appropriately controlled and monitored. Whilst it was found that there were mechanisms in place for monitoring and reporting back on the performance of the BPP, it was noted that KPI reporting is still in the process of being developed. There are a number of KPIs which are still to be defined and there is no systematic and regular reporting on KPIs by the BPP. Additionally, the Client Assurance Framework, which will clearly define responsibilities and expectations in relation to the different type of funds managed as part of the BPP arrangements, is in the process of being confirmed and agreed. It is expected that the remaining parts of the framework, which have not yet been agreed, will be confirmed and agreed by the partnership Client Group, with Oxfordshire Pension Fund Committee approval to follow in September 2019.

The relationship between the Custodian, the Oxfordshire Pension Fund and the BPP and the way in which payments are processed by BPP to the Custodian on behalf of the Oxfordshire Pension Fund requires some clarification. Although as part of the BPP arrangements, the BPP has taken over responsibility for management of the relationship between the Oxfordshire Pension Fund and the Custodian, it has not been possible to confirm whether this arrangement covers all funds overseen by the Custodian on behalf of the Oxfordshire Pension Fund or just those funds which are managed by the BPP. Additionally, it was noted that whilst BPP are processing and paying the Custodian’s invoices on behalf of the Oxfordshire Pension Fund, there are no checks carried out by Oxfordshire County Council staff which provide assurance that the amounts being charged are complete and correct and no information is being provided by Brunel which confirms this.

Overall, governance over the Oxfordshire Pension Fund continues to remain strong, throughout the course of the audit it was observed that controls were generally well designed and that procedures and controls for general management of the fund were robust.

Follow up - The effectiveness of implementation of the management action agreed following the previous audit was reviewed and it was confirmed to have been implemented effectively.

IT Project Governance Review 2019/20

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Project Standards	G	0	2
Project Structures	A	0	6
Key Documentation	A	0	3
Project Timescales	G	0	0
Budget Monitoring	G	0	0
Post Implementation Reviews	A	0	1
		0	13

Opinion: Amber	09 September 2019	
Total: 13	Priority 1 = 0	Priority 2 = 13
Current Status:		
Implemented	13	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

There is a programme delivery team in ICT that manages IT projects. Members of the team were moved into the corporate Programme Management Office (PMO) in April 2017, as part of the Fit for the Future programme, but moved back into ICT in 2018 when the PMO was under review. IT project managers hold a Prince 2 qualification and work to a Prince 2 based project management methodology, utilising template documents that were developed by the PMO and are available on the Intranet. The only exception to this is the Digital ICT workstream, which adopts an agile project management methodology, which needs to be formally defined in terms of requirements and processes. A central register of IT projects is maintained by the ICT Programme Delivery Manager, although it was noted that certain details are missing for some projects and this reduces the effectiveness of the register as a monitoring tool.

Formal project structures are in place and have improved in 2019 with the establishment of an ICT Programme Board and an IT Governance Board. The ICT Programme Board is responsible for overseeing all ICT projects from a delivery perspective and the IT Governance Board, which is chaired by the

Corporate Director (Customers and Organisational Development) and reports to CEDR, is responsible for ensuring IT project delivery is aligned to corporate strategy and priorities. Regarding structures and roles, the following has been identified:

- ICT are not represented on the Transforming Service Delivery Workstream Board and do not have formalised and regular meetings with Programme Managers from Adult's and Children's. Hence, they may be unaware of all IT projects in service areas and are unable to advise on the suitability of potential IT solutions;
- Business area representatives have yet to be confirmed for the IT Governance Board;
- The senior supplier role within projects is not explicitly defined, which could lead to the role not being performed;
- The ICT Programme Board terms of reference need further detail to ensure it operates effectively;
- Roles and responsibilities for key project members e.g. project sponsor, project manager and senior customer are only defined at a high-level, which could lead to key tasks not being performed;
- The Business Systems Steering Group agenda does not include a review of project financials, risks and issues.

A new priority order for scheduling IT projects has been documented to ensure ICT resources are steered towards the delivery of corporate objectives/plan. The priority levels have been agreed by the IT Governance Board. The benefits to be delivered by each project are defined within the Project Initiation Document (PID), however, we found that they are not always measurable and hence it is difficult to subsequently confirm they have been achieved. Processes for project risk and issue management are in place, including template documents, although we found that issues are not prioritised and hence it may not be possible to identify and monitor those that are key to the successful delivery of the project. Highlight reports are used for reporting on projects to each of the ICT Steering Groups and the ICT Programme Board.

A project plan is a mandatory document that is used to monitor the timeliness of a project. A project change request has to be raised for any deviations from the agreed scope or plan and approved by the ICT Programme Board. Project costs are included within the PID and monitored by the project manager. A RAG status for the financials of a project is included in the relevant Highlight Report for the Digital Steering Group, but not for the Business Systems Steering Group as detailed above.

