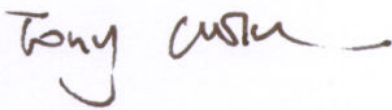


To: Members of the Audit Committee

Notice of a Meeting of the Audit Committee

Wednesday, 20 January 2010 at 11.00 am

County Hall



Tony Cloke
Assistant Head of Legal & Democratic Services

January 2010

Contact Officer: **Geoff Malcolm,**
Tel: (01865) 815904; E-Mail: geoff.malcolm@oxfordshire.gov.uk

Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Ray Jelf

Councillors

Alan Armitage
Roy Darke
Tim Hallchurch MBE

A.M. Lovatt
Charles Mathew
Larry Sanders

Lawrie Stratford

Co-optee

Dr Geoff Jones

Notes:

- ***There will be a pre-meeting development session: 'ICT Security' - details to follow***
- ***The Leader of the Council has a standing invitation to attend and speak on agenda items within his current portfolio***
- ***The Chairman (or Deputy Chairman) of the Strategy & Partnerships Scrutiny Committee has a standing invitation to attend and speak on agenda items***
- ***A working lunch will be available at at 12:30 pm***
- ***Date of next meeting: 3 March 2010***

Declarations of Interest

This note briefly summarises the position on interests which you must declare at the meeting. Please refer to the Members' Code of Conduct in Section DD of the Constitution for a fuller description.

The duty to declare ...

You must always declare any "personal interest" in a matter under consideration, ie where the matter affects (either positively or negatively):

- (i) any of the financial and other interests which you are required to notify for inclusion in the statutory Register of Members' Interests; or
- (ii) your own well-being or financial position or that of any member of your family or any person with whom you have a close association more than it would affect other people in the County.

Whose interests are included ...

"Member of your family" in (ii) above includes spouses and partners and other relatives' spouses and partners, and extends to the employment and investment interests of relatives and friends and their involvement in other bodies of various descriptions. For a full list of what "relative" covers, please see the Code of Conduct.

When and what to declare ...

The best time to make any declaration is under the agenda item "Declarations of Interest". Under the Code you must declare not later than at the start of the item concerned or (if different) as soon as the interest "becomes apparent".

In making a declaration you must state the nature of the interest.

Taking part if you have an interest ...

Having made a declaration you may still take part in the debate and vote on the matter unless your personal interest is also a "prejudicial" interest.

"Prejudicial" interests ...

A prejudicial interest is one which a member of the public knowing the relevant facts would think so significant as to be likely to affect your judgment of the public interest.

What to do if your interest is prejudicial ...

If you have a prejudicial interest in any matter under consideration, you may remain in the room but only for the purpose of making representations, answering questions or giving evidence relating to the matter under consideration, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

Exceptions ...

There are a few circumstances where you may regard yourself as not having a prejudicial interest or may participate even though you may have one. These, together with other rules about participation in the case of a prejudicial interest, are set out in paragraphs 10 – 12 of the Code.

Seeking Advice ...

It is your responsibility to decide whether any of these provisions apply to you in particular circumstances, but you may wish to seek the advice of the Monitoring Officer before the meeting.

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. **Declarations of Interest - see guidance note**
3. **Minutes** (Pages 1 - 4)

To approve the minutes of the meeting held on 18 November 2009 (AU3) and to receive for information any matters arising from them.

4. **Petitions and Public Address**
5. **Annual External Audit Report 2008/09** (Pages 5 - 14)

11:10

(As the information in the Report is not new to members, Sue Scane, Assistant Chief Executive & Chief Finance Officer or Maria Grindley, Audit Commission will present the paper on behalf of June Awty, KPMG LLP)

The Report (**AU5**) summarises the 2008/09 external Audit Work carried out by KPMG LLP within their areas of audit responsibility.

The Committee is RECOMMENDED to note the report.

6. **Update on Work on Fairer Charging Income** (Pages 15 - 20)

11:30

Cabinet Member for Adult Services

Councillor Jim Couchman

Contact:

*Sean Collins, Shared Services; Simon Kearey
& Sandra Stapley, Social & Community
Services*

Report by Director for Social & Community Services and Assistant Chief Executive & Chief Finance Officer (**AU6**).

At the October 2009 meeting of the Audit Working Group, Officers set out a detailed action plan for the remaining actions to be completed in order to improve the end to end fairer charging assessment process, with a view to reducing (or eliminating) the amount of foregone income.

The report updates Members on the progress against the action plan, and the impact of

these and previous actions on the levels of foregone income. This report has come straight to the Audit Committee following the cancellation of the Audit Working Group during the difficult weather conditions.

The Committee is RECOMMENDED to note the report.

7. Self Assessment of Treasury Management Practices at Oxfordshire County Council (Pages 21 - 38)

11:50

Contact: Tim Chapple, Financial Manager-Treasury & Pension Fund Investments

Report by Assistant Chief Executive & Chief Finance Officer (**AU7**).

This report sets out the proposed Treasury Management strategy for the financial year 2010/11, the Prudential Indicators, the borrowing strategy and an interest rate forecast. Also included in the report is the Annual Investment Strategy, detailing the range of Specified and Non Specified investments that the Council may enter into, and the minimum credit criteria for the investment types.

A self assesment of current Treasury Management Practices at Oxfordshire County Council has been carried out, the details of which are also included.

The Committee is RECOMMENDED to note the Council's treasury management self assessment as at January 2010.

8. Improving Project and Programme Management Governance (Pages 39 - 40)

12:10

Contact: Imran Alvi, Corporate Performance & Review Manager

Report by Head of Strategy (**AU8**).

An action plan to improve project and programme management governance was presented to the Committee on 22 April 2009. The Committee agreed to include in its Work Programme a brief overview and action plan progress update.

The Committee is RECOMMENDED to note the progress report.

12:30 Working lunch

9. International Financial Reporting Standards - Update (Pages 41 - 44)

12:40

Contact: *Hilary Cameron, IFRS Project Manager*

Report by Assistant Chief Executive & Chief Finance Officer (**AU9**).

The report provides an update on the progress in ensuring the Council's compliance with changes in accounting standards.

The Committee is RECOMMENDED to:

- (a) ***receive the report; and***
- (b) ***note the IFRS project progress to date.***

10. Review of the Process for Reporting on the Effectiveness of the System of Internal Audit (Pages 45 - 48)

1:00

Contact: *Ian Dyson, Assistant Head of Finance (Audit)*

Report by Assistant Chief Executive & Chief Finance Officer (**AU10**).

In accordance with the Accounts and Audit Regulations 2003 (Amended 2006), the Council is required to undertake a review of the effectiveness of the system of Internal Audit. The report details for the consideration and approval of the Committee the assurance framework and suggested process for undertaking and reporting on the review.

The Committee is RECOMMENDED to:

- (a) ***approve the existing process for reviewing the effectiveness of the System of Internal Audit, with the addition of incorporating the conclusions arising from the Audit Commissions triennial review of Internal Audit, or instruct officers on changes required to the process for 2009/10;***
- (b) ***approve the circulation list, content and format of the Annual Survey Questionnaire;***
- (c) ***authorise the Monitoring Officer to undertake the review and report back to the Audit Committee.***

11. Audit Committee Draft Work Programme 2010/11 (Pages 49 - 52)

1:20

Contact: *Geoff Malcolm, Principal Committee Officer*

The Committee's terms of reference in the Constitution require the Committee to agree a programme of work annually in advance. A draft Work Programme for 2010/11 is attached (**AU11**).

The Committee is RECOMMENDED to determine its Work Programme 2010/11.

12. Date of Meeting

1:30

The Chairman has agreed to bring forward the 29 September 2010 meeting to 22 September 2010 in order to allow time for work towards the publication of the Accounts by 30 September 2010.

The Committee is RECOMMENDED to note the change of date.

1:35 Close of meeting

Pre-Meeting Briefing

There will be a pre-meeting briefing at County Hall on **Friday 15 January 2010 at 2:00pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

Audit Committee

Explanation of Abbreviations and Acronyms

The following is a list of abbreviations and acronyms that have occurred in reports to the Audit Committee, or during discussions at their meetings. It is not intended to be an exhaustive list of those used throughout the Council, however it will be reviewed prior each Audit Committee Meeting and updated should new examples occur.

AC	Audit Committee: Public Committee of Oxfordshire County Council whose purpose is to provide independent assurance on the adequacy of the Councils internal control framework, including risk management, and to oversee the financial reporting process
AES	Annual Efficiency Savings
ASB	Accounting Standards Board: UK body that sets accounting standards. A subsidiary body of the Financial Reporting Council.
AGS	Annual Governance Statement: Previously referred to as the SIC , the Annual Governance Statement is published annually by the Council with its Statement of Accounts
APA	Annual Performance Assessment. Managed by Ofsted, the APA focuses on the contribution that a council's services have made in the previous year towards improving outcomes for children and young people.
AWG	Audit Working Group: An informal Member / Officer working group of the Audit Committee enable the Committee to fulfil its responsibilities effectively and to receive private briefings on any matters of concern.
BCP	Business Continuity Plan: The Council plan for managing the impact of an emergency
BCSG	Business Continuity Strategic Group: Officer based group chaired by the Monitoring Officer, tasked with providing assurance that Government Standards for business continuity management are being met.

