AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 18 January 2023 commencing at 2.00 pm and finishing at 3.53 pm

Present:

Voting Members:	Councillor Roz Smith – in the Chair Councillor Brad Baines Councillor Yvonne Constance OBE Councillor Ted Fenton Councillor Nick Leverton Councillor Ian Middleton Councillor Freddie van Mierlo Councillor Judy Roberts Councillor Michael O'Connor (substituting for Councillor Michele Paule)
Other Members in Attendance:	Dr Geoff Jones (Co-Opted Member).
By Invitation:	
Officers:	
Whole of meeting	Lorna Baxter (Director of Finance), Anita Bradley (Director of Law and Governance and Monitoring Officer), Paul Grant (Interim Head of Legal and Deputy Monitoring Officer), Sarah Cox (Chief Internal Auditor), Louise Tustian (Head of Insight and Corporate Programmes), Simon Harper (Head of Governance) and Jonathan Deacon (Interim Democratic Services Officer).
Part of meeting	Tim Chapple (Treasury Manager), Georgina Cox (Principal Auditor), Katherine Kitashima (Audit Manager) and Emma Vickers (Assistant Auditor).

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.

1/23 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

Apologies for absence were received from Councillor Michele Paule and Councillor Calum Miller, Cabinet Member for Finance. Councillor Michael O'Connor substituted for Councillor Paule.

2/23 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE
(Agenda No. 2)

There were none.

3/23 MINUTES
(Agenda No. 3)

The Committee approved the minutes of the meeting held on 23 November 2022 and authorised the Chair to sign them as a correct record.

4/23 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 4)

There were none.

5/23 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2023/24
(Agenda No. 5)

The Committee received a report outlining the Council's strategic objectives in terms of its debt and investment management for the financial year 2023/24. Tim Chapple, Treasury Manager, presented the report. He stated that the Strategy was based on having an annual cash balance for the year of £480m. This figure was net of £178m of internal borrowing this financial year.

Mr Chapple affirmed that the Treasury Management Strategy team would prioritise security and liquidity above all other considerations in relation to investments. They had sought to take advantage of the peaking interest rates. They were proposing a small increase in the long term lending limit from £185m to £200m. The forecasted return for the year was around 3%. In house interest receivable for 2023/24 was budgeted to be at £11.02m for the financial year.

In respect of external funds, no change was proposed to the Council's holding for 2023/24 and this was expected to produce income of £3.81m. Mr Chapple brought to the Committee's attention that the Government had extended the IFRS9 statutory override which meant that any fluctuations to the value of the external funds would not impact on the revenue account. They would continue to be reflected in the balance sheet and that would be rolled over for a further two years. In the meantime, the team would consider its approach to the override and it was likely that a reserve would be built up for future years to address any fluctuations.

Mr Chapple explained that the internal borrowing position was impacted by the very high level of cash balances coupled with the higher borrowing rates in the short term,

which were forecasted to drop by about 2% over the next 18 months. This meant that it was not the right time to borrow right now. The current approach was to use internal balances to fund the capital programme and it would be re-financed at a more suitable time. A combined long term lending and internal borrowing limit of £380m was proposed for the financial year.

In response to questions, Mr Chapple and Lorna Baxter, Director of Finance, made the following points:

- It was anticipated that the cash balance would fall with the Council borrowing internally, deliver the capital programme and the Unusable Dedicated Schools Grant Reserve (DSG) deficit increased. It was noted that the Council was spending more slowly than expected and this had resulted in the cash balance increasing.
- The risk was likely to have lessened recently of any lenders calling in any of the Lender's Option Borrower's Options. It reflected the position in the bond yield market and the bond yields had reduced significantly since the Autumn.
- It was forecasted that the DSG would cost the Council in the region of £2.5m to £3m in interest per annum. There was a lot of work being undertaken by the directorate in relation to a high needs deficit recovery plan. The Council was part of the DfE's Delivering Better Value programme involving 50 local authorities with the aim of identifying ways to bring the budget back into balance. There was a significant difference between the funding received from the Government and the spend being incurred in respect of the high needs budget. The challenge was when the deficit currently being held off the balance sheet impacted on the reserves. This was a national issue with over half the 151 local authorities in England with education responsibilities having significant deficits arising from high needs costs.
- Any Council investments had to meet the very strict security and liquidity criteria. It was confirmed that the Treasury Management Strategy team did due diligence on borrowers, including if they were perceived to have poor financial management practices or were invested in aspects that the Council would not wish to invest in. It was also confirmed the Council did not invest in derivatives.
- There was a proposed capital programme going to Cabinet for their consideration the following week and then was scheduled for Council in February. It was ensured that there was a balanced programme with some headroom to allow for some further investments to be made.
- It was queried what the position would be if the rating of the Council's bank, currently Lloyds Bank Plc, was downgraded. The Committee was advised that it had been decided in 2008 that the Council might not place its deposits with the bank but it was satisfied that banking with them was lower risk due to there being different risks with holding a bank account than in lending to them. The position would likely be similar today.
- The capital financing requirement was due to go up to approximately £600m in the medium term based on the current trajectory of expenditure. The team was confident it could borrow affordably to fund that either internally or externally. There had been a review of the capital programme in the Summer of 2022 to see what the impact might be of higher inflationary costs over the total programme. Specific principles had resulted from the review including

