

Remote meeting

Minutes of a meeting of the Audit and Governance Committee on Tuesday 24 November 2020

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Committee members present:

Councillor Fry (Chair)

Councillor Corais

Councillor Kennedy

Councillor Tanner

Councillor Munkonge (Vice-Chair)

Councillor Gotch

Councillor Simmons

Officers present for all or part of the meeting:

Anita Bradley, Monitoring Officer

Nigel Kennedy, Head of Financial Services

Bill Lewis, Financial Accounting Manager

Jennifer Thompson, Committee and Members Services Officer

Scott Warner, Investigation Manager

Also present:

Yasmin Ahmed (Internal Auditor), BDO

Greg Rubins, (Internal Auditor), BDO

Adrian Balmer (External Auditor), EY

Maria Grindley (External Auditor), EY

Apologies:

No apologies were received

14. Declarations of Interest

None.

15. Risk Management Report - Quarter 2 November 2020

The Committee considered the report of the Head of Financial Services on corporate and service risks as at 30 September 2020. Bill Lewis (Financial Accounting Manager) introduced the report and answered questions.

1. The Committee noted the significant impact of Covid, and the resulting economic effects, on the Council's budget. This was a combination of extra unexpected expenditure, partially funded by central government, to mitigate hardships and apply

- new regulations; extra costs of moving to entirely remote working and remote online services; and a significant loss of income from its customer-facing services.
2. All public authorities and agencies were playing a full part in mitigating and dealing with the effects of Covid across their differing areas of responsibility, and all had seen impacts on their budgets.
 3. The lockdown and infection control measures had impacted on housing delivery, creating a significant delaying new house completions and impacting on new council tax registrations, the housing supply, and affordable housing provision.
 4. One benefit had been the provision of temporary accommodation for the street homeless, albeit without full government support for the costs.
 5. A number of risks had changed in character (for example health and safety risks differed between remote and office-based working; cyber security was more critical) but had not altered severity sufficiently to change category.
 6. The Council's companies were still going concerns but reductions in their short term profitability impacted on the Council's budget.
 7. Specific projects proactively managed their own risks within the project delivery. The implementation of Aareon QL software for Housing Services management was now a red risk, but managed within the project board. The Committee expressed concern about the long delay in the project, and the impact on all the services contingent on its implementation.

The Committee noted the risks and mitigations set out in the report.

16. Investigation Team Annual Report 2019-2020

The Committee considered the report of the Head of Financial Services setting out the activity and performance of the Counter Fraud Team for the fiscal year 1 April 2019 to 31 March 2020. Scott Warner (Investigation Team Manager) introduced the report and answered questions.

The Committee noted the Investigations Team's work on preventing fraud during the administration of The Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund (March 2020), and The Local Authority Discretionary Grant Fund (May 2020).

They noted the impact of infection reduction measures on face to face and under-caution interviews and the setting up of suitable Covid-secure facilities to allow these to resume.

The Committee congratulated the team on their performance and noted the significant deterrent effect of a robust counter-fraud strategy and pro-active team.

The Committee noted the report.

17. Internal Audit Progress report - Quarter 2 November 2020

The Committee considered a report setting out progress against the 2020/21 audit plan; the assessments of systems reviewed in this quarter; and the Local Government Sector update. Greg Rubins (BDO internal auditor) introduced the report and he, Nigel Kennedy (Head of Financial Services), and Anita Bradley (Head of Law and Governance) answered questions.

The Committee considered the sector update and also noted the Redmond report into the effectiveness of external audit and transparency of financial reporting in local authorities published on 8 September.

1. In considering the update, the Committee asked about the recent report reviewing governance at Nottingham City Council following the collapse of its wholly owned energy company. The report concluded that the council didn't grasp the warning signs in the energy markets that may have led it to sell the company earlier as a going concern. The governance and challenge by the council, and communications between different sections, were not sufficiently robust.
2. The Committee also asked about the similar review of Croydon Borough Council following financial problems within their wholly-owned company. A public interest report had been issued. This noted previous concerns about the soundness and sustainability of their budgets; auditors' recommendations were not implemented; there was a collective blindness to the growing problems where senior councillors were not focused on the key issues; and a lack of understanding of the interplay between the company's and the council's finances.
3. The Committee noted that a senior officers had considered a report on key lessons.
4. The Committee noted that the financial pressures arising from Covid meant that the 2021/22 budget would draw strongly on reserves.
5. The Committee considered whether a special capitalisation (to charge revenue losses arising from COVID 19 to capital in order to finance these losses over a longer period of time) would release revenue funding to support much needed services, but noted it was unlikely that the council would get government's approval for this. This is likely to be reserved for councils in very serious financial straits and the council would be expected to use its available revenue reserves and cut services before seeking a special capitalisation.
6. The Committee noted the challenge around keeping adequate reserves against risk of large changes in income: large reserves only last a short time in face of large budget pressures.
7. The Committee noted officers' advice that it had a key role in taking an overview and understanding of the finances, functions and governance of the companies as they related to the council's finances; in examining the effectiveness of the interactions between councillors, shareholders, officers, and company staff; and to challenge and test both information and gaps.

