

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 13 July 2016 commencing at 2.00 pm and finishing at 4.50 pm

Present:

Voting Members: Councillor David Wilmshurst – in the Chair
Councillor Sandy Lovatt (Deputy Chairman)
Councillor David Bartholomew
Councillor Yvonne Constance OBE
Councillor Nick Hards
Councillor Alison Rooke
Councillor Roz Smith
Councillor Susanna Pressel (In place of Councillor John Tanner)
Councillor Rodney Rose (In place of Councillor Tim Hallchurch MBE)

Non-voting Members: Dr Geoff Jones

By Invitation: Paul King and Penny Irwin (Ernst & Young)

Officers:

Whole of meeting Nick Graham, Chief Legal Officer
Ian Dyson, Assistant Chief Finance Officer (Assurance)
Sarah Cox, Interim Chief Internal Auditor
Colm Ó Caomhánaigh, Committee Officer

Part of meeting

Agenda Item	Officer Attending
7	Lewis Gosling
11	Steve Munn Sarah Currell
13	David Penter

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with [a schedule of addenda tabled at the meeting][the following additional documents:] 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.

32/16 ELECTION OF CHAIRMAN FOR THE 2016/17 COUNCIL YEAR

(Agenda No. 1)

Councillor David Wilmshurst moved and Councillor David Bartholomew seconded that Councillor Sandy Lovatt be elected Chairman of the Committee for the 2016/17 Council Year.

Councillor Roz Smith moved and Councillor Alison Rooke seconded that Councillor Nick Hards be elected Chairman of the Committee for the 2016/17 Council Year.

Both nominations were put to a vote. There were 5 votes for Councillor Sandy Lovatt and 4 votes for Councillor Nick Hards.

RESOLVED: that Councillor Sandy Lovatt be elected Chairman of the Committee for the 2016/17 Council Year.

33/16 ELECTION OF DEPUTY CHAIRMAN FOR THE 2016/17 COUNCIL YEAR

(Agenda No. 2)

[Councillor Lovatt in the Chair]

Councillor Sandy Lovatt moved and Councillor Rodney Rose seconded that Councillor David Wilmshurst be elected Deputy Chairman of the Committee for the 2016/17 Council Year.

Councillor Roz Smith moved and Councillor Alison Rooke seconded that Councillor Nick Hards be elected Deputy Chairman of the Committee for the 2016/17 Council Year.

Both nominations were put to a vote. There were 5 votes for Councillor David Wilmshurst and 4 votes for Councillor Nick Hards.

RESOLVED: that Councillor David Wilmshurst be elected Deputy Chairman of the Committee for the 2016/17 Council Year.

34/16 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 3)

Apologies were received from Councillor John Tanner (Councillor Susanna Pressel substituting) and from Councillor Tim Hallchurch (Councillor Rodney Rose substituting).

35/16 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE

(Agenda No. 4)

In relation to Agenda Item 12, Councillor Roz Smith declared that she receives a pension from Oxfordshire Local Pension Fund.

36/16 MINUTES

(Agenda No. 5)

The minutes of the meeting of 20 April 2016 were approved and signed subject to changing the final word on Page 11 “control” to “controls” in Minute 30/16.

Councillor Smith asked for an update on the project Waterfall which was to be implemented in June/July according to the minute for item 21/16 Internal Audit Services – Internal Audit Strategy and Annual Plan. Mr Dyson said that he could get an update for Members by the end of the week.

Councillor Bartholomew asked for an update on actions of the working group referred to in the fourth paragraph of the minute for item 24/16 Annual Monitoring Officer Report. Mr Graham organised an update for Members at the end of the meeting.

Cllr Bartholomew also asked for an update on the issue of a new Scrutiny Committee proposal. Mr Graham agreed to circulate his email to Cllr Lovatt on that matter to all Members of the committee.

37/16 TREASURY MANAGEMENT OUTTURN 2015/16

(Agenda No. 7)

The Committee had before them a report (AG7) which presented the Treasury Management Outturn 2015/16.

