AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 20 April 2016 commencing at 2.00 pm and finishing at 4.20 am.

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 Roz Smith
	Councillor John Tanner
	Dr Geoff Jones
Non-Voting Members:	Dr Geoff Jones
By Invitation:	Paul King and Alan Witty (Ernst & Young)
Officers:	
Whole of meeting	Lorna Baxter, Chief Finance Officer, Ian Dyson, Assistant Chief Finance Officer (Assurance), Sarah Cox Interim Chief Internal Auditor and Deborah Miller, Committee Officer
Part of meeting	

Agenda Item	Officer Attending
6	Glenn Watson
7	Kathy Wilcox
8	Glenn Watson
9	Glenn Watson
10	Kate Terroni, Seona Douglas and Kate Mcleod

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 [agenda, reports and schedule/additional documents], copies of which are attached to the signed Minutes.

20/16 MINUTES
(Agenda No. 3)

The Minutes of the Meeting held on 24 February 2016 were approved and signed.

21/16 INTERNAL AUDIT SERVICES - INTERNAL AUDIT STRATEGY & ANNUAL PLAN
(Agenda No. 5)

The Committee had before them a report (AG5) which presented the Internal Audit progress report for 2015/16 and the Internal Audit Strategy for 2016/17 including the first quarter's plan.

In introducing the report, Mr Dyson explained that during 2015/16 Internal Audit was restructured and three distinctive teams were created with the aim of: protecting the role and independence of an Internal Audit Service; to provide a clear strategy and resource for the management of Counter-Fraud; and, to create capacity to manage the corporate responsibility for Risk Management and a new a Business Assurance function. All three functions came under the management of the Chief Internal Auditor.

The key outcome of the change was to provide a structure that could contribute to and report on the Council's combined assurance that ensured the effectiveness of the governance, risk management and the system of internal control.

During 15/16 the Chief Internal Auditor post was shared under collaboration with Buckinghamshire County Council; however this arrangement would be ceasing in quarter 1 of 2016/17. The Council was facing a huge change agenda over the foreseeable future and as a result the Head of Paid Service and the Chief Finance Officer decided to end the collaboration for sharing the Chief Internal Auditor post, and therefore with effect from 1 June 2016, he would be returning full time. The collaboration had been very successful, and the decision was not made lightly, however it was necessary to have the extra capacity to support the change agenda.

From April 2016, the Chief Finance Officer had changed the roles and responsibilities within her Senior Management Team, including those of Ian Dyson, who held the role of Chief Internal Auditor. A new post of Assistant Chief Finance Officer (Assurance) had been created and was being undertaken by Ian Dyson. This role retained senior manager responsibility for Internal Audit, Counter Fraud and Risk Management, but also covered responsibility for operational finance functions, and corporate responsibility for the system of financial control including the procure to pay and order to cash systems. In this new role, Ian Dyson would also be the nominated deputy to the Chief Finance Officer, with the exception of the legal role of S151 Officer, where Sarah Fogden would have the responsibility of interim Deputy S151 Officer. It was expected this change would coincide with the cessation of the collaboration with Buckinghamshire County Council; however it was not possible to extend the contract of the Interim Deputy Chief Finance Officer beyond 31 March 2016, so the change was made effective from April 2016.

The wider remit of the Assistant Chief Finance Officer role clearly conflicted with the "independence" requirement of a Chief Internal Auditor, so whilst Ian Dyson would retain line management responsibility for the Internal Audit Service, he had relinquished the role of Chief Internal Auditor effective from 1 April 2016. As the

change occurred earlier than expected interim arrangements had been agreed for the role of Chief Internal Auditor. That responsibility and the authority afforded to that post holder as set out in the Chief Internal Auditor Protocol had been assigned to Sarah Cox, Audit Manager, until options for a permanent arrangement had been considered. In relation to the Audit Plan, Mr Dyson reported that since the last report there had been five further amendments to the plan. The first was an additional piece of work, which was requested by Adult Social Care, to undertake a full review of a specific Service User's case following identification of issues with the Direct Payment. The second was to extend the counter-fraud review of a sample of procurement cards to also a full audit of the design and operation of the controls following the transfer of the procurement card administration to Hampshire IBC. There had been a further three audits removed from the Audit Plan.

