

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 18 November 2015 commencing at 2.00 pm and finishing at 4.30 pm.

Present:

Voting Members: Councillor David Wilmshurst – in the Chair

Councillor Sandy Lovatt (Deputy Chairman)

Councillor David Bartholomew

Councillor Yvonne Constance OBE

Councillor Tim Hallchurch MBE

Councillor Jenny Hannaby

Councillor Nick Hards

Councillor John Tanner

Dr Geoff Jones

Councillor Richard Webber

Non-voting Members: Dr Geoff Jones

By Invitation: Alan Witty (Ernst & Young)

Officers:

Whole of meeting Ian Dyson, Chief Internal Auditor, Nick Graham, Monitoring Officer, Lorna Baxter, Chief Finance Officer, Deborah Miller and Tim Peart, Corporate Services.

Part of meeting

Agenda Item

Officer Attending

5 Lewis Gosling, Financial Manager (Treasury Management);

9 Kate Terroni, Deputy Director Joint Commissioning, Martyn Ward, Service Manager ICT Business Delivery

10 Anna D'Alessandro, Interim Deputy Finance Officer.

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.

65/15 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies were received from Cllr Roz Smith with Cllr Richard Webber attending as a substitute.

66/15 MINUTES

(Agenda No. 3)

The minutes of the meeting held on Wednesday 16 September 2015 were approved and signed.

Matters arising:

Minute 56/15 (Local Government Ombudsman's Review of Oxfordshire County Council)

Nick Graham, Chief Legal Officer and Monitoring Officer, informed the Committee that he had written to the LGO to express the Committee's dissatisfaction with the accuracy of the information provided in its Annual Review. An acknowledgement of that letter had been received from the LGO which stated that one of their Policy Officers would be responding.

67/15 TREASURY MANAGEMENT MID-TERM REVIEW

(Agenda No. 5)

Lewis Gosling, Financial Manager (Treasury Management), presented the report to the Committee which covered Treasury Management activity for the 6 months from April 2015 to the end of September 2015. He explained that the Council's debt financing position to date was shown in Annex 2 and that no new debt had been arranged during the year.

External debt decreased from £399.4m on 1 April to £394.4m on 30 September, a net decrease of £5m. The interest payable is currently forecast to be in line with the budgeted figure of £18.2m.

In terms of investment performance, Mr Gosling explained that in the six months to 30 September, the Council achieved an average in-house return of 0.76%, exceeding the budgeted rate of 0.70%. This produced gross interest receivable of £1.25m for the period.

The forecast outturn of £2.72m for interest receivable and return on investments currently exceeds the budgeted figure of £2.06m by £660k. This increased forecast was due to a combination of higher cash balances and the attainment of higher average interest rates than originally forecast. Additionally stronger distributions from pooled funds than originally forecast have contributed.

Moving on to external funds, Mr Gosling also explained that in September the Treasury Management Strategy Team approved the decision to sell approximately one quarter of the Council's £20m initial investment in the Threadneedle Strategic Bond Fund, due to a decrease in the size of the fund. The sale resulted in a

realisable gain of £260k, which represented an annualised return of 3.3% since the initial investment.

Having reviewed further investment options the Strategy Team approved the decision to invest a further £5m in the CCLA Local Authorities' Property Fund in September.

Weighted by value, the annualised return for pooled funds was 0.74% for the period.

Mr Gosling explained that as of 30 September the Council exceeded the prudential indicator for fixed interest rate exposure for net debt. Actual fixed interest rate exposure was 153.6%, exceeding the 150% limit set out in the 2015/16 Strategy. The reason for exceeding the limit lay predominantly with an increase in the proportion of the Council's investment portfolio held in investments with variable interest rates, which has subsequently reduced the proportion of deposits with fixed interest rates. Mr Gosling added that this was a deliberate decision taken by the Treasury Management Strategy Team in order to further diversify the Council's investment portfolio.