IT projects are formally closed, which includes a review of the benefits stated in the PID. However, this will only be the benefits realised at the end of a project and not any that are anticipated over the longer-term. Responsibilities for reviewing the achievement of longer-term benefits is not defined and hence there is no assurance that they are realised.

Oxford City Council Agency Agreement 2019/20

The full report was presented and considered by the December AWG with officers attending to update on progress with implementation of the action plan.

Overall conclusion on the system of internal control being maintained	**R**

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Risk Area A: Governance and Oversight	**R**	**2**	**5**
Risk Area B: Operational Assurance	**R**	**2**	**3**
Risk Area C: Invoicing	**A**	**0**	**0**
		4	**8**

Opinion: Red	11 October 2019	
Total: 3	Priority 1 = 4	Priority 2 = 8
Current Status:		
Implemented	6	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	6	

Background

The Oxford City Council Agency Agreement started in September 2018, to provide routine and reactive works to maintain the classified road network within the Oxford City boundary. The Agreement is between the County and City Councils, under Section 101 of the Local Government Act 1972, which provides for Local Authorities to delegate functions to one another. The County Council retains ultimate responsibility for the road network, whilst the operational activity is delegated to the City Council, who then use Oxford Direct Services (ODS) for delivery of the works. The current Agreement adds to the pre-existing S42 Agreement between County and City Councils for highways maintenance (the new Agreement commonly being referred to as S42+). This audit focused on the S42+ / S101 Agreement arrangements.

Whilst the audit is graded Red, it is recognised that some of the issues are wider, corporate issues not only related to this particular Agreement, including the lack of policy on performance managing S101 Agreements and some system issues which affect multiple teams and contracts. It is further noted that the opinion is based upon a lack of assurance identified at the time of the audit looking retrospectively, but that steps were already being taken to address these gaps in assurance, which when operating effectively could quite quickly improve the audit opinion.

Governance and Oversight

The audit highlights a wider issue regarding the level of performance monitoring required for S101 Agreements. There was a perception with this arrangement that with the delegation of functions comes the delegation of responsibility and risk; thereby reducing the requirement to undertake performance management and gain assurance. However, a risk-based decision regarding the necessary level of performance monitoring should be undertaken for S101 Agreement arrangements, with monitoring processes put in place that provide a corresponding level of oversight over delivery, quality and risk management. In this case, there had not been a risk-based decision regarding the assurance framework required and the arrangements started with very limited assurance and oversight over performance, to more recently developing a strengthened framework.

On commencement of the Agreement, defect timeliness indicators were carried forward and continued to be monitored from the original S42 Agreement, however a full suite of Key Performance Indicators were not in place, albeit draft indicators were being agreed at the time of the audit. Some performance meetings had taken place, however the Service are looking to formalise and improve these in terms of attendance, regularity and recording. Management Information to provide assurance to senior management over the performance of the Agreement is due to commence once KPI's are established.

The nature of this S101 Agreement is to delegate to Oxford City Council operational discretion over how the service is managed and delivered. However, as OCC continue to have financial responsibility for the service, a value for money review has been scheduled upon completion of the first full year's operations. The value for money and productivity of the arrangements have not previously been monitored and reported on, as there is an absence of information on outputs against costs to understand the volume of work that has been delivered under the Agreement. The Service are working on how this information will be obtained as it is currently not available as part of the KPI's or invoicing data.

Under the Arrangement, the City is responsible for monitoring the agreed threshold of works. For Defects, the threshold set for 2019/20 was 616 defects to be completed, and it is noted that this has already been reached. There is a risk that additional funds may be requested or delivery will be reduced for the remainder of this year for some types of works. The service are addressing this risk and have requested a detailed breakdown of works areas affected. Since audit testing, management have reported that they are satisfied that the City Council have the correct processes in place to highlight where this risk could be materialising to ensure that in the future, appropriate and timely discussions on overall programme spend take place.

Operational Assurance

The audit identified that there is an absence of an agreed approach to quality assurance at OCC's level. Quality checks are undertaken by ODS, however OCC do not have oversight of these or quality assurance undertaken by Oxford City Council.

There is currently no mapping or analysis of defect ‘hotspots’ or repeat works, where a defect may be repaired several times and there is no information contained in the KPI’s to this effect. The audit identified that maintenance works are not captured on the Asset Management system, HIAMS. There is therefore a risk that the County Council’s records on asset management is not up-to-date with all works completed.

Sample testing performed by Internal Audit identified that the majority of defects are being completed within the required timescales. However, issues were noted with the quality of photos uploaded to the system, as well as a current wider system fault preventing post works photos from being uploaded (this is being addressed with the system provider).