In the last report, it was explained that the underspend within Internal Audit's budget that was to be used during Q4 to buy external resource to support the delivery of the audit plan was not going to be utilised in light of the Council's current financial position. This had resulted in reducing the number of audits in the plan for 2015/16. Prioritisation during quarter 4 has been given to the material financial systems and processes, following the move to Hampshire IBC and also the implementation of the new Adult Social Care IT system. Due to the complexity and level of testing the planned activity has continued into Q1 of 2016/17.

The assurance mapping for key services across all three Directorates was in progress, and the first draft of output for CEF and SCS Directorates was due to be validated by the Directorate Leadership Teams by the end of April 2016. The assurance mapping process had been developed throughout the exercise.

In addition to the work completed on counter-fraud within the Internal Audit Team, Oxford City continued to provide counter-fraud support, both reactive and proactive fraud work. There had also been 7 audits concluded since the last update and these had been summarised in Appendix 4 to the report. The completed audits were as follows:

EE (ICT) Commissioning of ICT Services - Status Green

EE Highways Contract - Payments - Status Amber

OFRS Gartan Payroll (On call Fire Service System) Status Green

CEF - Thriving Families Winter Claim - N/A

CEF - Social Care Payments – status Amber

Corporate - Procurement Cards (combined audit and counter fraud review

Status Red

CEF - Children's Social Care Management Controls - Missing Children Processes-Status Amber

Corporate   Key Financial Processes (Design of Controls):
- Accounts Receivable - Red
- Banking and Cash Receipting - Red

- Petty Cash - Amber
- Procure to Pay - Red
- Payroll - Amber
- Main Accounting – Amber
- Business Data Upload Application - Red

Members of the Committee raised concerns over paragraph 19 of the report and questioned how it could have happened. Mr Dyson explained that 'how' it happened was currently being further investigated by the Police, but that additional controls had been put it place the moment the issue had been discovered.

In relation to contracts, Members sought assurance that adequate resource had been given to Environment & Economy contract payments. In response Mr Dyson reported that a project (waterfall) would be implemented in June/July, although an issue remained around the ability for staff to see what had been paid.

In relation to the overall Audits, members pointed out that only 2 out of the 7 audits had been green and queried whether enough resource was being allocated within this area. Ms Cox assured members that adequate resourcing was being given to the Audits and that the team could assure the Committee that robust systems would be in place.

RESOLVED: to:

(a)   note the progress with the 15/16 Audit Plan, 15/16 Compliance Plan, 15/16 Counter Fraud Plan and the outcome of the completed audits;

(b)   approve the interim Internal Audit Strategy for 2016/17 and the Q1 Plan; and

(c)   agree the 2016/17 performance indicators.

22/16   REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT
(Agenda No. 6)

Last year the Committee had agreed that the Monitoring Officer should continue to undertake a survey of senior managers regarding the effectiveness of Internal Audit at Oxfordshire County Council and report its outcomes to the Committee. The Committee had before them a report (AG6) which summarised the responses to the survey.

Mr Watson, in introducing the report explained that in short, the survey of the extended County Council Management Team revealed a positive picture of the effectiveness of Internal Audit during the year 2015/16.

Questionnaires had been sent to the County Council's extended senior management team. This resulted in responses <u>29 responses</u> (compared to 26 last year). Three core questions had demonstrated a strong level of satisfaction about the nature and effectiveness of the service albeit that the positive results were slightly down on the previous year:

93% of respondents agreed or strongly agreed that the Service was proactive in giving adequate information about its role/purpose (this is an encouraging

improvement on last year's figure of 81% last year, and also exceeds by 1% the figure for 2013/14). No one disagreed.