BVACOP	Best Value Accounting Code of Practice. This code is produced by CIPFA and is recognised as the 'proper practices' required under the Local Government Act 2003. The Code provides practical guidance on all formal financial disclosures required in relation to Best Value.
BVPI	Best Value Performance Indicator: A national measure of performance, set by central government
BVPP	Best Value Performance Plan: An annual report produced by local authorities detailing current performance levels, actions of the councils, and future performance standards expected
CAA	Comprehensive Area Assessment. This comes into effect in 2008/09 and replaces the CPA as the Audit Commissions process for reviewing the effectiveness of outcomes to local people across public sector bodies
CAAL	Comprehensive Area Assessment Lead. This person works for the Audit Commission and is the primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
CCMT	County Council Management Team: Comprises of the Chief Executive, Assistant Chief Executive and all the Directors of Services
CGAG	Corporate Governance Assurance Group. Previously known as the SWG , An officer group tasked with compiling the AGS , including the development and promotion of the internal control framework, and the collation of evidence to support the Annual Governance Statement.
CGWG	Corporate Governance Working Group. This Group was originally created to assist the Monitoring Officer in raising awareness of the importance of corporate governance. The principal focus of the Group is to review and update Corporate Governance Policies and to monitor implementation of these. It also has responsibility for reviewing the Local

	Code of Corporate Governance and to hold Officers to account.
CIPFA	Chartered Institute of Public Finance & Accounting: CIPFA has responsibility for setting accounting standards and providing professional guidance for local government.
Connexions	The Connexions Service came under the control of the County Council from April 2007; it provides information, advice and guidance for young people aged 13-19.
CPA	Comprehensive Performance Assessment: The method by which the Audit Commission assess, measure and compare the performance of Local Authorities.
CSCI	Commission for Social Care Inspectorate.
CYPF	Directorate for Children, Young People & Families
DCSF	Department for Children, Schools & Families
DSG	Dedicated Schools Grant
DoT	Direction of Travel
E & E	Directorate for Environment & Economy
ETMS	Electronic Time Management System: System used for home support activity.
FMIP	Financial Management Implementation Plan: The Financial Management Implementation Plan (FMIP) is a set of actions designed to improve financial management within Oxfordshire County Council, arising from the report by Robson Rhodes in 2004. An updated plan FMIP2 has been prepared following a follow up review by Robson Rhodes in 2005/06.
FMSiS	Financial Management Standard in Schools
FOI	Freedom of Information

FRS	Financial Reporting Standards. These are set by the Accounting Standards Board (ASB), and the Council is required to comply with these.
FSM6	The financial management system used in schools. (Please note that between April 2008 and July 2009, all schools will be moving to SAP as their financial management system.
FWT	Food With Thought. A traded service run by the Council, providing catering services to schools and council establishments.
ICC	Internal Control Checklist
IFRS	International Financial Reporting Standards. This will be the new standard of accounting practice that all Local Authorities will be required to comply with. The estimated implementation date for Local Authority compliance is currently 2010/11.
ISA260	International Standards on Auditing: The ISA 260 is the standard that requires the external auditors (KPMG LLP) to communicate audit matters of governance interest arising from their audit of the financial statements of the Council. They communicate any such matters through a formal report to the Audit Committee.
ITS	Integrated Transport Service
JAR	Joint Area Review. Managed by Ofsted, the joint area review judges the contribution that the council and its partners in the local area are making to improve outcomes for children and young people
KLoE	Key Lines of Enquiry: Defined and used by the Audit Commission to support the Comprehensive Performance Assessment (CPA) of Local Authorities
KPMG LLP	The Councils External Auditors appointed by the Audit Commission
LA	Local Authority
LAA	Local Area Agreement: Local Area Agreements are made between central and local government in a local area. Their aim is to achieve local solutions that meet local needs, while also contributing to national priorities and

	the achievement of standards set by central government. There is an Oxfordshire LAA. Targets are set and specific funding streams are obtained through the LAA.
LSP	Local Strategic Partnerships: The bringing together of key local organisations from the public, private, voluntary and community sectors to focus efforts on the issues that matter most to local people and communities. In Oxfordshire there is a countywide LSP known as Oxfordshire Community Partnership (OCP).
Monitoring Officer	This is a statutory post under Section 5 of the Local Government and Housing Act 1989, with the overarching responsibility to ensure the lawfulness and fairness of decision making in the Council.
MTFP	Medium Term Financial Plan. Updated annually, the MTFP sets out a five year forecast of resources and service spending priorities.
NFI	National Fraud Initiative. The Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies.
OCP	Oxfordshire Community Partnership: The Countywide LSP in Oxfordshire.
OFG	Operational Finance Group: This group is responsible for the implementation of policies and procedures and for the control of financial activities such as budget and yearend. It is directed by the Strategic Finance Managers Group (SFG), to which it reports its activities through its Chair, the Chief Accountant.
Ofsted	Office for Standards in Education
OSJ	Orders of St. John Care Trust
OWP	Oxfordshire Waste Partnership
PAYE	Pay As You Earn
PCT	Primary Care Trust

Project Link	This is the project in Social and Community Services to develop an integrated management system for Adult Social Care that can interface directly with the main accounting system (SAP)
PSA	Public Service Agreement
PWLB	Public Works Loan Board. This is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
QuEST	Quality Educational Services and Training: Available in schools from the Educational Effectiveness Service.
S151 Officer	A statutory post, under Section 151 of the Local Government Act 1972 held by the Head of Finance and Procurement. The S151 Officer is responsible for the proper administration of the financial affairs of the Council
SAP	SAP is the Councils key management information system, including the main accounting system.
SAP revitalisation	This is the Programme for the development of SAP required to deliver consistent, reliable and robust business management information.
Schools Forum	This is a group made up of representatives from schools and other stakeholder bodies, and includes schools Governors and Head Teachers. The remit of the group is to consider schools funding formula; contracts; financial issues; and the provision of accounts to schools.
SDLT	Stamp Duty / Land Tax
SFG	Strategic Finance Group: Officer group comprising Head and Assistant Heads of Finance and Strategic Finance Managers, with responsibility for providing advice and assurance on system of internal financial control and to specify the accounting framework and standards and the financial management requirements.

Shared Services	This is the Programme designed to bring under one umbrella HR and Finance support functions in order to provide a more efficient and effective services.
SIC	Statement on Internal Control: In accordance with the Accounts and Audit regulations 2003, the Council is required to provide an annual statement on the adequacy and effectiveness of its system of internal control.
SOLACE	Society of Local Authority Chief Executives and Senior Managers is the representative body for senior strategic managers working in the public sector. SOLACE spans all of the UK, having membership in Northern Ireland, Wales, Scotland and England.
SORP	Statement of Recommended Practice. These are guidance on accounting standards as defined by the Accounting Standards Board (ASB)
SWG	Statement on Internal Control Working Group: An officer group tasked with compiling the SIC, including the development and promotion of the internal control framework, and the collation of evidence to support the annual SIC Statement.
SWIFT	Management information system used by Social & Community Services.
Use of Resources	This is part of the Audit Commissions CPA assessment that focuses on financial management and the links to the strategic management of the council. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money.
WGA	Whole Government Accounts

Ian Dyson
Assistant Head of Finance (Audit)
Updated 24 June 2008

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AUDIT COMMITTEE

MINUTES of the meeting held on Wednesday, 18 November 2009 commencing at 11.00 am and finishing at 12.45 pm

Present:

Voting Members: Councillor David Wilmshurst – in the Chair

Councillor Ray Jelf (Deputy Chairman)
Councillor Alan Armitage
Councillor Roy Darke
Councillor Tim Hallchurch MBE
Councillor A.M. Lovatt
Councillor Charles Mathew
Councillor Larry Sanders
Councillor Lawrie Stratford

**Non-voting
Co-optees:** Dr Geoff Jones

**Other Members in
Attendance:** Councillor Jim Couchman (for Agenda Item 5)
Councillor Louise Chapman (for Agenda Item 7)
Councillor Keith R. Mitchell CBE (for Agenda Item 6)

Officers:

Whole of meeting P. Clark, I. Dyson, G. Malcolm (Corporate Core)

Part of meeting

Agenda Item	Officer Attending
5	Dr I. Alvi (Corporate Core) S. Collins (Shared Services) S. Kearey (Social & Community Services)
6	S. Stapley (Social & Community Services) N. Shovell (Corporate Core)
7	M. Wheeler (Children, Young People & Families)

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.

48/09 MINUTES

(Agenda No. 3)

The Minutes were approved and signed subject at Minute 42/09(a), paragraph 3 line 2 to the deletion of the word 'import' and substitution of 'important'.

49/09 AUDIT WORKING GROUP - 22 OCTOBER 2009

(Agenda No. 5)

The Committee considered a report (AU5) which summarised the matters arising from the most recent meeting of the Audit Working Group (AWG).

Members noted in particular the following matters:

- Fairer Charging System - Update on Performance:
Officers updated the Committee and, with Councillor Couchman and Councillor Mitchell responded to questions and comments on the actions being taken to address ongoing performance issues and the timetable for completion.
The Audit Working Group would consider progress in January 2010 and report to a subsequent meeting of the Committee.
- Risk Management:
Officers confirmed that the AWG Work Programme included progress reports.

RESOLVED: to adopt the report and to thank the officers for their work.