Customer Management is managed by the City Council. In the draft PI’s there are no indicators on complaints, however it was reported to internal audit that this is being added as a standard agenda item. There are indicators regarding customer satisfaction cards in the KPI’s and this feedback process is due to be implemented shortly. The audit identified a wider system issue which is County-wide, regarding communications with customers via the Fix my Street portal after the defect is closed, which appears to be a wider issue and is being investigated.

The audit noted that the Agreement is still relatively new, and both sides are working hard to develop and improve the service offering. Once the full set of KPI’s are agreed and implemented, and the HIAMS system errors are fixed it should be possible to gain improved assurance over performance, productivity and quality.

Invoicing

The audit identified that due to an oversight, the Purchase Order had not been raised for 2019/20, resulting in a delay in the City Council raising the invoice for the first quarter (the PO was raised at the time of audit reporting).

Hospital Social Work Teams 2019/20

Overall conclusion on the system of internal control being maintained	G

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Policies & Procedures	G	0	0
B: Operational Processes	G	0	0
C: Management Information	A	0	1
D: HR	G	0	0
E: Finance	A	0	2
F: IT	G	0	0
		0	3

Opinion: Green	24 October 2019	
Total: 3	Priority 1 = 0	Priority 2 = 3
Current Status:		
Implemented	2	
Due not yet actioned	1	
Partially complete	0	
Not yet Due	0	

Audit testing on hospital social care referrals demonstrated that, for the sample reviewed, teams are appropriately managing referrals and carrying out assessments to enable efficient discharge of patients once they are medically stable. Areas of good practice could be evidenced within LAS records reviewed, including prompt allocation of Social Workers when an Assessment Notice is received, close communication with family members when assessing and arranging care, and completion of mental capacity assessments to assess a patient's ability to make decisions regarding their care. Strong and effective working relationships with other internal teams (e.g. Occupational Therapy) and external agencies (e.g. NHS staff) could also be evidenced.

It was noted, however, that despite assessments being completed and authorised in a timely manner (with notes added to LAS where the SW experienced delays), the majority of the 25 referrals sampled resulted in a delayed discharge. On average, these patients were discharged 14 days after the Discharge Notice (notification from the hospital ward that the patient is medically stable for discharge) was received. The main cause for these delays was the shortage of available care packages and placements, with one patient in the sample waiting 7 weeks from their medically stable date to be discharged to a nursing home able to meet their care needs. The audit recognised the ongoing efforts by management to increase the efficiency of processes and discharges, including the new care home trial, which aims to centralise completion of contract paperwork and system updates for care homes in one team, to free up Social Workers' capacity and enable efficient payments and charges.

Internal management information was found to be reported appropriately, providing sufficient oversight to Adult Social Care management both on the Hospital Social Work Team's operational performance and DToC figures. Hospital discharges and delayed transfers also form part of CEDR and Health & Wellbeing Board measures, which are regularly reported on. Audit testing verified a sample of reported figures against source data, confirming those tested were accurate.

The Hospitals Team are also required to report DToC figures to the Department of Health every month. This is done in partnership with Oxford University Hospitals (OUH) and Oxford Health (OH), with each delayed patient receiving a code to assign a reason and responsible party to the delay. While very labour intensive, the process for preparing this data was found to be effective (no inaccuracies were identified when reviewing a sample of 20 reported delays, and challenge from OCC on delays incorrectly assigned to them could be evidenced), however inconsistences were identified between the figures agreed by OCC and the data published online by the Department of Health. This issue, which is reportedly due to system errors when OUH run final reports, had already been identified by the service area at the time of the audit, with the NHS investigating the causes errors, and an additional data checking control introduced by OCC to ensure that, going forward, reported data is accurate.

From sample testing on expenditure incurred due to out of county delays (when Oxfordshire residents are in hospitals outside of Oxfordshire and OCC social care is responsible for the delay, the hospital can charge the Council to recover costs), issues were noted with the promptness of invoice payments to one particular hospital. This is reported to be due to delays in the hospital making corrections to their data following receipt of queries from OCC. This has historically resulted in delays of over a year, however the OCC Hospitals Team are working with the hospital to make improvements to the process.

The audit confirmed data is sent securely, Hospitals Social Work staff have access to the appropriate systems, and that sufficient, up to date, and available policies and procedures are available, including guidance around managing referrals and reporting on DToC figures. Audit testing of a sample of overtime payments against the weekend rota also confirmed payments had been made accurately and promptly.

Oxfordshire Local Enterprise Partnership 2019/20

Overall conclusion on the system of internal control being maintained	**G**

RISK AREAS	**AREA CONCLUSION**	**No of Priority 1 Management Actions**	**No of Priority 2 Management Actions**
A: Governance	**G**	**0**	**1**
B: Financial Management and Procedures	**G**	**0**	**1**
C: Responsibilities of the Accountable Body	**G**	**0**	**0**
		0	**2**

Opinion: Green	24 October 2019	
Total: 2	Priority 1 = 0	Priority 2 = 2
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	2	

The audit has confirmed that there continues to be good governance and financial management arrangements operating within OxLEP and an effective working relationship between OxLEP and OCC as the Accountable Body. Areas of good practice noted during the audit included strong governance and transparency in relation to Board minutes and their timely publication, existence of key governance documentation (including Terms of Reference, Financial Regulations, Memorandum of Understanding); and frequent project monitoring and reporting. In addition, OxLEP has recently appointed three new members to its Board, meeting its target for improved gender balance ahead of schedule.