73% agreed or strongly agreed that the Service was independent (this was 77% last year and so reflects a marginal decrease). No one disagreed.

83% agreed or strongly agreed that the Service consulted on key risks or critical systems in their area (an increase from 77% last year). No one disagreed.

71% agreed or strongly agreed that the Service was effective in delivering improvements to the control environment. (73% last year). No one disagreed.

90% agreed or strongly agreed that they were aware that Internal Audit reported into the Audit Working Group and Audit & Governance Committee and that officers could be requested to attend meetings of both.

The survey then asked respondents to rate the overall level of service – with 93% of respondents considering the service to be 'good to excellent'.

Members of the Committee noted encouraging that respondents considered themselves to be aware of the proactive information from Internal Audit, awareness of the governance regime, and Internal Audit's connection to it. They further noted that only in 3 categories there were 3 disagreements. They congratulated officers on a good report.

RESOLVED: to note and comment upon the report.

23/16 PROGRESS REPORT ON THE ACTIONS IN THE 2014/15 ANNUAL GOVERNANCE STATEMENT
(Agenda No. 7)

Audit & Governance Committee had approved the Annual Governance Statement (AGS) for 2014/15 in July 2015. This included six actions to be followed up by the relevant corporate lead and/or directorates in 2015/16. The Committee had before them the final progress report (AG7) on the actions and will be reflected in the 2015/16 Annual Governance Statement.

Mrs Wilcox in introducing the report highlighted the progress against each of the six actions as set out in Annex 1 of the report. Four of the actions were now complete or would continue to be monitored as part of business as usual. The following two actions needed further follow up in 2016/17:

Action 2: While progress had been made against the actions for 2015/16 the role of the Commercial Services Board (CSB) needed to be broadened and further enhanced with a strong support mechanism to help drive robust and cross-cutting commercial behaviour and embed commercial practice and capability.

Action 4: While there had been significant progress to date the on-going action related to Hampshire Partnership, through the stabilisation period it has been identified that the business readiness had not been as effective as expected and there were areas of financial control that require improvement, including management

reporting and oversight. This would be reflected in the 2015/16 Annual Governance Statement.

In relation to action 4 (Externalisation of Human Resources and Finance Services) Councillor Hards queried whether the externalisation of Human Resources was on track. In response, Lorna Baxter reported that there would be a full update on this issue at the next meeting of the Committee specifically around HR. However, In brief, there were still a number of issues around backdated contracts, recording flexi, pensions and honorarium payments but that the percentage of transactions relating to payroll that had been processed on time and accurate was high.

The update on Action 5 was unchanged from the February update and set out that the corporate risk register had been reviewed by CCMT and updated accordingly. AWG considered the risk register on 4 February 2016.

Action 6 related to Supported Transport for Children. Further actions were being progressed as part of the project which was continuing in 2016/17.

The update on the six actions would be reflected in the 2015/16 Annual Governance Statement.

In response to queries on Action 1(Data Quality) and whether the actions would be completed on time, Mr Ward confirmed that 15 of the 30 Priority 1 systems had now been completed including Adult Social Care and Children's Social Care.

In relation to Action 6 (Supported Transport for Children), Committee members expressed the importance of ensuring that taxis and drivers had been trained and had a full risk assessment. In response, Mr Dyson confirmed that all drivers now had to undergo a risk assessment and passengers were required to have a passenger passport. Significant progress had been made in this area, quicker than expected with over 400 out of the 800 assessments being completed. He further explained that those drivers who did not complete mandatory training had their badges revoked.

RESOLVED: to note the progress on the actions.

24/16 ANNUAL MONITORING OFFICER REPORT
(Agenda No. 8)

The Audit & Governance Committee was responsible for promoting ethical standards of conduct for elected councillors and co-opted members and for ensuring the integrity of the democratic decision-making process. The Committee had before them a report (AG7) which highlighted the progress that had been made in implementing the code of conduct for members and in promoting and maintaining high standards of conduct and public accountability and summarised relevant actions and issues that had occurred in the previous year 2015/16.