On 30 September, 68% of total investments and deposits held were at fixed interest rates and 32% at variable. Mr Gosling informed the Committee that the Treasury Management Strategy Team are comfortable with this ratio and do not believe that exceeding the fixed interest rate exposure limit poses a risk to the Council on this occasion.

With reference to External Performance Indicators, Mr Gosling informed the Committee that the Council had achieved a higher than average return on investments to 30 September, which was achieved by placing deposits over a longer than average duration with institutions of a better than average credit quality.

Cllr Bartholomew pointed out that the approved Treasury Management Strategy for 2015/16 was based on an average base rate forecast of 0.625%, however in reality the average base rate was closer to 0.5%. With this in mind he asked Mr Gosling whether there were any consequences of this difference. Mr Gosling answered that it was probably inconsequential. Deposits had been agreed for a longer duration and the Council is not forecasting to receive less income than its budgeted figure.

Cllr Bartholomew also pointed to Paragraph 28 of the report which stated that there had been no breaches in policy in relation to the Council's Lending List, he queried in what circumstances breaches to the policy could occur. Mr Gosling explained that a breach would include lending to an organisation that was not on the Lending List or going above the set lending limit. This could occur if a dealer had made an error and agreed to a deal that the Council would then have to go through with. Mr Gosling added that checks and balances were in place and that the Council would try to withdraw from a potential deal before it was confirmed if a breach were to take place.

Cllr Constance questioned how often such breaches take place and whether the Council takes such matters into account when deciding upon deal brokers. Mr Gosling explained that very occasionally, Councils do breach their lending limits although he was not able to say what the consequence of that would be other than to increase exposure to a particular counterparty for the period of the deal. He added

that brokers do not take into account limits when brokering deals as the lending limit was an internal control.

Regarding the graphs on Page 25 of the agenda, Cllr Hallchurch queried how other authorities are able to achieve better results and which authorities those were. Mr Gosling explained that those Councils were likely to be benefitting from older long term deposits that were agreed in better times financially. He was unable to say which authorities those were as that information is not provided to us by Arlingclose.

Referencing the same graphs on Page 25, as well as Paragraphs 44 to 46 of the report, Cllr Hards queried how the Council was able to achieve a better than average rate in comparison to its peers, why other authorities were not doing the same and whether the Council was being exposed to a higher risk. Mr Gosling explained that the Council was operating within its agreed limits and lending for longer terms. He added that lending to other Local Authorities achieved better rates and the diversification of the Council's portfolio was another reason for the higher than average performance.

Cllr Constance wished to congratulate Arlingclose, the Council's treasury management advisors for the well written and informative report.

Dr Jones queried why Danska Bank was included in the Council's Lending List. Mr Gosling explained that Danska Bank fits within the credit rating profile of approved counterparties and added that diversification was key to the strategy, although he added that Danska Bank had not yet been used.

Cllr Webber queried how often the approved indicator and limits were internally set and approved. Mr Gosling explained that this was done every year as part of the budget setting process and was monitored monthly.

RESOLVED: to note the report.

68/15 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN PROGRESS

(Agenda No. 6)

Nick Graham, Chief Legal Officer and Monitoring Officer, introduced the report which provided an update on the progress being made on six 'Actions' that had been identified in last year's Annual Governance Statement.

With reference to the Data Quality Action, Mr Graham added that the timeframe being put on the action would appear to be a concern but that Martyn Ward, Service Manager ICT Business Delivery, had offered assurances that the plan relating to data quality on Priority 1 systems was on target to be met by March 2016.

Mr Graham added that the ICT department was undertaking an exercise to reduce the number of databases on the network and to ensure that proper data quality measures are in place, particularly with regards to business critical information.

Cllr Bartholomew queried what the implications of the 'significant risk' identified in Paragraph 4 on Page 32-33 of the agenda would be. Using the example of the

information relating to the Council's bridges, which were currently being held on an Access database, Mr Graham explained that certain information was not as secure as possible, and as such the risks included a loss of data or of the data becoming corrupted. It is important to ensure that such information has valid ownership and is securely maintained.