50/09 COUNTER FRAUD SELF-ASSESSMENT & ACTION PLAN

(Agenda No. 6)

Internal Audit had assessed the current process for counter fraud arrangements against best practice guidance issued by the Audit Commission and CIPFA. The Committee considered a report (AU6) which summarised the outcomes from this assessment and the updated counter fraud action plan.

Mr Shovell and Mr Dyson introduced the report and drew Members' attention to the main areas being addressed in the Counter Fraud Work Plan, namely to raise awareness of counter fraud arrangements, the collation of a counter fraud manual and identification of the Council's fraud profile and key risks to inform future work and awareness raising opportunities. In response to questions they confirmed that the Council's whistle blowing policy was included. Ms Scane reported on the huge amount of work which had been undertaken for improvements in the Council's IT security.

RESOLVED: to

- (a) note the self assessment outcome; and
- (b) request the Audit Working Group to monitor progress against the action plan via quarterly audit performance reports.

51/09 SAFEGUARDING AND CHILDREN PROTECTION SERVICES IN OXFORDSHIRE

(Agenda No. 7)

Further to the report on 21 January 2009, the Committee considered a report (AU7) which updated members on the action which was being taken in Oxfordshire to minimise the risk of a case occurring similar to that of the tragedy of Baby Peter in Haringey.

Mr Wheeler and Councillor Chapman introduced the paper and outlined the key points and the investment which had been made in the Safeguarding and Children Protection Services in Oxfordshire. An independent assessment had found a good standard and that excellent (ongoing) progress was being made and monitored. It was of course impossible to provide complete reassurance that safeguarding and child protection service provision was entirely free of risk as was the case for all other similar authorities. They outlined the role of the Oxfordshire Safeguarding Board and mechanisms in place for liaison and communication and liaison between agencies, multi agency working and locality working initiatives.

The Committee then had a wide ranging discussion including the reliable flow of information between agencies, confidentiality issues, the recording and analysis of information, the volume of data input, staff recruitment and retention, the provision of resources and training, skill acquisition and staff support.

The Committee supported a suggestion by the Chairman of the Audit Working Group that the Group consider the 'management of risk' element as part of its regular Risk Management Progress work at its next meeting and report to the Committee as and when necessary.

Mr. Wheeler and Councillor Chapman were thanked for their report and the Service team for their work.

RESOLVED: to

- (a) note the content of this report; and
- (b) acknowledge that provision of child protection services is inherently a process of management of risk, and the importance of implementing an effective quality assurance framework.

52/09 AUDIT COMMITTEE WORK PROGRAMME 2009/10

(Agenda No. 8)

RESOLVED: to adopt the Work Programme (AU8) subject to:

- a) the addition of the Treasury Management Governance Annual Report when appropriate; and
- b) the deletion of 'Annual Audit & Inspection Letter 2005/06' (as it was already in the Programme).

..... in the Chair

Date of signing



INFRASTRUCTURE,
GOVERNMENT AND HEALTHCARE

Annual Audit Letter 2008/09

Oxfordshire County
Council

26 November 2009

AUDIT

Content

The contacts at KPMG in connection with this report are:

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This report is addressed to Oxfordshire County Council and has been prepared for the sole use of Oxfordshire County Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact June Awty, who is the engagement partner to Oxfordshire County Council, telephone 0207 311 1769 email june.awty@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421



Section one

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Oxfordshire County Council ("the Authority"). Although this letter is addressed to the Board members of Oxfordshire County Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of the Authority to publish the letter on the Authority's website. In the letter we comment on our audit work at the Authority over the last year. We have already reported the matters covered in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in section 2; and
- *accounts* –the Financial Statements and the Annual Governance Statement, summarised in section 3.

Key Messages

The key areas which we draw to your attention to are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has sound processes in place and is achieving positive outcomes in all three themes (managing finances, governing the business and managing resources). The overall assessment for the Council is level 3 (performing well).
- We issued unqualified audit opinions on the Authority's financial statements, the pension fund's financial statements and on the Authority's value for money conclusion on 23 September 2009.

Future Accounting Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition. This means that the 2009/10 accounts have to be restated for comparative purposes.
- Those Local Authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges.
- Sustainability performance - The Treasury is developing guidance for 2010/11 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act soon to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Authority has a good track record in delivering such efficiency and savings targets and already has major programmes in place. It will, however, be necessary to revisit and update the Authority's plans to ensure that they can deliver the levels of savings required for the future.

Acknowledgements

This has been our final year as Oxfordshire County Council's external auditor and we should like to take this opportunity to thank officers and members for their help and co-operation during our audit this year and throughout our appointment.

Use of resources – Oxfordshire County Council

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment and on any local reviews carried out.

The findings from this work are summarised below.

Element of work	Key findings								
Use of Resources	<p>Our assessment of the Authority against the three specified themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;">Managing Finances</td> <td style="background-color: #d9e1f2; text-align: center;">3</td> </tr> <tr> <td style="background-color: #d9e1f2;">Governing the Business</td> <td style="background-color: #d9e1f2; text-align: center;">3</td> </tr> <tr> <td style="background-color: #d9e1f2;">Managing Resources</td> <td style="background-color: #d9e1f2; text-align: center;">2</td> </tr> </tbody> </table> <p>The Authority achieved a score of 4 for KLOE 2.3 “Does the organisation promote and demonstrate the principles and values of good governance”. The overall score was determined by the Audit Commission as level 3 (performing well).</p> <p>Managing Finances</p> <p>The Council has:</p> <ul style="list-style-type: none"> ● strong financial leadership according to an independent assessment; ● consistently achieved its financial targets and budgets; ● responded quickly and proactively to address the issues created by the recession; ● developed extensive consultation arrangements with the public, partners and others on services and their delivery and reporting of the results; ● systems that deliver good quality data together with good arrangements for monitoring performance and taking corrective action when appropriate; ● a track record of delivering service improvements whilst maintaining or reducing costs and delivering efficiency savings. <p>A case study on the Council’s financial leadership and financial management training programme has been selected for inclusion within a group of case studies to be published on the Audit Commission’s website as examples of notable practice.</p>	Area	Score	Managing Finances	3	Governing the Business	3	Managing Resources	2
Area	Score								
Managing Finances	3								
Governing the Business	3								
Managing Resources	2								

Use of resources – Oxfordshire County Council

Element of work	Key findings
<p>Use of Resources</p>	<p>Governing the Business</p> <p>The Council has:</p> <ul style="list-style-type: none"> • improved procurement arrangements especially in commissioning; • effective partnership arrangements; • developed Business Continuity Plans for all critical services which are reviewed and tested at least annually; • an Information Governance Group which monitors compliance with the Council’s corporate and ICT policies; • high quality governance arrangements, recognised externally, which cover: <ul style="list-style-type: none"> ➢ partnerships – evaluation and effectiveness; ➢ internal and external training for members and staff; and ➢ internal reviews such as ethical governance undertaken in 2008; • strong risk management arrangements; • improved project risk management following previous criticism; • supplemented its Audit Committee with an effective Audit Working Group which has an independent chairman; • an effective internal audit function. <p>Managing Resources</p> <p>The Council was required to be assessed on KLOE 3.1 (effective use of natural resources) and KLOE 3.2 (managing its assets) this year.</p> <p>The Council has:</p> <ul style="list-style-type: none"> • developed a Carbon Management Strategy and Implementation Plan establishing the baseline and setting targets for improvement; • issued guidance for staff on sustainable procurement; • initiatives to reduce emission from its street lighting and vehicles along with other energy saving measures; • produced a Joint Waste Management Strategy with targets to 2015. The Council is one of the highest performing councils in recycling and waste reduction; • a corporate Asset Management Plan based on corporate priorities aimed at making more effective use of assets • developing a Better Offices programme, improving facilities and making them fit for purpose; • joined with other bodies to share property; and • undertaken a programme of Fit for Purpose surveys of schools.
<p>Value for money conclusion</p>	<p>We issued an unqualified value for money conclusion on 23 September 2009. Having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Oxfordshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.</p>

Use of resources – Fire and Rescue service

A separate Use of Resources review is undertaken of the Fire and Rescue service. The main elements of our use of resources work are similar to those undertaken for the County Council with certain elements based on the County Council arrangements and performance:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
 - Managing finances – focusing on sound and strategic financial management;
 - Governing the business – focusing on strategic commissioning and good governance; and
 - Managing resources – focusing on the management of the workforce.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment and on any local reviews carried out.

The findings from this work are summarised below. In a number of instances the scores awarded to the County Council at sub-KLOE level are carried over into the Fire and Rescue Service score. We have therefore commented only on issues specific to the Fire and Rescue Service.