The Committee:

1. Recommended offering training on the councils' finances including the interaction with its companies, budget setting and monitoring to allow councillors to understand the financial complexities, companies' relationship to, and the ambitions of the council.
2. Asked to consider at the January meeting a briefing paper on the relevant recommendations from the Redmond Review and the lessons for the Committee from the reviews of Nottingham City and Croydon Borough Council.

The Committee noted the report.

18. Internal Audit Recommendations follow up – Quarter 2 November 2020

The Committee considered a report setting out progress on those recommendations raised by Internal Audit which are due for implementation. Yasmin Ahmed (BDO internal auditor) introduced the report and she and Nigel Kennedy (Head of Financial Services) answered questions.

The remaining outstanding action from the Accounts Receivable audit (automated issuing of the 14 day, 45 day and L7 reminder letters) would be completed when the IT system upgrades allowed. The team had a satisfactory manual process in place.

The Committee noted that behind-schedule ICT system upgrades (Agresso for finance and Aareon QL for housing) were impacting on delivery of several recommendations, and on delivery of improved services for customers and staff.

They noted there was a mitigation and recovery plan in place for Aareon QL, including seeking recompense when the delays lay with the supplier, and asked for a report on 'lessons learned' once the system was functional.

The Committee noted the report.

19. External Audit: Draft Audit results report for the year ending 31 March 2020

The Committee considered the report of the external auditor EY inform them of outcome of the audit of the accounts. Maria Grindley and Adrian Balmer (EY external auditors) outlined the outcome of the audit and their findings, and answered questions.

The auditors noted the difficulties in conducting an audit remotely, and the changes made to facilitate their testing. Roughly 40% of local authority audits would not be completed by the 30 November deadline.

There were no outstanding matters preventing the issuing of an unqualified opinion and the Chair of the Committee signing the accounts.

The opinion on the council as a going concern was based on an assessment for the 12 months following issuing the opinion (from 30/11/20 to 30/11/21). The balance sheet and value for money conclusions were accurate as of 31/3/20.

The Committee noted the report and the audit opinion.

The Committee asked the Head of Financial Services to also convey their thanks to the finance team for getting complex accounts through the audit process in time, accurately, and with an unqualified audit opinion despite the multiple challenges of this year.

20. Statement of accounts for the Year Ending 31 March 2020

The Committee considered the report of the Head of Financial Services, the Council's Statement of Accounts for the year ending 31 March 2020 (2019/20), and the Letter of Representation.

Bill Lewis (Financial Accounting Manager) introduced the report and the Statement of Accounts and answered questions.

The Committee asked the Monitoring Officer and Head of Financial Services to consider routes and mechanisms for oversight of the council's companies, to avoid any gaps in the corporate understanding of the risks and exposure the council faced from the performance of its companies. There were separate audit and governance processes for each companies, and the council acting as shareholder exercised oversight and scrutiny. However there was no clear role for the council corporately to be satisfied that its companies as a whole were robustly managed going concerns and unlikely to create significant financial problems for the council. They considered this essential in the light of the economic impact of Covid on the companies, and the recent serious financial impacts on Nottingham and Croydon councils as a result of the failure or poor performance of their wholly-owned companies

The Committee resolved to:

1. **approve** the audited 2019/20 Statement of Accounts as certified by the Head of Financial Services and authorise the Chair of the Committee to sign the Accounts; and
2. **approve** the Letter of Representation to enable the opinion to be issued; and
3. **note** that these documents would be signed electronically.

21. Minutes of the previous meeting

The Committee agreed to approve the minutes of the meeting held on 30 July 2020 as a true and accurate record.

22. Dates and times of meetings

The Committee noted the dates and times of future meetings.

The meeting started at 6.00 pm and ended at 7.50 pm

Chair

Date: Thursday 14 January 2021

*When decisions take effect: immediately.
Details are in the Council's Constitution.*

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