Mr Gosling introduced the report and gave a summary drawing the Committee's attention to the following matters.

Regarding Debt Financing on Page 17, the option to fund new or replacement borrowing requirements from internal balances, up to the value of 25% of the investment portfolio was retained in the 2015/16 annual treasury management strategy. No new borrowing was arranged during 2015/16.

Addressing Investment Outturn on Page 18, the average daily balance of temporary surplus cash invested in-house was £322m in 2015/16. The Council achieved an average in-house return for the year of 0.80%, producing gross interest receivable of £2.582m.

The sale of approximately a quarter of the Council's initial £20m investment in the Threadneedle Strategic Bond Fund resulted in a realisable gain of £0.246m in 2015/16. Gross distributions from pooled funds totalling £0.875m were also realised in year, bringing total investment income to £3.703m.

The graphs in Annex 6 Page 32 showed how Oxfordshire County Council achieved a higher interest rate compared to the average achieved by all Arlingclose clients, whilst maintaining lower than average value weighted credit risk.

Members of the Committee asked if the prudential indicator limit was still appropriate given that the report states that it was exceeded due to a change in the mix of

investments and deposits. Mr. Gosling stated that the indicator will be changed for 2016/17 and will focus on net fixed debt.

Asked about the possible effect of “Brexit” on the Council’s Property Fund, Mr Gosling explained that there was a 5 year investment horizon and it was not envisaged that the money would be required elsewhere.

In response to a suggestion that the Council should switch out of LOBO loans, Mr Gosling replied that it was not an option for the Council and the lender has no reason to switch out.

Members of the Committee thanked the in-house team for the higher than predicted return.

RESOLVED:

- (a) to note the report, and
- (b) to RECOMMEND Council to note the Council’s Treasury Management Activity in 2015/16.

38/16 ANNUAL REPORT OF THE CHIEF INTERNAL AUDITOR

(Agenda No. 8)

Mr Dyson introduced the report and explained that it was co-authored with Ms Cox who became Interim Chief Internal Auditor on 1 April 2016.

The report set out the work during the year and took into account whether or not any limitations had been placed on the scope of Internal Audit – of which there had been none.

On Page 42, paragraph 2.2 the report gave a qualified assurance over Oxfordshire County Council’s system of internal control. The underlying issue had been weaknesses in the system of financial control.

There were a number of areas identified that require improvement, so a financial management improvement plan had been devised to ensure that all issues were addressed. This was to be presented later in the Agenda.

Ms Cox drew Members’ attention to Appendix 3 which included the Internal Audit Charter and Appendix 4 which included the Quality Assurance and Improvement Programme.

Members of the Committee asked for clarification on how Priority 1 issues and Priority 2 issues are dealt with. Ms Cox described how Priority 1 is assigned to issues that have significant material effect and the rating is not primarily time-related. Managers agree timetables and monitor completion.

It was agreed that the reference to a meeting on 23 June 2016 in the title of Appendix 3 was incorrect and should be 20 April 2016.

In response to concerns that there were too many red flags in the report and that the Council may be slipping back towards the worst situation 12 years ago, Mr Dyson disagreed and stated that they have identified the issues and devised plans to address them. There is not the same legacy of problems now. The improvement plan includes some culture change.

Asked about Paragraph 2.1.9 on Page 41 where the area of Business Data Upload is marked as "Ongoing", the Officers stated that they were not satisfied with controls but there were no material errors. They were looking at moving away from BDU.

Mr Dyson acknowledged that the Integrated Business Centre (IBC) was not considered efficient by staff. They were looking at how they can do things differently and had the evidence base for that now. They needed to get the foundations right. Issues will start moving to amber and green.

Asked if there was a reluctance from management, Ms Cox stated that this was not an issue and they would flag if any action was not agreed.

The Chairman asked if Members would like a whole meeting to discuss progress on this matter. Mr Jones responded that he would be happy for the Audit Working Group to receive updates. Mr Dyson offered to bring the matter back to the full Committee until it is resolved.