Element of work	Key Findings								
Use of Resources	<p>Our assessment of the Service against the three specified themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <p>Overall the Service has scored a 3 (performing well). It scored a 3 in each of the three KLOEs.</p> <table border="1" style="margin: 10px auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;">Managing Finances</td> <td style="background-color: #d9e1f2; text-align: center;">3</td> </tr> <tr> <td style="background-color: #d9e1f2;">Governing the Business</td> <td style="background-color: #d9e1f2; text-align: center;">3</td> </tr> <tr> <td style="background-color: #d9e1f2;">Managing Resources</td> <td style="background-color: #d9e1f2; text-align: center;">3</td> </tr> </tbody> </table> <p>Managing Finances</p> <p>The Fire and Rescue Service:</p> <ul style="list-style-type: none"> ● is 1 of only 9 fire and rescue services within county councils with a service score of 4; and ● continues as a low cost, high performing service. <p>Governing the business</p> <p>The Fire and Rescue Service:</p> <ul style="list-style-type: none"> ● is actively addressing the issues of diversity and inequality in the county identifying “at risk” groups; ● is working closely with other bodies to increase the number of fire alarms in domestic premises; 	Area	Score	Managing Finances	3	Governing the Business	3	Managing Resources	3
Area	Score								
Managing Finances	3								
Governing the Business	3								
Managing Resources	3								

Use of resources – Fire and Rescue service

Element of work	Key Findings
<p>Use of Resources</p>	<p>Governing the business (continued)</p> <p>The Fire and Rescue Service:</p> <ul style="list-style-type: none"> • achieved improvement in 83.33% of national performance indicators (PIs) compared with a national average of 69%; • has 67% of its Performance Indicators in the top quartile and 92% are above average; • has reduced the number of accidental dwelling fires by more than 5%; • is a member of a regional procurement group of fire authorities which is delivering savings; and • has low sickness levels. <p>Managing resources</p> <p>The Fire and Rescue Service was assessed only on KOLE 3.3 “Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities” this year.</p> <p>The Fire and Rescue Service has developed its strategic plan for recruitment and retention and continued to improve its position in 2008/09. Applications for employment have increased as has the number of staff retained. Sickness levels have fallen. There is a greater understanding of the reasons for absence and increased monitoring of reasons for absence has taken place.</p>

Financial statements

Audit opinion

We issued an unqualified opinion on the Authority's accounts on 23 September 2009. We have also confirmed that the information presented in the Annual Governance Statement is consistent with the accounts and complies with statutory guidance.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters identified. Our report was dated 14 September 2009 and was presented to the Audit Committee on 23 September 2009.

Accounts production and adjustments to the accounts

We did not identify any material adjustments to the financial statements for 2008/09. We identified a small number of minor presentational adjustments to the notes to the accounts, all of which were corrected by management.

Whole of Government Accounts ('WGA')

The deadline for submission of the WGA return to the Department for Communities and Local Government was 1 October 2009. We completed our audit of the WGA return and signed an unqualified opinion on 29 September 2009.

International Financial Reporting Standards (IFRS)

The Authority's finance team has a project plan to manage the transition to IFRS and meet the required timetable.

Appendix 1: Reports issued

We set out below the reports issued during the year.

Report	Date issued
2008/09 Audit Plan	4 March 2008
ISA 260 Report on Audit to those charged with Governance	14 September 2009
Annual Audit Letter 2008/09	26 November 2009

Appendix 2: Fees

	Plan 2008/09	Actual 2008/09
Financial Statements and Statement on Internal Control	£147,500	£147,500
Use of resources (2008 assessment)	£72,300	£72,300
NFI	£1,000	£1,000
Whole of Government Accounts	£3,050	£3,050
Queries from electors/whistle-blowing complaints	-	£6,450
Total audit fee	£223,850	£230,300

The planned audit fee for the Authority is as set out in the Audit Plan, presented to the Audit Committee in March 2008. All fees shown are net of VAT.

For grants we have not stated a fee as grant audits for 2008/09 have not yet been finalised.

In accordance with Audit Commission requirements, the following additional areas of work were undertaken. The fees for this work are in line with Audit Commission guidance notes.

- Use of Resources – Oxfordshire County Council (2009 assessment - £85,000)
- Use of Resources – Oxfordshire Fire and Rescue Service (2009 assessment - £12,000)
- Data Quality – Oxfordshire Fire and Rescue Service (2009 assessment - £5,000)

The fee in respect of queries from electors/whistle blowing complaints relates to time incurred in responding to such matters brought to the attention of the auditor, in accordance with the provisions of the Audit Commission Act 1998.

Division(s): All

AUDIT COMMITTEE – 20 JANUARY 2010

UPDATE ON WORK ON FAIRER CHARGING INCOME

Report by Director for Social & Community Services and
Assistant Chief Executive & Chief Finance Officer

Introduction

1. At the October 2009 meeting of the Audit Working Group, Officers set out a detailed action plan for the remaining actions to be completed in order to improve the end to end fairer charging assessment process, with a view to reducing (or eliminating) the amount of foregone income.
2. This report updates Members on the progress against the action plan, and the impact of these and previous actions on the levels of foregone income. This report has come straight to the Audit Committee following the cancellation of the Audit Working Group during the difficult weather conditions.

Summary of work done since last Audit Working Group

3. The main areas of work undertaken since the last meeting of the Audit working group can be summarised under a number of headings as follows:

Key ideas

- Fairer Charging referral to be sent to the Financial Assessment Team in Shared Services
- Date the referral is sent to be recorded on the Service requisition
- Manager authorising service requisition to check this date is filled in and to investigate if not
- Date sent to be recorded on SWIFT
- Home Support Procurement Officers to consistently record all home support services on SWIFT, whether internal or external
- Fairer Charging team to compare SWIFT and Abacus for home support clients (based on the above SWIFT entries)

Key Benefits

- Ensuring sending of Fairer Charging referrals are complete and timely
- Comparing home support service starts on SWIFT to the “referral sent” recording will highlight those where referrals are still not sent before care starts
- Comparing SWIFT entries to Abacus will ensure that any clients without assessment should be highlighted much more quickly, ensuring no long delays
- Better statistics on the timeliness of the process and where delays are occurring.

Process documentation produced

- Consulted with operational staff
- High level support map produced
- Key rules document prepared, referenced to the process map
- So only 2 pages for simplicity

Forms

- Amended domiciliary care service requisition – to add box to record when Fairer Charging referral was sent
- Amended Fairer Charging referral – to ask care teams for prior information useful in arranging and prioritising visits eg whether client likely to be full cost, whether representatives/ power of attorney needs to be present during the financial assessment visit

SWIFT recording

- Added new assessment outcome to record the date the Fairer Charging referral was sent
- Updated assessment outcomes guidance

Reports

- Updated SWIFT report regarding new SWIFT services that is checked by the Fairer Charging team:
 - Date criterion changed from 7 to 14 days
 - More Fairer Charged services added
 - Selected on date service record was created rather than the service start date – sometimes backdated services were missed
- New report developed to show Home Support services within a date range, checked to see if referrals are sent. This report can also be picked up by the Fairer Charging team for checking against Abacus.
 - Using one report for two purposes ensures we are all looking at the same information
 - Better control through the system; we can pick up errors earlier and get a feel for how long this process should take

Next Steps

4. The two main actions which are planned to be completed between now and the end of the financial year are the introduction of nominal charges, and the implementation of new mobile working tools for the financial assessment officers.
5. The introduction of nominal charges has been agreed in principle, and the next three months will be spent agreeing the final detail of the arrangements (particularly to ensure care managers fully understand the process, and are in a position to fully explain the charge to the clients, and manage cases where

clients look to withdraw from care where they do not understand the process). Nominal charges will not eliminate foregone income, but will reduce the level built into the current arrangements, whereby it is not feasible to complete a financial assessment before care starts.

6. The implementation of new mobile working tools for the financial assessment officers will provide two benefits to the management of fairer charging income. Firstly, it will reduce the current assessment process by a week on average, by allowing the assessment to be completed within the client’s home. The second benefit will be improvements in the management information readily available and the ability to eliminate the requirement on a series of stand alone spreadsheets. A number of the issues identified to date have resulted from the lack of a comprehensive management information system and the need to reconcile data between spreadsheets, Swift and Abacus. The new software should enable full management reporting from Abacus.

Latest Performance Data

7. At the last Audit Working Group, Officers did discuss alternative ways of presenting the data on foregone income in the future which would better represent the trends in performance. Unfortunately, in the absence of the new software, and given the volume of data held across various spreadsheets, it has not been possible to complete this exercise for this meeting.
8. The Audit Working Group did though also request data on trends in how long assessments were taking to be completed. This data also provides a key measure of the effectiveness of service performance. The table below shows the numbers of assessments completed in the quarter October-December 2009, analysed by the time from care starting to assessments completed.

Time from Care Starting to Assessment	Number of Assessments	Total Days	% of total Assessments	% of total Assessments July 2009
No Delay	179	0	37.8	27.5
1 Month	178	2,955	37.6	18.4
2 Months	86	3,760	18.1	21.1
3 Months	22	1,542	4.6	16.5
Over 3 Months	9	4,123	1.9	16.5
Totals	474	12,380	100.0	100.0

9. These figures show an increase of 10% of all assessments completed before care starts, with 75% of all assessments now completed within a month of care starting, compared to just 45% in July.
10. The improvements in performance stem from a number of improvements in the process in booking assessments, chasing up where visits have been

delayed, and writing to clients with a provisional full cost assessment where the assessment visit is unduly delayed.