that the programmes need to manage within their own funding envelopes. There was also a contingency within the capital programme which allowed for 3% of the total programme to pick up any unforeseen costs. The capital programme was over a ten year period and there was an ability during that period to make adjustments if there was a priority which needed to be delivered.

RESOLVED: That the Committee endorsed the Treasury Management Strategy for 2023/24 as outlined in the report.

6/23 FINANCIAL MANAGEMENT CODE OF PRACTICE COMPLIANCE ASSESSMENT

(Agenda No. 6)

Lorna Baxter, Director of Finance, presented the paper which was the third annual report to the Committee. The Financial Management Code sets out how Chief Financial Officers should satisfy their statutory responsibility for good financial administration. It also emphasised the collective financial responsibility of the whole leadership including the relevant elected Members. An assessment was required on an annual basis of compliance with the Code and CIPFA had now confirmed that it was the role of this Committee to consider this.

Ms Baxter explained that there were 19 elements of the Code which required compliance and had been assessed by officers through the Senior Leadership Team. Of these, one was rated 'amber' and the rest were rated 'green'. The Director of Finance and other senior officers considered that the Council was compliant with the Code and with the further work identified, it was hoped that it would be possible to have a green rating for all 19 elements of the Code next year.

The Committee noted that the 'amber' rating had been in relation to the CIPFA requirement that 'the leadership team is able to demonstrate that the services provided by the authority provide value for money'. Ms Baxter stated that the view of the Senior Leadership Team was that there was benchmarking by individual services but it was not sufficiently systematic or consistent across the Council in terms of having done a value for money assessment. It was now intended to put in place a more systematic approach as part of the budget and business planning process to ensure that services consider value for money at that point.

Ms Baxter clarified in response to questions that evidence would be required to show that the directorates across the Council had carried out the value for money assessment. There would be an update on the implementation of the new procurement model at the May meeting of the Committee, including how the service was developing.

RESOLVED: That the Committee endorsed the assessment of compliance against the Financial Management Code.

7/23 COUNCIL MOTION: EDUCATION SCRUTINY COMMITTEE

(Agenda No. 7)

Anita Bradley, Director of Law and Governance and Monitoring Officer, referred to the fact that the Council had passed a motion at its meeting on 1 November 2022 to undertake a review of the Council's governance. This would be taken forward by a working group and would report to the Audit and Governance Committee, which in turn would report to Council.

Ms Bradley added that at the meeting of Council on 13 December 2022, a motion had been passed by Council to, as part of the governance review, examine whether there should be a separate education scrutiny committee. The Committee was being asked to endorse considering the separate scrutiny committee as part of the governance review.

It was noted that the first meeting of the Governance Review Working Group was scheduled to take place in January 2023. It was anticipated that the Working Group would report back to the Audit and Governance Committee in July and September 2023 with any recommendations to the Committee in November.

It was confirmed that scrutiny of education matters currently sat within the remit of the People Overview and Scrutiny Committee. In the event that the Audit and Governance Committee was content to endorse the Council's motion at the current meeting, there was still the option that whilst the need for an education scrutiny committee was being considered, People OSC had the ability to scrutinise education matters in greater detail.

RESOLVED: That the Committee agreed to consider the question of whether the Education Scrutiny Committee should be re-established as part of its review of the Council's scrutiny function in any governance review.

8/23 ANNUAL GOVERNANCE STATEMENT 2021/22 - UPDATE ON ACTIONS

(Agenda No. 8)

The Committee received an update on the actions from the Annual Governance Statement (AGS) 2021/22. Ms Bradley explained that local authorities are required to prepare an AGS to be transparent about their compliance with good governance principles and to give an opinion on the effectiveness of these arrangements. The action plan had been established to identify the areas of focus for the year following. There were eight areas identified in the AGS 2021 and the report set out in paragraphs 7 to 16 the progress against each of the actions.

In response to questions relating to updates in the report, Ms Bradley confirmed that it had been necessary to halt the review of the Constitution because any changes created by the governance review would be likely to lead to changes to the Constitution. She also clarified that it was still expected that the Cherwell-Oxfordshire Decoupling Programme would be completed in January. There had been delegations to the officers to undertake the Decoupling Programme. Documentation was due to be received from external lawyers in respect of regulatory services which was agreed in principle and this was the one aspect remaining to be concluded.