Ian Dyson, Chief Internal Auditor, added that that particular paragraph was alarmist to an extent since there was no distinction between the 'thousands of Excel spreadsheets' and 'millions of electronic documents' identified on the ICT network which contain business critical information and those that are created in day to day work. He added that emails were included within those electronic documents identified and that few emails contain business critical information.

Cllr Hards queried whether the Council kept an up to date record of all of its land and property assets as it was difficult to find such information. Lorna Baxter, Chief Finance Officer, informed the Committee that a full list of properties was on the website.

Cllr Lovatt added that data and information management was a management issue and that all databases were there to help officers. Cllr Lovatt stated that he took hope from the report that appropriate action was being taken to centralise data according to the Council's policy.

Mrs Baxter introduced the Action on the Commercial Services Board. She explained that the board had been re-established and was looking at working more effectively going forward. She explained that the interim Corporate Procurement Manager was leaving and that a new structure within corporate procurement was in place with the lead post of the team currently being recruited to.

Dr Jones asked whether it would be fair to say that after 3 years the Commercial Services Board will not have achieved the objectives that were set out to achieve. Mrs Baxter agreed that at the current time with austerity measures in place it was difficult to see the benefits that have been achieved. Mrs Baxter added that a key area of work is to drive out as much benefit from individual contracts as possible. The fact that processes are yet to be fully imbedded was a concern as it is vital that the Council achieves its financial objectives.

Moving on to the Business Continuity Action, Mr Graham explained that all of the seven issues mentioned by the 'Action' with the exception of issue 6, 'use of the good practice guide to improve BC generally', were on target at this mid-year stage.

Cllr Tanner asked how difficult it would be in the case of an emergency to get services up and running again. Mr Dyson explained that all business critical services should be up and running within 24 hours, while less important functions would be restored within 4 weeks.

Regarding the Strategic Risk Register Action, Cllr Constance asked whether the Register existed and whether it had been refreshed and agreed by CCMT. Mr Dyson explained that the Register does exist and it was reviewed by CCMT in October 2013. However, Mr Dyson queried how relevant the Strategic Risk Register remained

since the Audit Working Group would identify risks and their owners and report those back to CCMT. Mrs Baxter stated that the Register was still relevant as a lot of the risks on the register were still relevant. She added that an additional risk to include on the register would be the review into the management structure of the Council.

Cllr Constance enquired who managed the Corporate Risks lead. Mr Dyson explained that it was his team's responsibility to manage the Corporate Risk Register.

Cllr Constance also asked who monitored risks across the Council, rather than within each directorate. Mr Dyson explained that that was part of what the Audit Working Group looks at on a cyclical basis.

Introducing the Supported Transport for Children Action, Mr Dyson explained that the Audit Working Group had considered a detailed report on the Action. A Supported Transport Governance Group had been set up to oversee the actions being implemented. The complexities of the system are better understood and a revised target date for actions still in progress had been set as April 2016. Mr Dyson added that high risks were being addressed, Directorates were working well together and a lot of priority was being given to address those risks. Mr Dyson also added that good progress was being made.

Mrs Baxter stated that the Externalisation of Human Resources and Finance Services Action would be addressed in the Update on the Hampshire Partnership Item on the Agenda. However, she acknowledged that that report focused on the externalisation of finance services and not on Human Resources. She added that a specific report on the externalisation of Human Resources would be included the next time an Update on the Hampshire Partnership was on the Committee's agenda.

RESOLVED: to note the progress on the AGS Actions.

69/15 ERNST & YOUNG - ANNUAL LETTER

(Agenda No. 7)

Alan Witty, Ernst & Young, introduced the external auditor's Annual Audit Letter. He explained that the item was similar to the Annual Results item that Ernst & Young brought to the Committee at its September meeting. However, at that point, the annual audit was still being finalised. Mr Witty stated that the Annual Audit Letter was the formal report following the finalisation of the annual audit and that there were no issues to highlight following the September meeting.