11. The data on average time for the completion of assessments in the last 3 months of 2009 shows a similar level of improvement. The average delay for financial assessments completed in October to December was 23.4 days, compared to an average across the whole of 2009 of 38.1 days.
12. From a fairly static position where assessments were taking on average around 40 days from the start of care to complete, October's figure fell to 30 days, with further falls in November and December to 17 and 21 days respectively.
13. Using the old measure of foregone income also shows significant improvement in performance over the last three months of 2009. The level of foregone income per completed assessment for October-December was around 50% of levels for earlier in the year.
14. The level of assessments actually completed in November and December was down on previous months. One concern therefore is that the improving trend in the above figures will be reversed at the start of 2010. However, further analysis of the management data now collected indicates that at the time of writing this report there were only 11 clients identified as having care starting before December where neither a visit has been booked, nor a provisional full cost assessment letter sent out. Of these, 4 clients are currently in hospital, 2 have subsequently stopped care, 3 are unlikely to be making a contribution based on information already held, and the last 2 are being chased to agree a visit date and will be sent a provisional full cost assessment if this cannot be agreed this week.

Conclusion

15. The above figures suggest that the actions previously taken and reported to the Audit Working Group, plus those further actions detailed in this report are having the desired consequences in terms of improving the effectiveness of the fairer charging assessment process, as measured in terms of time taken to complete assessments, and the levels of foregone income.
16. The figures suggest that further improvement is still possible, and two key actions are planned for implementation at the start of the new financial year which should bring further reductions in the levels of foregone income. These improvements should also improve the management information available to officers managing the service, and for future reports to this Audit Working Group if required. To enable meaningful data to be collated from these new reports, it is suggested that if any further performance report is required on the levels of foregone income, then this is delayed to a summer meeting of the Audit Working Group. Clearly Officers would maintain a rigorous review of available data in the meantime.

RECOMMENDATION

17. **The Committee are RECOMMENDED to note the report.**

JOHN JACKSON
Director for Social & Community Services

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background Papers; Nil

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January 2010

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Division(s): N/A

AUDIT COMMITTEE – 20 JANUARY 2010

SELF ASSESSMENT OF TREASURY MANAGEMENT PRACTICES AT OXFORDSHIRE COUNTY COUNCIL

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. Following the collapse of the Icelandic banks and the level of exposure to which Local Authorities were subject to, the Audit Commission has issued the following recommendations for Treasury Management in Local Authorities. Below is a comparison of how Oxfordshire County Council currently compares to those recommendations.

Self Assessment

- 2.

Audit Commission recommends that Local Authorities should:	Current Oxfordshire County Council practice
Be explicit about the level of risk it accepts and the balance between security and liquidity and yield. And decide whether or not it has the appetite and/or capability to be able to manage risk by placing money with financial institutions	The types of instruments that the Council deems to be of acceptable risk are approved by full council annually. The limits applicable to each instrument are also set out and approved within the Specified & Non Specified section of the Strategy Report. The Council's methodology for counterparty selection is agreed as part of the Strategy Report.
Ensure that treasury management policies:	
Follow the CIPFA Treasury Management in the Public Services code of practice	Oxfordshire County Council follows the CIPFA Treasury Management in the Public Services code of practice
Are scrutinised in detail by a specialist committee, usually the audit committee	The Treasury Management function is currently subject to annual internal and external audit review. It has also been agreed that the Audit Committee will receive a copy of the draft Annual Treasury Management Strategy prior to submission to Cabinet and Full Council before the

	<p>start of each financial year.</p> <p>A further Outturn Report will be submitted to the Audit Committee before submission to Cabinet following the end of each financial year.</p> <p>A one off self assessment of Treasury Management practices will be submitted to Audit Committee in January 2010.</p>
<p>Are monitored regularly</p>	<p>The Treasury Management Strategy Team monitors treasury management policies on, at least, a monthly basis. The membership of the team includes the Assistant Chief Executive & Chief Finance Officer, Head of Finance & Procurement, Assistant Head of Finance, Financial Manager and Principal Financial Manager of Treasury Management & Pension Fund Investments.</p>
<p>Ensure elected members receive regular updates on the full range of risks being run</p>	<p>Any changes to strategy or the counterparties on the approved Lending List are reported to Cabinet monthly</p>
<p>Ensure the treasury management function is appropriately resourced commensurate with the risks involved. Staff should have the right skills and have access to information and external advice</p>	<p>All members of the Treasury Management Strategy Team are qualified accountants All dealers are trained and closely supervised until they have the required knowledge and skills to undertake the role. Dealers have access to external advice and information provided by the Trading and Media information provider – Reuters</p>
<p>Train the elected members who have accountability for the stewardship of public money so that they can effectively scrutinise and be accountable for the treasury management function</p>	<p>Arrangements for training elected members are currently being considered by the Strategy Team.</p> <p>A training session on Treasury Management for the Audit Committee took place in November 2009</p>

<p>Ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing money ahead of need, may reduce risk</p>	<p>The Treasury Management Strategy Team considers the full range of options for management funds on a monthly basis. E.g. in November 2008 the strategy team decided not to take any more external borrowing in order to reduce risk of capital loss.</p>
<p>Use the fullest range of information before deciding where to deposit funds</p>	<p>The current treasury management strategy uses the credit ratings of Fitch to determine the Council's lending list, however the Treasury Management Strategy Team also considers the credit ratings from the two other main credit rating agencies (Standard & Poors and Moodys), and where appropriate Credit Default Swaps, Share Prices and other media information</p>
<p>Be clear about the role of external advisors, and recognise that local authorities remain accountable for decisions made</p>	<p>The Treasury Management Strategy Team are aware of the limitations of external advisors, and will challenge and review any advice given before making a decision</p>
<p>Look for economies of scale between authorities or with pension funds, while maintaining separation of those funds</p>	<p>The Treasury Management team manages the internally invested cash on behalf of the Oxfordshire Pension Fund.</p> <p>The Treasury Management Strategy Team will consider other economies of scale between authorities as and when they become available.</p>

RECOMMENDATION

3. **The Committee is RECOMMENDED to note the Council's treasury management self assessment as at January 2010**

SUE SCANE
 Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact officer: Tim Chapple Tel: 01865 323980

January 2010

Treasury Management Strategy Statement and Annual Investment Strategy for 2010/2011

Introduction

1. The Local Government Act 2003 and supporting regulations requires 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.
2. The Act therefore 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.
3. The proposed strategy for 2010/11 in respect of the following aspects of the treasury management function is based upon the views of the Council's Treasury Management Strategy Team (TMST)¹, informed by market forecasts provided by the Council's treasury advisor, Arlingclose Limited. The strategy covers:
 - Treasury limits in force which limit the treasury risk and activities of the Council;
 - Prudential Indicators;
 - the current treasury position;
 - prospects for interest rates;
 - the borrowing strategy;
 - the borrowing requirement;
 - the investment strategy;
4. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue caused by increased borrowing to finance additional capital expenditure, and any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.
5. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The code was adopted by Council on 1 April 2003.

¹ Comprising the Assistant Chief Executive & Chief Finance Officer, Head of Finance & Procurement, Assistant Head of Finance (Corporate Finance), Principal Financial Manager – Treasury & Pension Fund Investments and Financial Manager – Treasury & Pension Fund Investments

6. Given the turmoil in the banking sector in the last 18 months, on 4 November 2008 Council agreed that any changes to the Strategy may be delegated to the Chief Finance Officer in consultation with the Cabinet Member for Finance and leaders of the Opposition and other groups. Any changes to the Strategy will be reported to Cabinet and Council at the meetings subsequent to any changes. It is proposed that the ongoing recommendation is changed to reflect the new composition of Council, and that consultation is with the Cabinet Member for Finance and leaders of the Opposition and the Labour group.

Treasury Limits for 2010/11 to 2012/13

7. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review the amount it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'. In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.
8. The Council must have regard to the Prudential Code when setting the 'Authorised Borrowing Limit'. The Authorised Limit, essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is 'acceptable'.
9. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

Prudential Indicators for 2010/11 to 2012/13

10. The Prudential Indicators set out below are part of the integrated treasury management strategy.
11. It is recommended that Council approves the authorised limits for total external debt gross of investments for the next three financial years.

PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000	£'000
	probable outturn	estimate	estimate	estimate
Authorised Limit for external debt				
borrowing	£510m	£534m	£530m	£550m
other long term liabilities	£5m	£5m	£5m	£5m
TOTAL	£515m	£539m	£535m	£565m
Operational Boundary for external debt -				
borrowing	£500m	£524m	£520m	£550m
other long term liabilities	£5m	£5m	£5m	£5m
TOTAL	£505m	£529m	£525m	£555m
Upper limit for fixed interest rate exposure expressed as:				
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%
Upper limit for variable rate exposure expressed as:				
Net principal re variable rate borrowing / investments	25%	25%	25%	25%
Upper limit for total principal sums invested for over 364 days	£100m	£100m	£100m	£100m

Maturity structure of fixed rate borrowing during 2010/11	Lower Limit	Upper Limit
	%	%
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

Current Portfolio Position

12. The Council's treasury portfolio position for the 2009/10 financial year up to and at 30 November 2009 comprised:

	Principal £m	Average Rate %
Debt		
PWLB	352.383	4.95%
Money Market Loans	50.000	3.76%
Other Long-Term Liabilities	5.056	
TOTAL EXTERNAL DEBT	407.439	

Investments		
Average Monthly Cash Balance		
Average Monthly Externally Managed	201.404	1.10%
	23.710	3.09%
TOTAL INVESTMENTS	225.114	

Prospects for Interest Rates

Current Medium Term Financial Plan

13. The strategy for 2009/10 approved by Council in February 2009 set out forecast interest rates over the medium term. The forecast was for an average base rate of 0.5% in 2009/10, 1.00% in 2010/11, 1.50% in 2011/12, 2.10% in 2012/13 and 2.75% in 2013/14. These interest rates were used as a basis for constructing the strategic measures budget for 2009/10 to 2013/14.