External assurance has also been provided: this includes a ‘Good’ rating issued by the Ministry of Housing, Community and Local Government (MHCLG) in two areas (governance and strategy); The Department for Business, Energy and Industrial Strategy (BEIS) have reviewed OxLEP’s Local Assurance Framework and an Internal Controls review was completed in February 2019 by an independent consultant.

Project reporting appeared comprehensive and appropriate with evidence of discussions of specific project issues discussed at Programme Sub-Group and reported through to the OxLEP Board.

There was clear and transparent governance arrangements in relation to declarations of interest both of board members and key OxLEP staff, including this being a standing agenda item at all key meetings reviewed. Some declarations have not been reviewed within the last 12 months, however, it was reported that this will be completed once board structure changes and appointments have been made.

Progress has been made in relation to reducing reliance on key members of staff both at OCC and OxLEP however there is still some work to do in ensuring key processes are fully documented.

Follow up

Following the previous audit of OxLEP undertaken in 2016/17, 11 management actions were agreed (1 Priority 1 action and 10 Priority 2 actions). 10 actions have been reported as fully implemented, the remaining action has been reported as partially implemented. Testing undertaken as part of this audit has confirmed that 7 management actions have been implemented effectively, 2 are no longer relevant, but 1 was found not to have been implemented effectively (this was in relation to the awareness of documented OxLEP procedures). Reference to the issues noted in relation to the previously agreed management action has been made within the report and a new action has been agreed to address the weakness identified. For the remaining open action, Internal Audit will continue to monitor and report on progress with implementation through the routine Internal Audit follow up process.

Troubled Families September Claim 2019/20

Since the start of Phase 2 of the government's Troubled Families programme in September 2014, OCC has submitted between 2 and 3 claims per year. During 2019/20 this changed to quarterly submissions with a view to maximising the volume of claims, particularly as next year is due to be the final year of the Programme. The current claim consists of 335 families for Significant & Sustained Progress (SSP) and 12 families for Continuous Employment (CE). The audit checked a sample of at least 10% for both claims to ensure that they met the relevant criteria for payment and had not been duplicated in the current or previous claims. Their initial eligibility criteria for inclusion in the Programme were also checked.

The audit noted further improvements in the internal processes for data checking and validation, however as with previous claims, issues were noted in relation to duplication against previous claims. The duplicated families had not been identified prior to the initial submission of the claim to Internal Audit and were reportedly mostly due to version control issues with the previous claim lists.

Further to satisfactory responses being received against all queries raised by Internal Audit, and corrective actions completed, the claim was signed off for submission.

4 management actions were agreed as part of the audit of the previous claim (June 2019), all regarding utilising Liquid Logic reports to improve identification of eligible families and any subsequent regression. 3 actions have been confirmed as implemented, however 1 action, relating to flagging families already claimed for on Liquid Logic, in order to easily identify duplicates, has not been possible to implement. Work-arounds are therefore in place to identify and remove families within the claim that the Council have previously claimed for, however these have not been working effectively as further duplicates were found with this claim.

Security Bonds Probity Audit 2019/20

The full report was presented and considered by the December AWG with officers attending to update on progress with implementation of the action plan.

Opinion: n/a	28 November 2019	
Total: 11	Priority 1 = 2	Priority 2 = 9
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	11	

Following an Internal Audit of Security Bonds completed in 2017/18 which had an overall conclusion of Red, concerns were raised about the processes for recording, reducing and returning cash bonds, agreed for some S278 and S38 agreements. Whilst work had been undertaken within the service to identify cash bonds currently in place, there had been no reconciliation of cash expected to cash actually held by the Council on SAP, resulting in an increased risk of financial loss due to error or fraud. The focus of the audit was a probity review of transactions to provide assurance that security bonds, in particular cash bonds, are recorded completely and accurately, that monies received are properly accounted for and that the processes in place for the reduction and return of cash bond monies held are appropriate.

The probity review of transactions combined with a full reconciliation of cash bond income expected to cash bond income received and of cash bond income expected to be returned to cash bond income actually returned has demonstrated that the cash bond register is not an accurate or complete mechanism for the recording and management of cash bonds. Numerous errors, omissions and duplications have been noted including a significant amount more cash bond income recorded on SAP than is recorded on the cash bond register. The register also does not record a significant amount of returned cash bonds. There remain queries outstanding which the service still needs to investigate. Whilst we have not identified evidence of fraud or deliberate error during the course of our testing, the control environment needs to be strengthened to give management sufficient assurance in this area going forward.