Mr Watson introduced the contents of the report and drew attention to work undertaken throughout the year including the overview of arrangements of Standards in Oxfordshire and the county, district and city councils maintaining harmonised codes of conducts; the Council's Governance following the resignation of the Chief

Executive; details on closed sessions, exceptions to the Forward Plan, Scrutiny Call in and the Chief Executives use of delegated powers.

Mr Watson then went on to outlined the number and nature of complaints of breaches of the code, concluding that the number was down from last year it still remained low and that very little breach was found.

In relation to paragraph 10, Councillor Bartholomew asked when he could expect to see the agreed actions of the working group executed. Mr Watson confirmed that members could expect to see significant action in the next 4 weeks.

Councillor Smith expressed concern that locality meetings were held in private and queried why they could not be open to the public and go into private session when needed.

RESOLVED: to endorse the report.

25/16 CODE OF CORPORATE GOVERNANCE
(Agenda No. 9)

The Audit & Governance Committee had within its Terms of Reference responsibility for governance. The Code of Corporate Governance built on the key elements of good governance including: robust systems and processes, effective leadership, high standards of behaviour, a culture based on openness and honesty and an external focus on the needs of service users and the public. The Committee had before it a report (AG9) which set out the code for consideration.

Members raised concerns on point 6.2.2 in terms of the transparency of out partnership working, lack of public LEP minutes and lack of reports from member champions. In response, Mr Watson confirmed that the issues around locality working would be addressed within the Review of Governance when the Governance Framework would be assessed.

In relation to action 1.2.2 (effective arrangements to identify and deal with failure in service delivery) members referred to the need to be satisfied that an effective complaints system was in place and requested that a report on the Council's Complaints system be added to a future meeting of the Committee.

RESOLVED:

(a)   Comment on the the Code of Corporate Governance for Oxfordshire County Council as above;
(b)   agree that the Code continues to be reviewed every two years;
(c)   to request that a report on the Council's complaints system be added to the Committee's Work Programme.

26/16 SCS LEAN AND IT SYSTEM UPDATE
(Agenda No. 10)

Kate Terroni, Deputy Director Joint Commissioning, Seona Douglas Deputy Director for Adult Social Care and Kate Macleod, Service Manager Transforming Social Care attended the Committee to give a presentation (a copy of which is attached) to update the Committee on progress made on the following two projects:

- The Adult Social Care IT Project which would deliver replacement computer systems for Adult Social Care (Swift) and Client Finance (Abacus); and

- The Adult Services Improvement Program which was delivering significantly more effective and efficient business processes using LEAN methodologies.

The Committee heard that, following the update given at its last meeting in February, work continued with staff to encourage them to be digital by default. There was recognition that the support team for the project had been disbanded too quickly and work to rectify the situation was underway.   Configuration workshops had been held early in the implementation project to determine requirements for mandatory data fields. There were certain fields that the application had determined as being mandatory and those could not be switched off.

Officers had further reviewed a sample of LAS screens and forms and found they contained adequate mandatory fields and other options, such as drop-down lists and calendars, to ensure the completeness and accuracy of data input.

She further reported that officers had also reviewed a sample of Controcc screens for setting up a new contract, adding services to a contract and setting up the payment method and had found that they contained adequate mandatory data fields and drop-down lists to ensure the completeness and accuracy of data input.

The Committee then received an on-line live demonstration of how the system looked and worked, including the management controls on the system to ensure accurate data input and minimise any possibility of duplication.

In relation to the demonstration, Councillor Smith queried whether there was a note anywhere on the system to advise users that carers could apply for a carer's grant. In response, Ms Terroni confirmed that carer's grants went through liquid logic so they would have their own support plan.

In response to questions around saving realised, Ms Terroni confirmed that there had been LEAN savings identified of £1.5 million.

The Committee thanked the Deputy Director for joint commissioning for her informative presentation and demonstration.