Arlingclose's View

14. The Council has appointed Arlingclose Limited to provide investment advice to the Council, as part of this service they help the Council to formulate a view on interest rates. Annex 8b of the Service & Resource Planning report to Cabinet in January 2010 draws together a number of City forecasts for short term (Bank Rate) and longer term fixed interest rates.
15. Arlingclose's current view on interest rates is that the Bank Rate:
- Will remain at 0.5% until November 2010
 - Will gradually increase from December 2010 to March 2011 to 1.50%
 - Will rapidly increase to 4.00% by December 2011 and remain there for the rest of the financial year.
16. There is a downside risk to these forecasts if the economy could not sustain such a rapid increase in interest rates. There is also an upside risk that the Bank of England's Monetary Policy Committee may begin the process of base rate increases earlier than forecast.

- Arlingclose are of the view that short term money market rates are likely to remain at very low levels, although they have not quantified what spreads over Base Rate to expect.

Treasury Strategy Management Team's View

17. The Council's TMST, taking into account the advice from Arlingclose, and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2010/11 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2010/11 0.63%
- 2011/12 1.75%
- 2012/13 2.63%
- 2013/14 2.75%
- 2014/15 3.50%

18. It is the view of the team that as rates achieved on deposits in the past have been over and above that of the Bank Rate that a return rate should also be budgeted for. The team has agreed that the return rate should be 0.60% higher than the average Bank Rate for each year over the medium term. The rate this gives is set out below. These rates have been incorporated into the strategic measures budget estimates:

- 2010/11 1.23%
- 2011/12 2.35%
- 2012/13 3.23%
- 2013/14 3.35%
- 2014/15 4.10%

Borrowing Strategy

Arlingclose's View

19. Arlingclose's forecasts have an upside risk of between 25 and 50 basis points, and a downside risk of 25 basis points depending on the economic and political climate.
20. Arlingclose's forecasts for the Public Works Loan Board (PWLB) new borrowing rates are as follows:
- The 50 year PWLB rate is expected to start the financial year at 4.25%, increasing to 4.50% in June 2010. A further increase is forecast to 4.75% by December 2010, remaining at that level for the rest of the forecast period.
 - The 25 year PWLB rate is expected to start the financial year at 4.25% rising to 4.50% in June, 4.75% in September and 5.00% in December 2010, remaining at that level for the rest of the forecast period.

- The 10 year PWLB rate is expected to start the financial year at 3.75%, rising to 4.00% in June and again to 4.25% in March 2011. Further increases are forecast with the rate ending at 4.75% in March 2012.
- The 5 year PWLB rate is expected to start the financial year at 2.70% with gradual quarterly increases forecast to reach 3.25% by March 2011. Further gradual increases are forecast until the rate reaches 4.25% by March 2012.

21. This forecast indicates, therefore, that there is a range of options available when setting a borrowing strategy for 2010/11. Short dated gilt yields are forecast to be lower than medium and long dated gilt yields during the financial year. Despite additional gilt issuance by the UK Government, short dated gilts are expected to benefit from expectation of lower interest rates as the economy struggles. Variable rates are expected to remain low as the Bank Rate is maintained at historically low levels.

Treasury Strategy Management Team's View

22. It is the view of the Council's TSMT that the outcome of the 2010 General Election, any possible change in the UK's Sovereign credit rating (currently on negative outlook with Standard & Poors), and the effect of the reversal of the recent Quantitative Easing could cause gilts yields, and therefore PWLB borrowing rates to rise in 2010 and beyond.
23. 2010/11 is expected to be a time of continued low Bank Rate. Therefore the "cost of carry" associated with the long term borrowing compared to temporary investment returns means that the appetite for new long term borrowing brings with it additional short term costs. Financing the Council's borrowing requirement internally would reduce the "cost of carry" in the short term, however this must be weighed against the possibility of refinancing any internal borrowing at a time when PWLB rates far exceed those currently available.
24. The Council's TSMT therefore have agreed that they should continue to have the option to fund new or replacement borrowing up to the value of 25% of the portfolio (currently approximately £50m) through internal borrowing. It is likely that a combination of internal and external borrowing will be used to fund the financing requirement. This will have the effect of reducing some of the "cost of carry" of funding, and also aiding the Council to retain the ability of financing the borrowing requirement through internal balances at a time in the future when borrowing rates may be prohibitively expensive.
25. If the market conditions change during the 2010/11 financial year such that the policy to borrow internally is no longer in the interests of the authority, the TSMT will review the borrowing strategy and report any changes to Cabinet.

26. The team's forecast for PWLB rates over the medium term are set out below. These rates have been incorporated into the strategic measures budget estimates:

- 2010/11 4.00%
- 2011/12 4.50%
- 2012/13 4.50%
- 2013/14 4.50%

LOBOs (Lender's option/Borrower's option)

27. The Council has set a maximum limit of 20% of the debt portfolio to be borrowed in the form of LOBOs. It is recommended that this remain as the limit for 2010/11. As at 30 November 2009, LOBOs represent 13.14% of the total external debt.
28. The Council has three £5m LOBO's with call options in 2010/11. The first has call options in April 2010 and October 2010, the next with call options in May 2010 and the last in November 2010. If the lender chooses to increase the current rate of interest payable, the Council will evaluate alternative financing options before deciding whether or not to accept the new rate offered.

Borrowing Requirement

29. In order to finance the Capital Programme the Council's long-term debt is projected to increase from £431.417m in April 2010 to £445.190m by 31 March 2011, part of which may be funded internally.

	2009/10 £m Probable	2010/11 £m Estimate	2011/12 £m Estimate	2012/13 £m Estimate
Net New Borrowing – Internal	14.337	0.573	7.000	
Net New Borrowing – External	8.000	14.000	11.001	16.291
Replacement Borrowing - Internal		15.000*	10.000*	
Replacement Borrowing - External	12.000	6.000	11.000	16.000*
TOTAL	34.337	35.573	39.001	32.291

*replacement borrowing in 2010/11 includes three £5m potential repayment of LOBO loans. In 2011/12 the replacement borrowing figure includes two £5m potential LOBO loan repayments. A further two £5m LOBO loan repayments could potentially be called in 2012/13.

Annual Investment Strategy

30. The Council has regard to the Office of the Deputy Prime Minister's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and

CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). Communities and Local Government (formerly ODPM) have issued a consultation paper on changes to the Investment Guidance, Capital Finance Regulations and Minimum Revenue Provision Guidance. Any changes in the revised guidance will come into force on 1st April 2010 and are reflected in this report. The Council's investment priorities are:-

- (a) The security of capital and
- (b) The liquidity of its investments

31. 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.
32. Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investment categories. 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' and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal and minimum part of day to day treasury management.
33. 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.
34. The Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and derive its counterparty limits. The TMST may further limit these by using other available information such as Credit Default Swap Rates, Shareprices, Ratings Watch & Outlook notices. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 42 and 43 respectively. The Council may also use alternative credit rating agencies such as Standard & Poors and Moodys, in these instances the equivalent ratings will apply.
35. Notification of any rating changes (or ratings watch and outlook notifications) by Fitch are monitored daily by a member of the Treasury Management Team. Rating changes by other credit rating agencies are reported to the TMST by Arlingclose.
36. Where a change in credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables 42 and 43), that counterparty will be immediately removed from the lending list.
37. Where a counterparty has been placed on Negative Watch or Outlook by a credit rating agency, the counterparty will be immediately suspended from the

approved lending list. The TMST will then consider the notification and any other information as described in paragraph 35 before deciding whether the counterparty should be reinstated or removed from the approved lending list.

38. In addition, the TSMT 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.

39. Any changes to the approved lending list will continue to be reported to Cabinet as part of the monthly Financial Monitoring Report.

Specified Investments

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

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term A, Individual rating C with support rating 2 or individual rating B with support rating 3, Minimum Sovereign Rating AA	In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A	In-house
Term Deposits with Part Nationalised banks by the UK Government	N/A	In-house

Term Deposits with Banks and Building Societies signed up to the UK Government support to the banking sector	Fitch short-term F1, Long-term A, Individual rating C with support rating 2 or individual rating B with support rating 3, Minimum Sovereign Rating AA	In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis. Fund Managers
Short-term Funds (including Money Market Funds)	AAA	In-house and Fund Managers
Bond Funds	AAA	In-house and Fund Managers
UK Government Gilts	AAA	In-house on a buy and hold basis. Fund Managers
Treasury Bills	N/A	Fund Managers

Non-Specified Investments

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

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year) ²	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years

² Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-, Individual rating B, with support rating 2	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (eg. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-, Individual rating B, with support rating 2 or Individual rating B/C with support rating 1	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	3 years in-house, 10 years fund managers
UK Government Gilts with maturities in excess of 1 year	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house. Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers

Bond Funds	AAA	In-house and Fund Managers	50% In-house; 100% External Funds	5 years in-house, 30 years fund managers
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers

Counterparty Limits

42. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the limits as at 31 December 2009.