Whilst we do not recommend further sample testing in this area, the reconciliation work undertaken by Internal Audit provides detailed information which can be used by the service to improve the accuracy and integrity of current cash bond records. Management actions have been agreed to resolve individual queries that this work has identified, address inconsistencies in processes and strengthen the control environment.

Datacentre Refresh Project Review 2019/20

Overall conclusion on the system of internal control being maintained	**G**

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Project Structures	**A**	**0**	**2**
Key Documentation	**G**	**0**	**0**
Project Implementation	**G**	**0**	**0**
Budget Monitoring	**G**	**0**	**0**
Testing	**A**	**0**	**1**
		0	**3**

Opinion: Green	11 December 2019	
Total: 3	Priority 1 = 0	Priority 2 = 3
Current Status:		
Implemented	3	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

The Datacentre Refresh project is a significant piece of work that will replace ageing and redundant computer hardware, storage and other network infrastructure held within the CV1 datacentre. A new backup solution will also be implemented, and Disaster Recovery arrangements changed to utilise cloud services.

The Datacentre Refresh project has a formal structure in place with a nominated project sponsor and project manager. All roles and responsibilities are documented. There is a dedicated Project Board that meets on a monthly basis and there is also project oversight from the existing ICT Governance Board, which includes senior stakeholders from the Project Board. There is a Project Initiation Document (PID) but no evidence that it has been approved. A review of the composition of the Project Board identified that the “senior user” and “senior supplier” roles have not been allocated and hence there is a risk that the responsibilities defined for these roles are not undertaken.

There is a project risk log and issues log and testing confirmed that they are being adequately managed and that reporting is in place. A workshop was held in November to review risks and issues across the whole project and there are plans for it to be held monthly for the remainder of the project. Highlight reports are used for reporting progress to the ICT Governance Board and to CEDR. The report to the ICT Governance Board includes a RAG status for each agreed project milestone and an overall project RAG status, which is currently green. In addition, the Project Manager issues a weekly Checkpoint Report to the Programme Manager, which includes details of activity completed that week and what is planned for the following week.

A project plan has been developed and is maintained by the Project Manager. It shows the tasks associated with all workstreams and includes the agreed milestones which are reported in the Highlight Report and Checkpoint Report as detailed above. There is a decision point on 31 December 2019 on whether to serve notice on existing hardware and software maintenance contracts, which on the basis of three-months notice, would terminate on 31 March 2020. High-level design documents have been developed and signed-off by the Technical Authority Group.

The Programme Manager is responsible for managing the project budget and details of costs are being recorded for this purpose. The supplier has recently invoiced for the supply and deployment of new hardware in line with the contract and further charges are linked to delivery against agreed milestones. All project costs are reported to the Project Board.

Some high-level technical testing of the new IT infrastructure has been completed and further testing is planned, along with user acceptance testing of critical systems. However, there is no evidence of any formal documentation around testing in regard to the use of formal test plans, recording results, sign-offs/approvals and reporting of outcomes to the Project Board.

<u>Call Confirm Live IT Application Audit 2019/20</u>

Overall conclusion on the system of internal control being maintained	**A**

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Logical Security	**A**	**0**	**3**
Access Rights	**A**	**0**	**3**

Audit Trails	**A**	**0**	**1**
Data Processing	**R**	**1**	**1**
Support and Maintenance	**A**	**0**	**1**
Backups	**A**	**0**	**1**
		1	**10**

Opinion: Amber	19 December 2019	
Total: 11	Priority 1 = 1	Priority 2 = 10
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	11	

The Call Confirm Application (CM2000) is the electronic time recording system which records actual home support visit data and is used as the basis to make payments to care providers. The audit has highlighted weaknesses in system security as a result of certain functionality not being enabled and also a risk of over reliance on one individual within ICT to perform system administration tasks. In addition, there are risks in the transfer of data between the Call Confirm and ContrOCC applications (application used to generate payments to providers) as well as the management and monitoring of the system supplier for the hosted solution.

Our review of logical security has highlighted the available password functionality has not been fully activated. In addition to this, the system administrator was not able to confirm if the security functionality referred to in the user guide is available within the current version of the application. Our testing highlighted a number of redundant accounts belonging to the system supplier, CM, which are not required and hence should be disabled. There is also no evidence of any audit trail functionality in the Call Confirm application to log key user and system administrator activity.

Testing highlighted steps have been taken to ensure access rights have been agreed and documented for internal users of the application. However, they are not documented for high privileged users. In relation to security administration we identified that; formal evidence of reviews of users is not retained, access rights are not subject to a formal review, there is a dependency on one individual to administer children's related services and a lack of procedures for security administration related activity.