Citing the value for money conclusion relating to back office outsourcing, on Pages 47-48 of the agenda, that the difference in value between the Council's partnership with Hampshire County Council and any other potential partnership would not be significant to impact on the conclusion, Cllr Hards queried where else the Council could have gone. Mr Witty explained that it would be expected that the Council would have made enquiries to see what other authorities or partnerships would have been able to offer, however he acknowledged that there may not have been another suitable partnership that would offer better value for money.

Dr Jones queried whether there was a limit on how additional much work the Council could commission Ernst & Young to carry out, noting the fee of £49,000 for non-audit work in 2014/15 on Page 50. Mr Witty explained that there was an agreed limit set for additional work commissioned and that approval would need to be sought before that limit could be exceeded.

RESOLVED: to receive the Annual Audit Letter.

70/15 ERNST & YOUNG - PROGRESS REPORT AND SECTOR BRIEFING

(Agenda No. 8)

Alan Witty, Ernst & Young, presented the report which gave an overview of the 2015/16 external audit's progress. Mr Witty explained that Mick West, who was due to attend the Committee in place of Maria Grindley to represent Ernst & Young, had left the firm and that the firm was currently looking to appoint a successor.

Mr Witty went on to explain that Ernst & Young were holding discussions with Hampshire County Council regarding how best to audit the IBC in order to ensure the audit is carried out efficiently and on a timely basis.

Mr Witty then took the Committee through the Local Government Audit Committee Briefing, starting on Page 61. Mr Witty highlighted the section on the PSAA annual regulatory compliance and quality report on Page 67 which demonstrated that Ernst & Young were performing well in terms of the quality of their Audit work. Mr Dyson added that the Council had two years to consider the appointment of external auditors and that the opportunity would be taken to explore the possibilities to collaborate with other authorities and would look to Ernst & Young to assist in the process.

Regarding the introduction of the national living wage as highlighted on Pages 62-63, Cllr Tanner queried how the Council would cope with the impact. Mrs Baxter explained that, as the national living wage was considered to be a new burden, the expectation was that the Council would receive funding to address the impact. She added that the Council was aware of the impact, which would be small initially but would increase over a few years. Mrs Baxter explained that the Council's responsibilities were included in the 2016/17 budget and that initially the impact would be around £1million.

71/15 FUTURE OF ADULT SOCIAL CARE IN OXFORDSHIRE - REGULAR PROGRESS UPDATE ON IMPLEMENTATION PLAN

(Agenda No. 9)

Before Kate Terroni, Deputy Director Joint Commissioning, and Martyn Ward, Service Manager ICT Business Delivery, delivered their presentation on the implementation of the new adult social care ICT project, Cllr Wilmshurst read a note that he had received from Cllr Judith Heathcote, Cabinet Member for Adult Social Care, which passed on her sincere gratitude to Mrs Terroni and her staff for the successful implementation of the new system.

Mrs Terroni informed the Committee that the new system, which replaced the Swift system, had gone live on 9 November 2015. She explained that the new system had LEAN principles imbedded which meant that there was no need for information to be duplicated or actions repeated, information would pass through the system as quickly as possible. As such, the Council now had a leading social care ICT system.

The team had achieved 99% data accuracy which according to the supplier, Liquidlogic, had never before been achieved. The remaining 1% of data was currently being manually transferred. The system had also successfully integrated with the IBC and on the day before the meeting £1.2million had been successfully paid.

Mrs Terroni outlined the thorough training programme that had been implemented for staff and added that the new system would improve services to users. Overall, the new system had been implemented smoothly, although she added that there was still an air of caution as the system had only been live for two weeks.

Members congratulated Mrs Terroni, Mr Ward and their teams for their considerable achievement.

Cllr Hards stated that one issue that commonly occurs once a new system is introduced is that users often seek to find ways around using the system. With this in mind he asked who would be overseeing things to ensure the system works as expected. Mrs Terroni added that due to data cleansing, all information had to go through the system. Additional spreadsheets were not permitted to be used. Mr Ward also explained that the new system would itself actively stop users from trying to work around it. Regular data quality checks would be carried out and work would be put in to ensure that processes worked as effectively as they should so that users do not feel the need to work around the system.