Short Term Rating F1+, Long Term Rating AAA, AA+, AA, AA-				
	Support			
Individual	1	2	3	4
A	£30m*	£30m*	£22m	
A/B	£30m*	£22m*	£10m	
B	£22m*	£22m*	£10m	
B/C	£15m	£15m		
C	£10m	£10m		

Minimum Short Term Rating F1, Long Term Rating A+, A				
	Support			
Individual	1	2	3	4
A	£15m	£15m	£10m	
A/B	£15m	£15m	£10m	
B	£15m	£15m	£10m	
B/C	£10m	£10m		
C	£10m	£10m		

* In addition to the standard limit, the highest rated institutions have an additional £5m limit restricted to overnight and call account deposits.

Maturity Limits

43. 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 TSMT may further restrict lending criteria in response to changing market conditions.

Short Term Rating F1+, Long Term Rating AAA, AA+, AA, AA-				
	Support			
Individual	1	2	3	4
A	3 years	3 years	6 mths	
A/B	3 years	3 years	3 mths	
B	3 years	3 years	3 mths	
B/C	364 days	6 mths		
C	6 mths	3 mths		

Minimum Short Term Rating F1, Long Term Rating A+, A				
	Support			
Individual	1	2	3	4
A	6 mths	6 mths	3 mths	
A/B	6 mths	6 mths	3 mths	
B	6 mths	6 mths	3 mths	
B/C	3 mths	3 mths		
C	3 mths	3 mths		

Other institutions included on the councils lending list

44. In addition to highly credit rated banks and building societies the authority may also invest in AAA rated Money Market funds, Collective Investment Schemes (including LAMIT) and deposits with some local authorities.

Structured Products

45. As at 30 November 2009, the Council had £5m of Structured products within its investment portfolio. Structured products involve varying degrees of additional risk over fixed rate deposits, with the potential for higher returns. It is recommended that the authority continue to use structured products up to a maximum of £20m of the investment portfolio. The Council will continue to monitor structured products and consider restructuring opportunities as appropriate.

External Fund Managers

46. The Council currently has £23.89m invested with external fund managers (as at 30th November 2009). £11.88m with Scottish Widows Investment Partnership (SWIP) and £12.01m with Investec. The aim of the funds is to outperform the Council's in-house investment performance over a rolling three year period.
47. The benchmark for SWIP is the 7 day LIBID (London Interbank BID rate) compounded weekly. The benchmark for Investec is a composite index of 70% of three month LIBID and 30% Merrill Lynch 0-5 year gilt index. The Council will continue to monitor the performance of the externally managed funds against both their benchmarks and the in-house investment returns.

48. The External Fund will have a maximum average duration of 3 years for Investec and 5 years for SWIP.
49. It is recommended that authority to withdraw or advance additional funds to/from external fund managers be delegated to the TMST if economic conditions indicate that this would be in the best interest of the Council.

Treasury Management Advisors

50. In November 2009 the TMST appointed Arlingclose Limited as Treasury Management Advisors to the Council. Arlingclose will:
 - Provide the Council with Investment Advice
 - Assist in the performance monitoring of the external fund managers
 - Provide the Council with market information including credit ratings, other credit information, forecast interest rates for investment and debt
 - Provide technical advice and training to Treasury Management officers and Councillors.

Any advice given by Arlingclose will be considered by the TMST. Any decisions made remain the responsibility of the Council

Performance Monitoring

51. The Council will monitor its Treasury Management performance against other authorities, through its membership of the CIPFA Treasury Management benchmarking club. Latest performance figures will be reported in the Annual Review Report which will be considered by Cabinet in June 2010.

Investment Training

52. All members of the Treasury Management Strategy team are members of a professional accounting body. In addition, key Treasury Management officers receive in-house and externally provided training as deemed appropriate. Key Treasury Management officers will also be encouraged to study towards the new CIPFA and ACT³ joint Certificate on International Treasury Management – Public Finance.

Recommendations

53. The recommendations arising from the updated strategy are set out in the main body of the report.

December 2009

³ Association of Corporate Treasurers

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Division(s): N/A

AUDIT COMMITTEE - 20 JANUARY 2010

IMPROVING PROJECT AND PROGRAMME MANAGEMENT GOVERNANCE

Report by the Head of Strategy

Introduction

1. An action plan to improve project and programme management governance was presented to Audit Committee on 22 April 2009.
2. Audit Committee agreed to include in its Work Programme a brief overview and action plan progress update.

Progress

3. The table below presents the key learning points and corresponding actions:

Key learning points	Action	Timing
Need for stronger governance/ leadership and more challenge	<ul style="list-style-type: none"> - Integration of project management with performance management to ensure effective challenge, management and escalation of projects and programmes. - Key projects and programmes reported to CCMT via corporate balance scorecard. - Key ICT projects and programmes reported/escalated to ICT Strategy Board. - Business Efficiency Strategic Board (including Leader, Deputy Leader and Finance Portfolio Holder) to consider key projects and programmes relevant to wider working of Council. - Project and Programme Management framework: introduce project assurance role 	<p>March 10</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Sep 09 (completed)</p>
Make better use of Gateway Reviews	Project and Programme Management Framework: include Gateway Reviews in project/programme planning	Jun 09 (completed)

<p>Improve communication and dissemination of lessons learnt</p>	<p>Introduce case studies based on Oxfordshire County Council projects and programmes as part of the Project and Programme Management framework and learning and development activities</p>	<p>Sep 09 (completed)</p>
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4. In order to build on the action already taken, the Policy Unit is working to integrate project and risk management with performance management.
5. Rather than introduce changes to reporting in year, these changes will be implemented in the new financial year to coincide with changes being made to performance and risk management.
6. This integration of project and performance management alongside the leadership and challenge being provided by CCMT, the ICT Strategy Board and the Business Efficiency Strategic Board will replace the previous proposal to set up an Internal Challenge Panel.

RECOMMENDATION

7. **The Committee is RECOMMENDED to note this progress report.**

TRACY LUCK
Head of Strategy

Background papers: Nil

Contact Officer: Imran Alvi, Assistant Corporate Performance and Review Manager – Tel: (01865) 810822

January 2009

Division(s): N/A

AUDIT COMMITTEE – 20 JANUARY 2010

INTERNATIONAL FINANCIAL REPORTING STANDARDS - UPDATE

Report by the Assistant Chief Executive & Chief Finance Officer

Introduction

1. From 2010/11, local authorities' accounts are required to be prepared using International Financial Reporting Standards (IFRS). This is part of a wider public sector move to comply with international accounting standards.
2. A report was presented to this Committee in April 2009, outlining the issues for the Council and details of the project in place to ensure compliance. Since this time CIPFA has consulted on its proposals for the IFRS based Code of Practice on Local Authority Accounting and the final Code was published in December 2009. The purpose of this report is to update the Committee on progress in ensuring the Council's compliance with the required changes.

Areas of Significant Difference between IFRS and the current Code of Practice on Local Authority Accounting (the Code) - Update

3. Property: Valuations for all operational land and buildings over £250,000 are being reviewed. These new valuations will also be used for the 2009/10 accounts where appropriate. All investment and surplus properties have been reviewed to ensure that they meet the new tighter definitions for these categories and this has resulted in the redesignation of some properties. For all assets acquired, enhanced or disposed of from 1 April 2010 IFRS requires us to account separately for different components. This has proved to be a difficult area to define and we are currently awaiting further advice from CIPFA Property to ensure a consistent approach with other authorities. Changes required to the SAP system to accommodate the additional data in this area have been identified and will be implemented after the 2009/10 closedown.
4. Leases: IFRS gives slightly different definitions of operating and finance leases. It also requires that leases of property are separated into land and buildings for accounting purposes. All leases with over £1,000 per annum rental have been reviewed and this has resulted in a few lease category changes. We have used this as an opportunity to review guidance to directorates and schools and we are looking to make improvements in this area. Some 100 plus high value Council contracts are in the process of being reviewed to determine whether they contain any 'embedded' leases. So far two such leases have been identified.

5. Service Concession Arrangements: These are contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of assets for public sector services e.g. under Private Finance Initiative (PFI) contracts. For the County Council there are implications for the Homes for Older People contract (£24m of property was removed from our balance sheet in 2001). This element of the IFRS-based Code must be adopted early and included as part of the 2009/10 accounts. This has proved to be the most technically complicated area.
6. Employee Benefits: IFRS places a requirement on the Council to accrue for any untaken annual leave, flexi leave or time off in lieu at the end of the financial year, which applies to all staff, including teaching staff. Data for non teaching staff has had to be collected for these items manually, since records are held locally and different practices are in place throughout the Council. Analysis has identified these sums to be approximately £1million for non teaching staff and approximately £14.5million for teaching staff. The Department for Communities and Local Government is implementing legislation to ensure that these sums do not impact on the local taxpayer. These sums will be charged to an employee benefit reserve.
7. Reporting, Presentation and Disclosure Requirements: The IFRS-based Code defines the four key statements in the Statement of Accounts as the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. There is a significant amount of remapping as the format of all four statements has changed. Although it was initially believed that the Comprehensive Income and Expenditure Account would need to be prepared using the Council's internal reporting format, the Code now confirms that we will continue to prepare the statement using the standardised format, but must include a reconciliation to the Council's internal reporting format as part of the notes. The new IFRS-based Code has more disclosure requirements in almost all areas and work is underway to ensure that comparative information for 2009/10 is captured as part of the 2009/10 final accounts process.
8. At this stage, we are not expecting a significant number of changes to the accounts and this is in keeping with the findings of other authorities. However it is crucial that we are able to demonstrate that the Council has reviewed its accounts thoroughly to ensure compliance with the requirements.