RESOLVED to:

- (a) consider and endorse this annual report
- (b) approve the Internal Audit Charter included within Appendix 3 of this report
- (c) note the Quality Assurance and Improvement Programme included within Appendix 4 of this report
- (d) monitor implementation of the improvement plan

39/16 INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2016/17

(Agenda No. 9)

Ms Cox explained that this was the final Internal Audit Strategy and Internal Audit Plan for 2016/17, an interim strategy having been presented to the April meeting.

It had been agreed with Thames Valley Police (TVP) that the current collaboration for managing their Internal Audit Service will end.

The Internal Audit Plan and Counter-Fraud Plan were outlined on Pages 98 and 99 respectively. The Audit and Governance Committee will receive a quarterly report, including a status update on the approved work plans, and a summary of the outcomes of completed audits. The plan was designed to allow flexibility through the year. The audit team was outlined on Page 95.

Compliance activity had been merged with the Internal Audit activity, meaning that one plan was produced covering both areas of assurance activity.

Members expressed concern that, now that they were self-administering their travel and expenses, simple errors might be mis-interpreted as fraud. Mr Dyson responded that the system would identify anomalies any of which could be fraud or error.

Asked what scope there was for the Committee to seek changes in the annual report, Mr Dyson stated that the Chief Internal Auditor designs it, with activities depending on resources and staffing, and can consider suggestions from the Committee.

RESOLVED to:

- (a) Approve the Internal Audit Strategy for 2016/17 and 2016/17 Internal Audit Plan; and
- (b) Approve the 2016/17 Counter-Fraud Plan.

40/16 FINANCIAL CONTROL IMPROVEMENT PLAN

(Agenda No. 10)

Mr Dyson reported that the Financial Improvement Plan was part of the overall Council Transformation plan and this will make it easier to take forward. It set out themes and outcomes along with a timescale for each on.

Members of the Committee raised concerns that in the transfer of transactional services to digital we must not forget that some people do not engage with Information Technology and they must not be left behind.

Mr Dyson agreed and he noted that “digital” also referred to internal activities, for example entering data once that can have many uses.

In response to criticism that the plan lacked detail and was not an action plan but a scoping report, Mr Dyson disagreed and said that more detail would prejudice certain aspects. He stated that the report set out roles and responsibilities clearly. He will come back to the Committee with updates and the Committee can hold him to account.

Asked if the commitment to complete the review of IBC by the end of July would be met, Mr Dyson expressed confidence in this and stated that a meeting with his counterparts in IBC has already been arranged for 25 July. There will be more oversight and communication with staff on changes.

It was suggested that the Director of Transformation be invited to the Committee because some councillors may not be clear about what it involves. Mr Dyson responded that he would take that idea back to the Director.

In response to questions about how information is gathered Mr Dyson stated that there were many sources such as suppliers who are not paid and HR queries. Issues

from schools are also picked up. Professional leads meet on a regular basis and coordinators feed information up to them.

RESOLVED to

- (a) agree the Improvement Plan
- (b) receive progress reports and updates on effectiveness at all future Committee meetings until further notice
- (c) request the Audit Working Group to examine more detailed activities.

41/16 UPDATE ON HAMPSHIRE PARTNERSHIP - HR UPDATE

(Agenda No. 11)

Mr Munn introduced the report which provided an update on the HR services delivered through the Hampshire Partnership following on from the three and six month post go live reports provided to the Audit & Governance Committee.

In summary, the picture is improving but we are still a long way from where we should be. The Councils have different ways of working and it is important to retain our own policies.

There can be a reluctance among some staff to self-serve when they have been used to having HR assistance. There had also been issues with the technology.

Members of the Committee expressed concern that the expenses compliance process had not been adopted. Mr Munn assured them that monthly expense reports provided sufficient information to guard against fraud.

The most common comment from staff was that they wanted to be able to talk to real people about issues. Hampshire were responding to this request and will provide that facility.

In response to questions about problems with pension reports, Mr Munn stated that returns were now being submitted on time. There was a problem with the June return but there had already been a response to this from Hampshire which was encouraging.