27/16 HAMPSHIRE UPDATE
(Agenda No. 11)

At its last meeting the Audit & Governance Committee had received a presentation which provided an overview of the first six months operation of the shared service arrangement between Hampshire and Oxfordshire County Council, from July to the end of December 2015. Following the presentation the Committee had requested to receive a presentation on Aged Debt and duplicate payments.

The Assistant Chief Finance Officer (Assurance) gave a presentation (a copy of which is attached to the signed copy of the minutes) which updated the Committee in relation to these areas.

Mr Dyson reported on the current controls in place. The Vendor Invoice Management (VIM) system currently swept for duplicate VIM documents and identified an invoice where the date, amount and reference matched. It would not pick up where an invoice scanned differently. Equally if an invoice went through a Non-VIM route, e.g. the Bulk Data Upload (BDU) process it would not connect it. Payments were made through SAP on instruction via: Standard Purchase Orders - match Price and Quantity before releasing for payment upon confirmation of goods receipt. Without this match, an invoice would be blocked for payment and required budget holder approval to un-block.

Service Orders – These were manager approved value based orders. Payments will only be released upon instruction from purchaser. Invoices would block once the value of the purchase order had been exceeded.

In relation to Interfaces and BDU Uploads, he reported that SAP could receive standard instructions to pay through agreed interfaces and uploads. The controls over managing the uploads was undertaken locally.

Any material duplicates should be identified through retrospective budget monitoring controls. Production of SAP standard Direct Payment reports received periodically from the IBC - these would be available through self-service in 16/17. There were reviewed and actioned within the Corporate Procurement Team.

Additional controls for duplicates in 16/17 - The Hampshire partner organisations had taken the decision to establish an internal control group, to investigate potential duplicate payments. OCC would have the opportunity to contribute to the cost of this team.

He further reported that a VIM software upgrade was taking place in July / August 2016, which would introduce additional automated duplicate checking before a payment was released. Increasing the chance that suspected duplicates would be identified by matches to value, date and reference numbers and will block before release.

There had been 5 Duplicate payments Reports received since July 2015.
This represented a significant decline in the number of potential duplicates for investigation following stabilisation period.

In relation to Aged debt, Mr Dyson reported that the Banking and Income Team was responsible for corporate monitoring of income collection, including performance of Debt Management. As reported previously, visibility and reporting of debt had been an issue, resolved during the stabilisation period.

The Corporate Debt tool was now available. OCC Corporate Finance had been invited for training in April 2016. This would enable OCC to run regular aged debt reports through the Portal split by departments or suppliers.

The budget manager dashboard had now been live within HCC for 4 weeks and it was working as it should. There now needed to be a collective deployment decision for OCC, but anticipated for 16/17.

Mr Dyson went on to explain that the process for collection of Debt had changed with the transfer to IBC. There were now three dunning instances, with direct customer contact later in the process. Once the IBC had completed their process, uncollected debt was referred to Corporate Finance to liaise with the Manager, and advise on decision to pursue through Legal or Write Off. Performance Management was under development.

In response to concern raised by members regarding the high level of Aged Debt within the Council, The Chief Finance Officer explained that although the figure seemed very large, that the figure was not higher than average compared to other authorities and that Oxfordshire came out in the upper quartile for debt recovery.

Members pointed out that the Council should not be working with people who still owed money and queried whether anything was in place to stop this happening. In response Mr Dyson confirmed that the corporate team looking at the issue would be asking that question.

The Committee thanked Mr Dyson for his update.

28/16   EXTERNAL AUDITORS PROGRESS REPORT
(Agenda No. 12)

The Committee considered the following reports from External Auditors Ernst & Young:

Local Government Audit Committee Briefing and the Audit Plan.

In relation to pages 127 and 130 of the report (Financial Statement Risks and the Audit Process Review), Members questioned whether if the Auditors came across anything of particular concern in relation to financial transactions and the introduction of the IBC they would refer it to the Committee as soon as possible?