Our review of the transfer of data between Call Confirm and ContrOCC highlighted that there is a single person dependency on the ICT Applications and Systems Manager to undertake all relevant tasks. A new process was introduced earlier in the year which has significantly reduced the time taken to complete the transfer, however, the process is not automated and does not include the necessary checks and controls which are required over the manual adjustments made.

There is a lack of assurance over the supplier's arrangements for taking backups of the system and ensuring that the backup is reliable. This could lead to a loss of data in the event of a system failure and disruption to operational services, including the ability pay care providers.

Regarding support and maintenance, the review identified that there are no formal processes to manage the services provided by the system supplier. Ownership of the supplier relationship should also be reviewed.

Placement Decisions 2019/20

Overall conclusion on the system of internal control being maintained	**A**

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Commissioning Approach	**A**	**1**	**5**
B: Placement Decisions	**A**	**0**	**6**
C: Performance & Management Information	**G**	**0**	**1**
		1	**12**

Opinion: Amber	19 December 2019	
Total: 13	Priority 1 = 1	Priority 2 = 12
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	13	

Children's Placements are subject to continual demand pressures and make up a significant part of the £40.7M Corporate Parenting budget. The need for placements is determined by Children's Social Care staff, approved by Entry to Care Panel and then sourced by the Care & Support Brokerage Team, a function which had previously sat within Children's Social Care, but is now part of Commissioning. It is acknowledged that there are ongoing challenges in being able to source appropriate, local provision that meets the needs of the child at best value.

A: Commissioning Approach – The audit confirmed that there is a clear, agreed approach to the commissioning of children's placements, to place children locally, in a placement that meets their needs at the best price. The market is challenging, with a lack of sufficient locally available specialist provision. There have also been challenges with being able to use some of the existing provision due to the complexity of the needs of different children and, where there is more than one child in a placement, how different children's needs can be matched. There are a number of initiatives being pursued by Commissioning to try and increase the number of suitable locally available placements and there is now ongoing dialogue between Children's and Commissioning over these initiatives, to ensure that they are successful in meeting the Council's future children's placement needs.

Testing noted that the current sufficiency strategy which covers the period 2018-2023 requires review and updating to reflect the current challenges in the provision of children's placements (last reviewed in March 2019 and should be reviewed every 6 months). This is acknowledged by the service, and they are now in the process of reviewing and updating this strategy and the market position statement (produced for current and potential future providers) in conjunction with Commissioning to ensure that both documents are aligned, clear and up to date.

Work is ongoing within Commissioning to define what information is required from contract monitoring activity carried out by the Quality & Contracts team so that this can feed into and inform future commissioning activity and approaches. It was noted that responsibility for the monitoring of spot contracts, which make up the majority of current children's placement spend at present, is not defined. It was reported that this was an area under discussion between Children's and Commissioning. Once contract monitoring responsibilities in this area have been clarified, it will be important for information from the spot contract quality monitoring process to be considered in terms of the insight that it can provide to Commissioning for development of commissioning approaches going forward. It is acknowledged that going forward, spot contracts should be used less frequently, with new arrangements to be procured through frameworks and for historic spot contract arrangements to be gradually moved over to frameworks as well.

Following the creation of the Care & Support Brokerage Team within Commissioning, there have been some areas where there is a lack of clarity over roles and responsibilities. The Lead for Placements & Sourcing has been working through this with the team, other teams within Commissioning and with Children's to confirm and clarify expectations, roles and responsibilities. A document has now been produced and signed off by Children's DLT and will be communicated to relevant staff shortly. There have also been some capacity issues within the team due to ongoing staff vacancies and workload pressures. The team structure has now been updated to increase capacity and recruitment is now underway. It is acknowledged that there is a lack of process guidance / documentation available within the team, although this has not been a significant issue to date due to the experience of existing team members. The development of accurate and up to date process guidance will be important going forward as the team expands.

B: Placement Decisions – Audit testing found that the routine placement decision making process was clear within Children's Social Care staff guidance and was reinforced by the Care & Support Brokerage Team through the placement search process (i.e. part of the placement search process is to confirm that the case has been to Entry to Care Panel).

The audit also considered decision making and recording in relation to unregistered placements (pop up placements arranged by the Social Worker as a last resort if no other placements are available). It was noted that clear documented guidance on the process had been produced and circulated earlier in the year. However, sample testing on a small number of unregistered placements found that there were inconsistencies in the recording of information on LCS and in the evidencing of decision making. There was also one example reviewed where it appears that the Council have sourced and paid for an unregistered placement which should have been arranged and paid for by the Independent Fostering Agency. It has not been possible to confirm that the cost of the placement has been recovered. This is now being investigated by the Service. Children's and Care & Support Brokerage have both confirmed that issues in relation to misunderstanding of responsibilities have now been resolved.

