

Minutes of a meeting of the Audit and Governance Committee on Tuesday 29 October 2024

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Committee members present:

Councillor Fry (Chair)	Councillor Railton
Councillor Ottino	Councillor Harley
Councillor Muddiman	Councillor Gant (substitute)

Officers present for all or part of the meeting:

Nigel Kennedy, Head of Financial Services
Bill Lewis, Finance Accounting Manager
Emma Jackman, Head of Law & Governance
Uswah Khan, Committee and Member Services Officer
Dr Brenda McCollum, Committee and Member Services Officer

Also present:

Gurpreet Dulay, Internal Auditor, BDO
Adrian Balmer, External Auditor, Ernst & Young
Catherine Pridham, Non-Executive Director of ODS
Councillor Susan Brown, Leader of the Council
David Butler, Head of Planning and Regulatory Services
Philip McGaskil, Revenues Service Delivery Manager

Apologies:

Councillor Roz Smith and Councillor Barbara Coyne sent apologies.
Substitutes are shown above.

12. Declarations of Interest

None.

13. Annual Audit Opinion ODS 23/24

Catherine Pridham, Non-Executive Director of ODS, introduced the report which provided an overview of the internal audit plan of the 2023/2024 year that covered data

input controls, employee code of conduct and advisory pieces of work, such as executive pay and strategic fraud risk review.

She provided further details on the audit, noting that the data input controls audit received a moderate rating, reflecting strong controls over data input and ongoing quality control processes. This applied to QL and Pergo, with one medium-level observation related to the absence of a data quality policy. Additionally, she reported that the employee code of conduct received a substantial rating, which included a staff survey to confirm their awareness of the code of conduct policies.

The Non-Executive Director of ODS noted that a recent review identified the need for improvements in guidance and documentation related to conflicts of interest, with these enhancements currently in progress. Additionally, the review of exceptions in pay practises underscored the need to enhance the committees' terms of reference and the executive pay policy to ensure accurate reflection of the shareholder agreement in these documents.

She stated that the strategic fraud risk review was completed following the year-end, concluding that existing policies and procedures established a coherent framework for identifying fraud risks and implementing mitigation measures. It was noted that the IT governance audit remained in draft status at the last audit committee meeting, with a moderate assurance rating expected. This audit underscored the need for both Oxford City Council (OCC) and ODS to establish a dedicated IT governance committee and to ensure comprehensive stakeholder involvement in IT projects.

She noted that during the year, the meeting reviewed the organisations information assurance status. Key risks identified included the continued use of paper-based information with some teams and, specifically within the trading business, the risk of employees taking confidential and commercial information to competitors after leaving the organisation. Additionally, she added that there was an observed increase in cybercrime risks.

The Non-Executive Director of ODS stated that additional non-internal audit assurance was provided through a governance questionnaire distributed across all service areas of the organisation, along with work of the quality assurance team, who conduct audits and provide training on established policies.

In conclusion, the Non-Executive Director of ODS expressed confidence in providing assurance on behalf of the audit committee and the board regarding the overall effectiveness of governance and risk management.

Councillor Ottino raised a question about the governance questionnaire, specifically regarding areas of challenge, asking whether heads of services identified these challenges and if there was a plan to address them. The Non-Executive Director of ODS responded that service areas themselves had identified relevant issues and stated that the audit committees took follow-up action where necessary.

Councillor Gant inquired about the reluctance to offer an overall audit opinion, asking why this was the case and what had not been included to enable such an opinion. The

Non-Executive Director of ODS explained that given the organisations size, internal audit resources were insufficient to review every area comprehensively. She noted that audits follow a risk-based approach, targeting strategic risks, and the audits conducted address these priority areas.

Councillor Fry sought clarification on whether fraud prevention is investigated. The Non-Executive Director of ODS confirmed that they had requested BDO to include fraud information in each sector update, ensuring this information is provided to the audit committee at every meeting.

Nigel Kennedy, Head of Financial Services, added that the fraud team had conducted detailed work with ODS colleagues to raise fraud awareness.

The Committee noted the report.

14. Statements of Accounts for 2021/22 and 2022/23

Bill Lewis, Financial Accounting Manager, introduced the report, noting that it included accounts from prior years. He began with the year 2021, where although the accounts had not been signed off, the issue of the audit certificate had been delayed due to setbacks within government accounting processes.

He explained that the report also covered accounts from 2021-2022 and 2022-2023, which had not yet been fully audited. He highlighted delays affecting local authorities' sector-wide, attributed partly to internal challenges within these authorities and more broadly to capacity limitations within the audit sector, including a shortage of firms to conduct the audits. The Financial Accounting Manager further noted that although the 2021-2022 audit had made progress, it remained incomplete when the government instituted measures aimed at expediting outstanding audits. He clarified that all open audits up to and including 2022-2023 would receive a disclaimed audit opinion. Consequently, the comparative figures in the 2023-2024 accounts would remain unaudited, though the impact would diminish in future years. He explained that these two sets of financial statements had undergone all necessary preparatory steps for the issue of a disclaimed opinion, pending approval by the Audit and Governance Committee for sign-off.