Plans towards achieving compliance

9. The Council's project to ensure compliance with the requirements of IFRS has been in place since February 2009 and paragraphs 3 to 7 above show the main focus of the work undertaken so far. Work is ongoing to finalise these for the transition balance sheet.
10. The project timescales have slipped from the original plan. This is due to both the later availability of the draft Code and subsequent training than originally envisaged and the length of time taken to review the large volumes of data

been greater than anticipated. However project timescales have been revised accordingly and the project is still on track to meet the requirements.

11. Work during the next few months will concentrate on finalising the transition balance sheet, together with ensuring that information requirements in respect of disclosure notes are collated as part of the 2009/10 closedown. Once the 2009/10 accounts are finalised, a set of shadow accounts prepared on an IFRS basis will need to be drawn up. Accounts for the 2010/11 financial year will need to be fully IFRS compliant.
12. Briefings and awareness training have been held with the established finance networks on a regular basis and these will continue throughout the project. Training for members on the changes brought about by the introduction of the IFRS based Code has been timetabled for early 2011, before the 2010/11 final accounts are completed.
13. Discussions have been held with the external auditor over approaches being taken and progress to date and they have indicated that they are happy with our progress. The Council's approach to IFRS conversion was reviewed by Internal Audit during the autumn and no issues have been raised.

Summary

14. The conversion to IFRS based statement of accounts continues to involve a significant amount of work for the Council. Work is ongoing to ensure we meet the requirements and staff remain confident that the Council will meet the requirements of IFRS conversion within the timescale.

RECOMMENDATION

15. **The Committee is RECOMMENDED to:**
 - (a) **receive the report; and**
 - (b) **note the IFRS project progress to date.**

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact Officers: Hilary Cameron, IFRS Project Manager Tel: (01865) 797231
Stephanie Skivington, Strategic Finance Manager (Financial Accounting & Reporting) Tel: (01865) 797443

December 2009

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Division(s): N/A

AUDIT COMMITTEE – 20 JANUARY 2010

REVIEW OF THE PROCESS FOR REPORTING ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. Following the 2006 amendment to the Accounts and Audit Regulations 2003, the Council is required to review the effectiveness of its system of internal audit once a year, and for the findings of the review to be considered by a committee of the Council, or by the Council as a whole, as part of the consideration of the system of internal control.
2. To meet this requirement in 2006/07, the Audit Committee took responsibility for reviewing the effectiveness of the system of internal audit, and determined the process that should be followed was that outlined in the guidance produced by the Institute of Public Finance (IPF). It was recognised the Audit Committee was already applying much of the guidance as part of its business as usual. The Committee instructed the Monitoring Officer to undertake the review and report back to the Audit Committee.
3. In January 2009, the CIPFA Audit Panel published further guidance on both the definition of the "System of Internal Audit", and a process for reviewing the effectiveness of that system. The Audit Committee reviewed the guidance on 21 January 2009, concluding that no changes were required to existing process of review previously adopted.
4. The purpose of this report is for the Audit Committee to consider whether any changes should be made to the review process and to confirm the reporting arrangements for 2009/10.

Process for 2009/10

5. The guidance from the CIPFA Audit Panel published in January 2009 confirmed the approach currently adopted by the Council is appropriate. Through the Annual Governance Statement and Statement of Internal Control process, and the annual review of the System of Internal Audit, all the good practice guidance has been followed.
6. There has been a change in External Auditors in 2009/10 with the Audit Commission now performing this role. As a result there is an additional source of evidence available for this review. The Audit Commission undertake a triennial review of the Internal Audit service which is currently being

undertaken; their conclusion should be available for inclusion in the Monitoring Officers report back to Committee in April.

7. The existing process for reviewing the effectiveness of the System of Internal Audit is as follows:

Sources of evidence

- The Audit Committee receives for approval the annual Internal Audit Strategy and Plan. The Committee can ensure that the plan has been properly compiled to provide a reasonable assurance from the Assistant Head of Finance (Audit) on the system of internal control. (April)
- The Audit Committee agrees the performance indicators and targets for Internal Audit. The set of performance indicators used includes both output measures, (e.g. % of the plan completed) and outcome measures, (e.g. % of recommendations implemented) that enable the Audit Working Group and the Audit Committee to measure and evaluate the effectiveness of Internal Audit.(April)
- The Audit Committee receives the annual report from the Assistant Head of Finance (Audit) including his opinion on the adequacy and effectiveness of the system of internal control.(June)
- The Audit Working Group receives a quarterly report from the Assistant Head of Finance (Audit), detailing performance of the Internal Audit Team, and also receives progress reports at their other meetings. (All meetings)
- The Assistant Head of Finance completes an annual review of compliance against the CIPFA Code of Practice for Internal Audit, presenting evidence to the Monitoring Officer for independent scrutiny. The results are reported to the Audit Working Group (April).
- Annual review by External Audit of Internal Audit reports and files as part of the managed audit arrangement to support their annual audit of the Statement of Accounts. The External Auditors, state whether they can place reliance on the work of Internal Audit in their presentation on their audit of the Accounts, and in their annual report.(September and December)
- Annual Survey, managed by the Monitoring Officer, to canvas the opinions of Directors, Heads of Service and Business Managers on the Internal Audit Service. (March)

Reporting

- In April the Monitoring Officer collates the evidence, and presents a draft report for the consideration of the Corporate Governance Working Group, and the Audit Working Group, before submitting it to the Audit Committee for approval. (April)
8. A suggested format for the annual survey questionnaire is attached as appendix 1 to this report.

RECOMMENDATIONS

9. The Committee is **RECOMMENDED** to:
- (a) approve the existing process for reviewing the effectiveness of the System of Internal Audit, with the addition of incorporating the conclusions arising from the Audit Commissions triennial review of Internal Audit, or instruct officers on changes required to the process for 2009/10;
 - (b) approve the circulation list, content and format of the Annual Survey Questionnaire;
 - (c) authorise the Monitoring Officer to undertake the review and report back to the Audit Committee.

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

Background Papers: The Accounts and Audit (Amendment)(England) Regulations 2006.
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
CIPFA Audit Panel – Guidance of Review of the Effectiveness of the System of Internal Audit - January 2009

Contact Officers: Ian Dyson, Assistant Head of Finance, (Audit), Corporate Core. Tel. 01865 323875
ian.dyson@oxfordshire.gov.uk

January 2010

Annual Survey - Review of the effectiveness of Internal Audit

To.....

Question	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
I have been given adequate information on the role and purpose of Internal Audit				
I am consulted by Internal Audit on the key risks and critical systems in my area				
I am satisfied that Internal Audit is independent				
I am given an opportunity to comment on Internal Audit's annual work plans				
On individual audit assignments, where appropriate, I have an opportunity to provide input to the planning of Internal Audit work				
Internal Audit reports are timely, practical and support managers in the management their key risks				
Internal Audit is effective in delivering improvements to the control environment				
Other Comments				

Date.....

AUDIT COMMITTEE – 20 JANUARY 2010

DRAFT WORK PROGRAMME 2010/11

2010

03 March

2009 Annual Report of the Audit Committee to Council
(in accordance with the process adopted by the Committee on 29 November 2006)

Internal Audit Services: Internal Audit Strategy & Annual Plan 2010/11
(Ian Dyson)

21 April

Election of Chairman & Deputy Chairman

Review of the Effectiveness of the System of Internal Audit 2009/10
(Peter Clark)

Financial Management Action Plan
Progress to date and feedback
(Georgina Paton)

30 June

Internal Audit Services – Annual report 2008/09
(Ian Dyson)

Annual Governance Statement 2008/09
(Peter Clark)

Statement of Accounts 2008/09
(Sue Scane)

Interim Opinion Report
Annual Audit & Inspection Plan – Audit 2009/10;
(Audit Commission)

Audit Working Group – AWG Chairman's Annual Review of Activities 2008/09

22 September

Risk Management Annual Report
(Risk & Performance Adviser)

Final Statement of Accounts 2009/10:

- Annual Report to those charged with governance 2009/10 (OCC)
- Use of Resources Report (if appropriate)
- Annual Report to those charged with governance 2009/10 (OCC Pension Fund Accounts))

- Statement of Accounts 2009/10 Audit Adjustments (Audit Commission)
- Letter of Representation to the Auditors (Sue Scane)

Local Government Ombudsman's Annual Review of OCC
(Peter Clark)

17 November

Treasury Management Governance – Annual Report
(Sue Scane)

2011

19 January

Annual Audit Letter 2009/10
(Audit Commission)

Statement on Internal Control – Annual Review of Effectiveness
(Peter Clark & Sue Scane)

International Financial Reporting Standards (IFRS) - Update
(Sue Scane)

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

Audit Committee - Draft Work Programme 2011/12
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

02 March

Annual Audit & Inspection Letter 2009/10
(Audit Commission)

Internal Audit Services: Internal Audit Strategy & Annual Plan 2011/12
(Ian Dyson)

2010 Annual Report of the Audit Committee to Council
(in accordance with the process adopted by the Committee on 29 November 2006)

Other matters

None identified

Regular Reports:

Audit Working Group
(Ian Dyson)

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

Background Papers Nil

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

January 2010

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