Mr Witty, Ernst & Young responded that any issues would be reported to the Chief Finance Officer and her Team initially before coming to the Committee.

In relation to a query raised by Councillor Roz Smith around the Key Questions for the audit Committee set out on page 10 of the Local Government Briefing and

whether the Committee needed to consider the New Homes Bonus consultation response, The Chief Finance Officer indicated that a comprehensive response to consultation had been submitted and would be circulated to all members of the Committee directly after the Meeting.

RESOLVED: to note the reports.

29/16 SCRUTINY COMMITTEES ANNUAL REPORT
(Agenda No. 13)

The Committee had before them the Annual Report of the Council's scrutiny committees (AG13).

Mr John Courouble, Research Intelligence Manager presented the report which introduced the draft Scrutiny Annual Report for consideration. He stated that the report was in the names of the Chairs of Scrutiny Committees and had been drafted in partnership between Chairmen and Scrutiny Officers and reviewed by the Chairs and County Council Management Team as a whole.

During debate, Members of the Committee queried why the County Council did not have a specific scrutiny committee to deal with Social Care when such a large proportion of the Council's budget was spent within this area, together with the fact that this area posed the most difficult problems for the County Council and also dealt with some of the Counties most vulnerable people.

Mr Courouble explained that the area was scrutinised by the performance scrutiny committee and that the role and structure of scrutiny would be reviewed within due course.

Councillor Bartholomew moved and Councillor Hannaby seconded that the Audit & Governance Committee request the Leader of the Council, in consultation with the Group Leaders, to consider the future structure of Scrutiny with the specific option of creating an Adult & Child Social Care Scrutiny Committee.

Following debate, the motion was put to the vote and carried unanimously.

RESOLVED: (unanimous) that the Audit & Governance Committee request the Leader of the Council, in consultation with the Group Leaders, to consider the future structure of Scrutiny with the specific option of creating an Adult & Child Social Care Scrutiny Committee.

30/16 REPORT FROM THE AUDIT WORKING GROUP
(Agenda No. 14)

The Committee had before it the report of the Audit Working Group.

Ian Dyson, Chief Internal auditor reported that there had been one meeting of the Audit Working Group since the last Committee meeting. The Group had looked at Transport Safeguarding, the corporate Finance Restructure, received a Risk Management update and the key financial systems – design of control.

In relation to the Risk Management Update, Mr Dyson reported that a new Risk and Assurance Policy had been drafted and was currently being consulted on with Directorate Management Teams. The Policy would be presented to the Audit and Governance Committee at the July meeting.

The Group reviewed the Q3 CCMT Risk Report that was provided for information, and discussed how it wanted to review the system of risk management in 16/17. It was agreed that the cyclical presentations by the Directorate Risk Leads over the past two years gave them assurance that the system was well established, and so had now decided to review specific risks in more detail. The Transport Infrastructure risk included in Q3 report was selected as the first one to be considered in depth at the September meeting.

In relation to Key financial Systems, the Group found that there was a consistent underlying issue of limited financial control including management oversight caused by a current lack of effective management information. It was reported there was no evidence of loss or error, but the current system of control did not provide assurance going forward. It was understood that the Internal Audit Progress Report, to be received by the Committee in April, would set out a summary of the key issues. The Assistant Chief Finance Officer (Assurance) post had been created to deliver an improvement plan for financial control and system of assurance. The Group is highlighting this to the Audit & Governance Committee as a significant concern, and was recommending that the Committee received a detailed project plan and routinely received progress reports until satisfied the improvements had been delivered.

RESOLVED: to note the report.

31/16 AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME
(Agenda No. 15)

The Committee had before them a copy of the Committee's Annual Work Programme (AG15).

RESOLVED: to agree the Work Programme, subject to the following additions and deletions:

July

Delete:

Annual Governance Statement 2014/15
Annual Report of the Monitoring Officer
Statement of Accounts

Add:

Firefighter pension schemes under Hampshire Update.

.... in the Chair

Date of signing   2016