Cllr Hannaby asked whether checks were in place to monitor those who were manually inputting the remaining data. Mr Ward explained that a data quality regime was being installed and a working culture to ensure data was kept up to date was being promoted.

Cllr Tanner queried how well the new system would communicate with NHS systems. Mr Ward explained that there were now two new systems in place, one being on the NHS side, but that the focus would be to ensure that data itself was shared effectively rather than linking the two systems. He added that with the new system this was now possible, but with the old Swift system it would not have been.

Dr Jones stated that he was happy to hear the good news regarding the implementation of the new system, but he was keen to hear what issues the system was having and what was not working as expected. Mrs Terroni stated that the programme was being well managed by the team, any issues that had arisen so far had not reached the radar of the Director, positive feedback had been received by staff and the system had been implemented as expected. However she acknowledged that the system had only been live for two weeks and would report back to the Committee at the 3 month mark.

Cllr Wilmshurst thanked Mrs Terroni and Mr Ward for their efforts and in reply, Mrs Terroni thanked the Committee for holding the project to account.

RESOLVED: to receive the presentation.

72/15 UPDATE ON HAMPSHIRE PARTNERSHIP

(Agenda No. 10)

The Committee received an update on the Hampshire Partnership.

Lorna Baxter, Chief Finance Officer, introduced Anna D'Alessandro, Interim Deputy Chief Finance Officer, to the Committee.

Mrs Baxter explained that the main report was written from OCC's perspective, while Annex 1 to the report was a report from Hampshire County Council's Head of Shared Services which provided an update from Hampshire's perspective.

Mrs Baxter reiterated that the expectation had always been that stabilisation and embedding of the new arrangements would be expected to take six months. She added that there are issues to be resolved following the changeover but that she would expect there would be minimal key issues remaining by January 2016 and a further update will be given to the Committee at its February meeting.

Mrs Baxter explained that there are strong governance arrangements in place around the partnership and that Oxfordshire County Council would be a member of the Strategic Partnership Board.

Issues that had arisen both at the point that the system went live and subsequently were set out in Paragraph 4 of the report and the impacts that they were having were outlined in Paragraph 5.

The issue of duplicate payments resulted from problems with a file upload system and the controls on that system not being as robust as they should be. As a result the usage of that system was being minimised. All duplicate payments that the Council had been aware of so far had been recovered.

Work was still being undertaken with suppliers to resolve issues relating to payments to social care agency staff in particular, but once the back-log had been cleared there should no longer be any major issues.

An Aged Debtor report had not been received since Go-Live and Mrs Baxter stated that she was seeking to receive one as soon as possible. There had also been issues regarding the quality of the information provided in the pension fund MARS returns to OCC.

A lot of work had been put into resolving issues that schools had faced with the new system.

Mrs Baxter added that the roll-out of a programme of 'Bitesize' training courses had been well received and other training activities were taking place.

Gathering information on qualitative aspects of responses by the IBC had been difficult and OCC was looking at mechanisms that could improve this, including the potential use of a 'mystery shopper'.

Cllr Hannaby stated her concern that, when schools had to raise issues with the IBC or seek help and advice, often the person on the other end of the phone was not completely trained. There had been frustration with the IBC from schools since they found that they were not getting the right answers to queries from IBC support staff. Although she added that these problems were occurring less frequently.

Ms D'Alessandro explained that the only remaining key issue facing schools related to outstanding payroll. She added that the people in the IBC call centre were eager to help but that their official role was to direct calls on to others. It was important to build the confidence of staff through training so that calls could be resolved at the first point of contact.

Cllr Hards pointed to Paragraphs 1.6 and 1.7 of Annex 1 on Page 80 and stated that he agreed with the points raised. He queried what additional costs the Council had faced so far and when the savings benefits will be seen. Mrs Baxter stated that the Council had been aware that additional costs were likely to be incurred before the end of the year, as had always been expected, although she was not able at this point to set out the final cost.