During testing it was noted that that Placement Officers were having to spend a lot of time copying and pasting emails to and from providers into LCS which was increasing workload pressures and resulting in delays in getting information on LCS up to date. It has been reported that recording delays have now been resolved and a more efficient way of recording of placement searches on LCS is in the process of being implemented. The Care & Support Brokerage Team are continuing to work with colleagues in Children's Social Care to make improvements to processes and ensure that where the placement process has not worked as well as it could have done, that any lessons learned are taken into account in improving processes going forward.

C: Performance & Management Information - Over the course of the audit, there have been a number of developments and improvements in performance reporting and management information in relation to placement decisions and that give insight in relation to the agreed commissioning approach. Dashboard reporting has been developed following the implementation of LCS and ContrOCC in the summer of 2019, financial reporting has been improved and performance reporting in relation to the work of the Care & Support Brokerage team has been reviewed and improved. In addition to this, reports have been developed to monitor and improve on issues highlighted by the implementation of the new system. Whilst further reporting is being developed in a number of areas, the audit found that there is regular reporting now being received by key staff in Children's, Commissioning and Care & Support Brokerage (this reporting is via the Placement Sufficiency Programme Board as well as the Corporate Parenting Performance & Finance Meeting) which shows the cost of placements by placement type, increases / decreases in placement type compared to the previous month which would show where the commissioning approach of placing children within the County with internal care providers wherever possible was being met or where it wasn't (for example, an increase in external fostering providers or in out of county placements). Reporting has also been developed by Quality & Contracts in conjunction with Children's covering the cross regional contract (this was an area where there had been some concerns historically over whether the Council were able to use the contract in the way they wanted to and whether it was providing value for money), this report is also now going to the Placement Sufficiency Programme Group on a monthly basis.

Troubled Families December Claim 2019/20

Since the start of Phase 2 of the government's Troubled Families programme in September 2014, OCC has submitted between 2 and 3 claims per year. During 2019/20 this changed to quarterly submissions with a view to maximising the volume of claims, particularly as next year is due to be the final year of the Programme. The current claim consists of 200 families for Significant & Sustained Progress (SSP) and 9 families for Continuous Employment (CE).

The audit checked a sample of at least 10% for both claims (20 families from the SSP claim and 2 from the Continuous Employment claim), to ensure that they met the relevant criteria for payment and had not been duplicated in the current or previous claims. Their initial eligibility criteria for inclusion in the Programme were also checked.

The audit noted further improvements in the internal processes for data checking and validation, identifying only one duplicate family within this claim, and finding no issues with the eligibility or sustained progress of the families sampled. Following satisfactory responses being received for all queries raised by Internal Audit, the claim was signed off for submission.

Division(s):

AUDIT & GOVERNANCE COMMITTEE – 15 JANUARY 2020

REPORT OF THE AUDIT WORKING GROUP – 18 DECEMBER 2019

Report by Director of Finance

RECOMMENDATION

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

Executive Summary

2. The Audit Working Group met on 18 December 2019 and received the quarterly Internal Audit update. Officers also attended to provide a progress update in respect of Security Bonds and the recently finalised audit of Oxford City Agency Agreement. Officers from Childrens attended to present their arrangements for risk management.

Introduction

Attendance:

Full Meeting: Chairman Dr Geoff Jones, Councillors: Roz Smith, Deborah McIlveen, Nick Carter, Paul Buckley.

Apologies – Cllr: Charles Mathew

Sarah Cox, Chief Internal Auditor; Tessa Clayton, Audit Manager, Katherine Kitashima, Audit Manager, Lucy Tyrrell (minutes), Ian Dyson Assistant Director of Finance.

Part Meeting:
Georgina Cox, Auditor, Eric Owens, Assistant Director – Growth and Place, Steve Thomas, Performance Information Manager (Social Care), Hannah Farncombe, Deputy Director, Steven Jones, Corporate Performance & Risk Manager, Paul Fermer, Assistant Director Community Operations, Jason Russell, Interim Director Community Operations.

Matters to Report:

AWG 19.38 Security Bonds

3. The group received a further update on the progress in addressing the weaknesses identified during the audit completed in 2017/18. The group noted that officers had assessed the position of some actions as “green” however a number of those were still not fully complete or working effectively. The group

noted concern about significant time that had elapsed since these weaknesses were identified, however noted progress is now being made to procure and implement a new software system and the ongoing work on reviewing and strengthening the end-to-end processes.

4. The group also reviewed the full management letter reporting on the probity and reconciliation work recently completed by Internal Audit, which concluded that due to the number of errors and omissions identified that the current bond register is not an accurate or complete mechanism for the recording and management of cash bonds. Officers acknowledged the significant disparity between the register and what is recorded on SAP. Officers assured the group that the immediate risk exposure was being managed, with a moratorium on all returns and releases of cash bonds and an immediate process review to ensure the robust checking and adequate segregation of duties is in place going forward.