Members reported that schools had problems with the slow rate of response, especially given that they often relied on part-time staff. Mr Munn acknowledged that this had been a problem but that the response time was improving. There were also some unreasonable expectations. He added that additional training was being provided to schools.

RESOLVED to

- (a) note the current position; and
- (b) agree that a further update be provided in 6 months.

42/16 EXTERNAL AUDITORS

(Agenda No. 12)

Mr King presented the Annual Fee Letter for 2016/17 and noted that the fee was unchanged from 2015/16. The team was also unchanged.

Asked if he was satisfied that there was an effective control environment Mr King said that this year they were adjusting their approach to reflect the known issues and next year they would assume that those issues would be resolved – if not they would reconsider the approach.

Ms Irwin presented the Pension Fund Audit Plan which formed part of the overall Council audit. She drew the Committee's attention to two particular risks outlined in Section 2. These related to management override and payroll data and they will report specifically on these two matters. The fee at £24,108 was the same as for last year.

Members of the Committee asked how the Auditors managed with the proliferation of small employers in the fund. Ms Irwin acknowledged that they were focused on the larger employers but that the fund itself had processes to manage the smaller employers.

Mr King summarised the Audit Plan Progress Report which covered the testing of routine processes and controls. They will next look at the IBC and this will involve tracking transactions, a focus on certain areas of concern and looking at the main pressures of spend.

RESOLVED to note the reports.

43/16 RISK MANAGEMENT AND ASSURANCE POLICY AND FRAMEWORK

(Agenda No. 13)

Mr Penter introduced the policy which had been developed following a review of similar policies adopted by other local authorities.

Members of the Committee asked who monitored the level of risk appetite. Mr Penter responded that this will be continually reviewed by CCMT in light of available capacity to deal with identified risks.

Asked if the policy will be modified over time, Mr Penter said that there will be opportunities to do further work as some processes are currently not sufficiently mature.

RESOLVED to approve the Risk Management and Assurance Policy and Framework.

44/16 CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

(Agenda No. 14)

Mr Dyson introduced the report which outlined three options for the procedure for appointment of External Auditors:

- through a national Sector Led Body (i.e. Local Government Association);
- by establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council; or
- commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

The Chairman asked for clarification if this was a decision for the Committee or full Council. Mr Graham said that choosing the process was not an executive decision. The final appointment will be made by full Council based on advice from the Committee.

Members of the Committee noted that auditor firms would have to be registered to be considered by any of the appointment procedures. They asked if there were any significant differences in the costs of the three proposals. Mr Dyson responded that he did not think there would be major savings as large reductions in audit fees had already been achieved. He asked for a steer from the Committee so that they could explore a favoured option in more detail before making a final decision.

RESOLVED to explore the Sector Led Body option in more detail subject to a comparison of costs of the three options.

45/16 AUDIT WORKING GROUP REPORT

(Agenda No. 15)

Sarah Cox introduced the report which outlined four areas that the Working Group examined:

- Fire and Rescue Statement of Assurance 2015/16
- Corporate Lead Statements and Draft Annual Governance Statement
- Interim Annual Report 2015/16
- Internal Audit Strategy and Plan 2016/17

The Chairman and other Members of the Committee thanked the Working Group for their work which provides very useful support to the Committee in examining issues in more detail.

RESOLVED to note the report.

46/16 AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

(Agenda No. 16)

The Committee discussed the Work Programme for 2016. The Chairman asked if the Committee wanted to have a review of its Terms of Reference. It was agreed that it would be better to leave that for the new Committee that would be formed in May 2017 following the Council election.

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Members of the Committee asked about a recent phishing attack which seemed to be carefully aimed at councillors. Mr Graham responded that they would need to look more closely at that. The Chairman asked for a report to the September meeting on the findings.

It was also agreed to add two other items to the 14 September 2016 meeting: a report from the Director of Transformation and an update on the Financial Control Improvement Plan. It was also noted that the Internal Audit Plan – Progress Report will be provided by Sarah Cox.

..... in the Chair

Date of signing 200