Cllr Bartholomew stated his concern over the potential magnitude of the issue of duplicate payments since people had been paid twice and the Council was not certain how much it was owed. Mrs Baxter stated that she was expecting a report from Hampshire County Council which would aid identifying all instances of duplicate payments made. Ms D'Alessandro explained that Hampshire County Council would be producing debt recovery dashboards imminently which would enable the pinning down of duplicate payments. She added that the debt recovery process was moving.

Ms D'Alessandro added that another concern related to old 'migrated' debt which existed prior to the new system going live and the difficulties that were being encountered extracting that information. She added that this issue was unacceptable and that there was a lot of work to do. Mrs Baxter added that it was a priority to ensure that old debts do not get written off.

Dr Jones stated that, reading between the lines of the two reports, he was concerned that an 'us and them' mentality could exist. Mrs Baxter explained that she wanted to share the report from Hampshire County Council as there had not been a board meeting yet but that, as the IBC was a partnership, responsibilities would be shared. Ms D'Alessandro added that it is appreciated that some of the issues had arisen since OCC did not have certain practices as standard and a conversation was needed to turn around the remaining issues as quickly as possible.

Cllr Lovatt stated that what he would like to see included in the next update on the Partnership to the Committee was a list of the generic issues that were remaining with the implementation of the IBC and what action was being taken to address those issues.

Cllr Webber questioned how the reputational impact on the Council over issues such as missed payroll in schools was being addressed and whether those affected were being made aware of what was being done. Ms D'Alessandro explained that payroll was the last major issue to crack following the Go-Live date and that a lot of work and prioritisation was being put to address the situation. Mrs Baxter stressed that at the point of Go-Live she was alerted that payroll had been missed for some individuals and that she had authorised emergency payments to be made, therefore those effected had been paid, albeit not through the correct method. She also explained that the cause of the situation was that not all school staff, particularly casual staff, had been set up on the new system by the school and there were some occasions where issues were not escalated quickly resulting in some one-off issues not being resolved for several months

Cllr Constance queried whether the composition of the Operational Board would be the same as the Externalisation Board as she was concerned that that board had disbanded too soon. She also expressed her concern about the loss of knowledge and expertise caused by the outsourcing to the IBC. Mrs Baxter acknowledged that it would take time to get that knowledge back and that OCC would be working with Hampshire County Council to achieve a better understanding of how to train and retain staff. In terms of the Operational Board, Mrs Baxter explained that she chaired the Board and that OCC was an operational partner.

RESOLVED: to note the report and ask the Chief Finance Officer to report back with a generic list of issues and what action has been taken in relation to them, in February 2016 once the partnership has been operational for six months.

73/15 REPORT FROM THE AUDIT WORKING GROUP

(Agenda No. 11)

The Committee had before them the report of the Audit Group.

Ian Dyson, Chief Internal Auditor, explained that there had been two meetings of the Audit Working Group since the last Committee meeting. At the first meeting on 15 October the Working Group received a management update on transport safeguarding, Mr Ward attended to provide a management response on the disposal of ICT equipment and the Working Group received a risk management update.

At the 5 November meeting the Working Group received assurances from the Deputy Director and Finance Business Partner that a number of actions relating to the internal audit of Direct Payments had been taken and an update on client charging had been received. The Working Group noted that not all actions were complete.

The Working Group considered two items relating to risk management of Corporate Services and the CEF Risk Register.

Dr Jones stated that one of the concerns relating to direct payments was the indication that there was a lack of control over budget caps on care packages. Mr Dyson added that assurances had been received that checks were now in place and the issue to which Dr Jones was referring was a systems and process issue relating to skills and competencies and staff training was required.

RESOLVED: to note the report.

74/15 AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

(Agenda No. 12)

The Committee agreed the Work Programme with the following additions and deletions:

13 January – add - Report from the Councillor Profile Working Group

24 February - delete – NFI Audit Committee Checklist

20 April - delete – Update on Hampshire Partnership

..... in the Chair

Date of signing 2016