5. The group agreed that Officers would attend the April 2020 AWG meeting to provide a further update on a) the progress with IT implementation and b) assurances that actions from the original audit report and also the new actions agreed as part of the probity review have been implemented effectively.

AWG 19.39 Children's Risk Register / Risk Management Arrangements

6. The group reviewed the risk management arrangements in place within Childrens through review of the risk registers and attendance of officers at the meeting. The group were updated with the new process embedded within Childrens whereby the annual self-assessment required by Ofsted, is reviewed on a quarterly basis alongside the directorate's risk register. The assessed risks are updated and scores revised. The group discussed some of the individual risks and the mechanism for scoring these, for example on how early intervention work was having a positive impact on performance and how this is then reviewed and reflected in the risk register scoring. The group were satisfied with the arrangements presented.

7. The AWG have asked that the Adults risk register be brought to the February 2020 AWG meeting for review.

AWG 19.40 Internal Audit of Oxford City Agency Agreement

8. The audit of Oxford City Agency Agreement has recently been finalised (October 2019), with an overall grading of Red. Officers attended to update the group regarding the agreed action plan. The group considered the full internal audit report and noted that the overall conclusion was based upon the level of oversight that OCC had over the arrangement. The group acknowledged the work already completed and that officers plan to have all actions implemented by the end of March 2020, including the value for money review which will assess the cost, quality, outcomes and customer satisfaction from the new arrangement.

9. The AWG have asked that officers return to the June 2020 meeting, by which time all agreed actions will have been implemented.

AWG 19.41 Internal Audit Update

10. The group received an update from the Chief Internal Auditor on progress against the Internal Audit Plan. A full update on plan progress is due to be made to the January A&G committee.

11. Recruitment was discussed and the group noted that in the new year, the recruitment process will be initiated to fill the remaining Senior Auditor vacant post and the AAT trainee post.

12. The group noted the ongoing follow up of Red reports and have scheduled updates from officers at future AWG meetings to report back on progress of implementation of agreed actions. Updates on S106 and Oxford City Council Agency Agreement is scheduled for June 2020 AWG meeting, Mental Health is scheduled for February 2020 AWG meeting and Security Bonds is scheduled for April 2020 AWG meeting.

13. The group noted the outstanding priority 1 management actions and also that a number of actions had no update / no response. Internal Audit will be following these up with the individual Directorate Leadership Teams. Where sufficient action is not being taken these will be referred to AWG for review.

LORNA BAXTER
Director of Finance

Contact Officer: Sarah Cox, Chief Internal Auditor
December 2019.
07393 001246 sarah.cox@oxfordshire.gov.uk

Date of next AWG meeting Wednesday 12 February 2020 at 14:00

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AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/21

18 March 2020
Ernst & Young –Audit Progress Update (Janet Dawson)
Scale of Election Fees and Expenditure (Glenn Watson)
Audit & Governance Committee Annual Report to Council 2019 (The Chairman)
Progress update on Annual Governance Statement Actions (Glenn Watson)
Counter-fraud Update (Sarah Cox)

29 April 2020
Annual Governance Statement (Glenn Watson)
Annual Report of the Chief Internal Auditor 2019/20 (Sarah Cox)
Internal Audit Strategy & Annual Plan 2020/21 (Sarah Cox)
Annual Scrutiny Report (Katie Read)
Ernst & Young - Progress Report (Janet Dawson)
OFRS Statement of Assurance 2019-20 (Paul Bremble)
Draft narrative statement and Accounting Policies for inclusion in the Statement of Accounts (Hannah Doney)

22 July 2020
Statement of Accounts 2019/20 (Hannah Doney)
Ernst & Young – Final Accounts Audit (Janet Dawson)
Treasury Management Outturn 2019/20 (Donna Ross)
Internal Audit Charter (Sarah Cox)
Counter-fraud Plan 2020/21 (Sarah Cox)

16 September 2020
Local Government Ombudsman's Review of Oxfordshire Co Co (Nick Graham)
Internal Audit Plan – Progress Report (Sarah Cox)
Surveillance Commissioner's Inspection and Regulation of Investigatory Powers Act (Richard Webb)
Monitoring Officer Annual Report (Nick Graham)
Ernst & Young – 2018/19 Annual Audit Letter (Janet Dawson)

11 November 2020
Ernst & Young (Janet Dawson)
Treasury Management Mid Term Review (Donna Ross)
Counter-fraud Update (Sarah Cox)

13 January 2021
Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 (Donna Ross)
Ernst & Young - Audit Plan (Janet Dawson)
Internal Audit Plan – Progress Report (Sarah Cox)

Standing Items:
- Draft Minutes of the Transformation Sub-Committee for info
- Audit Working Group reports (Sarah Cox)
- Audit & Governance Committee Work Programme – update/review (Committee Officer/Chairman/relevant officers)