The Financial Accounting Manager requested delegated authority for the Chair of the Audit and Governance Committee to sign off on these accounts, allowing finalisation at the external audit level. He emphasised the need to expediate the process once auditors were prepared to issue the disclaimer, as the deadline for sign-off was December.

He directed attention to Appendix 2, which provided additional detail on efforts to rebuild assurance, outlining stages necessary to resume issuing an audit opinion on financial accounts.

Councillor Fry noted that once committee approved the statements of accounts, they can proceed with signing them off, ensuring compliance with the December deadline.

Councillor Fry inquired about the practical implications of the disclaimed opinions for OCC and ODS, specifically questioning any potential impact on credit or risk ratings and whether the disclaimers might collectively pose a disadvantage.

The Head of Financial Services responded clarifying that credit ratings were handled separately, and he was unaware of any incidents in which ODS had faced business rejection due to these accounts.

The Head of Financial Services proposed a dedicated training session on the statement of accounts for committee members, suggesting it could focus on the 2023-2024 accounts. This would allow members to familiarise themselves with key terms and the processes ahead of the 2023-2024 sign-off.

The Committee approved all recommendations, including the proposed training session and a note to be drafted by the Financial Accounting Manager.

15. Annual Governance Statement

Emma Jackman, Head of Law & Governance, presented the report, which included the annual governance statement by the Council each year and the code of corporate governance. She noted that the corporate governance code had not been reviewed for some time, resulting in certain aspects no longer accurately reflecting the Council's current operations. Based on guidance from the LGA, incorporating the improvement assurance framework and insights from other authorities, a new code of corporate governance had been developed. The Head of Law and Governance explained that this document outlines the Council's adherence to principles of good governance, including its progress against strategic goals, engagement with communities, and public service. This code serves as the basis for evaluating the annual governance statement.

She explained that the annual governance statement outlines key aspects of statutory officer roles, provides an overview of the roles of audit and governance, scrutiny, and other functions. The statement was then reviewed and updated, with further enhancements planned for the following year. The Head of Law and Governance described it as a record of achievements and successes in governance, while also identifying areas of improvement with an accompanying action plan. The statement assessed the overall effectiveness of governance and adherence to the corporate governance code. She added that the statement included an opinion from internal auditors and provided an overview of planned improvements for the following year, ensuring a structured review of progress in the subsequent annual report. She emphasised that it remains an evolving document.

Councillor Susan Brown highlighted specific issues addressed in the annual governance statement, noting that the LGA peer review serves as an essential element of the governance framework, bringing in external expertise from other authorities for oversight on key issues. She mentioned that some adjustments had already been implemented in response to recommendations. Councillor Brown also noted the

ongoing challenges surrounding housing and temporary accommodation, acknowledging that while the Council faced difficulties in this area, central government had appraised the Council for its proactive approach to addressing significant issues in temporary accommodation, reflecting positively on current progress.

Councillor Ottino inquired about the action plan, noting that not all items had been marked for completion. He asked for an update on progress and requested that target dates be specified for each action. The Head of Law and Governance confirmed that an action plan is in place and an updated table with target deadlines will be provided.

The Committee noted the report.

16. Oxford City Council and Group Audit Planning Report

Adrian Balmer, an External Auditor with Ernst & Young, provided the Committee with a verbal report on the 2023/2024 annual audit plan, summarising the key elements. He outlined several identified risks, beginning with the risk of misstatement due to fraud and error, a recurring risk in audit plans. Another specific fraud risk he mentioned was the incorrect capitalisation of revenue expenditure, potentially used to manipulate the revenue outturn position by misrepresenting capital additions. Additionally, he mentioned a significant risk was associated with the valuation of land and buildings, which may be impacted by shifts in underlying assumptions. An inherent risk was also identified regarding pension liability valuation, where numerous inputs and assumptions within the pension fund valuation process could lead to potential misstatements.

The External Auditor directed attention to page 383 of the report to discuss materiality. He elaborated that headline materiality is currently set at 2% of gross revenue expenditure for each specified element. He further explained performance materiality, the middle tier in this framework, which is set at 50%. He then referred to the final column in which reports are submitted back to the audit committee.

Councillor Ottino sought clarification on the IFRS 16 lease standard. The External Auditor explained that it is a new standard effective April 2024, involving a reclassification where leases will appear on the balance sheet. This will result in various council leases being recorded across departments. He explained that the primary task for the council is to ensure a comprehensive understanding of all existing leases, followed by calculating to recognise the right-of-use asset and associated liability.

Councillor Fry inquired about the timetable on page 411, specifically regarding substantive testing and whether it would meet the deadline. The External Auditor confirmed that substantive testing is currently underway and that timelines are actively being managed.

The Committee noted the report.

17. Oxford City Council - Value for Money Interim Report

The External Auditor presented the report, noting that it covers the period from April 1, 2021, to March 31, 2023. He clarified that it is designated as an interim report because, at the time of publication, the guidance supporting the backstop position had not yet been enacted.

The External Auditor explained that the evaluation focused on three sub-criteria's:

- **Financial sustainability:** this criterion examines how the Council plans and manages its resources to ensure ongoing service delivery. He noted that no significant risks or weaknesses were identified in this area.
- **Governance:** this criterion assesses how the Council makes informed decisions and manages risks. He identified one specific risk related to the implementation of the new QL housing system.
- **Improving economy, efficiency, and effectiveness:** this evaluates how the Council leverages information on costs and performance to enhance service management and delivery. He reported that no significant weaknesses or risks were identified under this criterion.

The Committee have noted the report.

18. Internal Audit - Progress Report

Gurpreet Dulay, an Internal Auditor from BDO, provided the Committee with a verbal update on the progress report, summarising the accounts payable report. He explained that they were presenting the accounts payable report to the Committee as part of the progress report and noted that a few reviews were in the final stages of completion. He highlighted that the first of these reviews, on risk management, was initially intended for discussion with the Committee. This review had already been issued to management, and the Council was in the process of appointing a new risk manager, who would assume responsibility for the noted actions. Another review, initially planned for the dynamic purchasing system, had been removed from the agenda and replaced with a review of fire safety arrangements. He also informed the Committee that the government had set a new implementation date of February 24, 2025, for the Procurement Act, moving it from the original October timeline.

Regarding the accounts payable audit, the Internal Auditor described it as having a moderate rating on both design and effectiveness. He reported three medium-level issues and a few lower-priority issues within the audit findings. He noted that Oxford City Council uses a system called Agresso to manage purchase orders and invoices, and that the Council's constitution had been updated in November 2023. This update included revisions to the Council's financial regulations and policies, outlining procedures for approvals.

The Internal Auditor outlined four key areas for improvement:

- Retrospective purchase orders: The Internal Auditor is working with his team on extended follow-up testing to address issues with orders being raised after the fact.
- Management reporting: in an earlier version of Agresso, KPI reporting automatically provided the Council with key information, but this functionality is no longer available. Management is now working to reestablish similar reporting capabilities.
- New supplier steps: in a few cases, the rationale for classifying certain suppliers as high risk was not documented, though it should have been.
- System reconciliation: there are ongoing challenges in reconciling the Agresso system with the income system.

Philip McGaskil, Revenues Service Delivery Manager, added that he and the team leader had reviewed their practices and approach. He noted that BDO's findings were largely in line with his own assessment. He clarified that several recommendations BDO proposed have already been implemented, with plans to address the remaining ones by month-end. He acknowledged that more complex recommendations, particularly around reporting and KPIs, would require IT support. A number of reviews were targeted for completion by the end of October, though some may extend to January. However, he expressed optimism that increased focus on KPIs could produce results sooner than January.

When Councillor Fry asked if everything would be ready by the January meeting, the Revenues Service Delivery Manager confirmed that this was his goal.

Councillor Fry further inquired if he was confident about implementing these changes and asked if they would be in place by the new year. The Head of Financial Services acknowledged a slight delay but aimed to have them in place by December 2. The Revenue Service Delivery Manager added that he was confident about meeting this timeline.

The Committee noted the report.

19. Internal Audit - Follow Up Report

The Internal Auditor presented the report, noting that it addresses follow-ups on all previously raised recommendations and that the team is pleased with the progress made. While some recommendations related to selective licensing and data analytics which are still pending, he emphasised that substantial progress has been achieved, and they anticipate being in a strong position by the January committee meeting.

David Butler, Head of Planning and Regulatory Services, then elaborated on the incomplete sections of the report. He explained that for the first recommendation involving areas A, B, C, and D, management responded to parts B, C, and D, indicating that many of these actions would not be applicable to their work. He mentioned that the

team is currently undergoing restructuring and realignment, which includes the addition of a new role to manage administrative functions. The Head of Planning and Regulatory Services also highlighted a January 2025 due date for these changes, with plans to complete the work well ahead of schedule.

Regarding selective licensing, the Head of Planning and Regulatory Services noted that three specific actions were set for completion. He confirmed that actions A and B have been completed, while action C, which involves a training analysis, remains in progress. This delay, he explained, is partly due to recent team changes. However, he assured the committee that this final recommendation would be completed by December 31.

The Revenue Service Delivery Manager then provided an update on data analytics, describing its high-priority rating and the ongoing adherence to recommendations. He shared that his team is working on reconciling purchases with corresponding invoices and receipts, with an aim to close all 2023 records by the end of November. Moving forward, they plan to conduct monthly reconciliations of credit card transactions against receipts to ensure consistency.

Councillor Fry asked the Revenue Service Delivery Manager for clarification on whether this would be fully operational by January. The Revenue Service Delivery Manager responded that he expects to be in a position to continue monthly reconciliations starting in January.

The Committee noted the report.

20. Minutes of the previous meeting

The Committee agreed to approve the minutes of the meeting held on 24 July 2024 as a true and accurate record.

21. Dates and times of meetings

The Committee noted the dates and times of future meetings.

The meeting started at 6.00pm and ended at 8.08pm.

Chair

Date: Monday 20 January 2025

When decisions take effect:
Cabinet: after the call-in and review period has expired
Planning Committees: after the call-in and review period has expired and the formal decision notice is issued
All other committees: immediately.
Details are in the Council’s Constitution.