In respect of Subject Access Requests (SARs), the Council was receiving roughly 500 a year. This figure had gone up since 2020 by approximately 150. Not only the volume had increased but also the complexity of the Requests. This included social care files which often required input from social workers in terms of what could and could not be disclosed. The plan was to complete the backlog SARs by March, with the backlog arising from the Covid period when it was much more difficult to access physical files.

Ms Bradley stated that the Council had a social media policy and she was working with colleagues in Communications on advice for Members relating to social media. A training session was anticipated to take place before the end of March.

RESOLVED: That the Committee **NOTED** the update on the actions from the Annual Governance Statement 2021/22.

9/23 INTERNAL AUDIT 2022/23 PROGRESS REPORT

(Agenda No. 9)

Sarah Cox, Chief Internal Auditor, presented the quarterly progress report. She stated that recruiting to fill the Senior Auditor post was still ongoing and agencies were continuing to be consulted on providing appropriate candidates. To assist with Q4 in 2022, one of the Council's ex-principal auditors had been recruited on a casual basis. The Senior Auditor vacancy was having some impact on progress with the Internal Audit Plan. There had been three additions to the Plan since the last update and five audits that had been removed or deferred until the 2023/2024 Plan. This had happened largely because they needed to be delayed due to work currently ongoing within the services. There was sufficient assurance across all the key risk areas and across the directorates in order that it was possible to provide the Annual Opinion.

Ms Cox added that many of the audits which had been undertaken from September to December were at draft stage or near to finalisation and the bulk of the work had been completed. There had also been a commitment to reduce the residual management actions which had been open for some time. There was now an 80% implementation rate and 10% of the actions were not yet due. This high rate was a reflection of the work of the team and support from the Senior Leadership Team.

In response to questions, Ms Cox made the following points:

- A risk relating to security alerts had been identified in the report as they were only received by one member of the IT team and, in their absence, this could lead to alerts not being received and acted upon on a timely basis. The Committee were informed that IT had agreed to implement the required action in response to the risk being identified. The overall opinion of the IT Virtual Infrastructure audit had been rated 'green'. There were therefore not significant concerns as it was a well managed area.
- Work had been undertaken to provide some assurance that there had been improvement from a position that there had previously been contract spend without the formalised contracts in place. Some improvement had been found, including that where contracts in the sample had been found not to be in place,

this had already been identified by the service area with work underway with the Hub to formalise contract arrangements. The procurement hub and the team were working with services to identify residual arrangements where contracts are needed. The issues were generally related to lower level contracts rather than the major ones. Improvement was required in relation to the contract management system. The policies, procedures and guidance were found to be acceptable. There was training in place and this was being targeted for the appropriate level of contract managers.

- It was expected that there would be some resource to cover the Senior Auditor vacancy and that it would be sufficient to provide the Annual Opinion. Some of the work going forward could be covered by casual staff or via an agency but this recruitment was cost dependent.

RESOLVED: That the Committee **NOTED** the progress with the 2022/23 Internal Audit Plan and the outcome of the completed audits.

10/23 AUDIT WORKING GROUP UPDATE

(Agenda No. 10)

Ms Cox addressed the Committee on the outcomes of the Audit Working Group meeting held on 14 December 2022. The three items on the agenda had been Housing Infrastructure 1 (HIF1), Oxford North and Payments to Home Care Providers. She advised that for all of the three items the Working Group had requested that they were considered further at future meetings. It was intended that Oxford North would be scheduled for the next meeting in February, Adult Social Care colleagues would be present to respond to the Working Group's questions on the Payments to Home Care Providers item in April and the progress of HIF1 would be reviewed in September.

Dr Geoff Jones, Chair of the Audit Working Group, stated that he had been reassured on a couple of specific aspects relating to HIF1. The first was that Local Partnerships, jointly owned by the Local Government Association, HM Treasury and the Welsh Government, had previously undertaken an independent assurance review of the HIF1 programme and were now returning in the summer to carry out a follow up review. The Working Group had requested to be provided with the results of the follow up review. The second aspect was that the Working Group had been advised by officers that when tenders for the design work packages had been evaluated, if there were difficulties in delivering the overall HIF 1 programme below the £296m budget, the team could look across the four schemes at tweaks and changes it could make. If this was not sufficiently cost effective there could potentially be a decision by Cabinet that one of the four schemes would not come forward. Dr Jones referred to this reducing and managing the risks which had been a concern of Members.

RESOLVED: That the Committee **NOTED** the report.

11/23 RISK MANAGEMENT UPDATE

(Agenda No. 11)

Louise Tustian, Head of Insight and Corporate Programmes, presented the report. It was an overview of the progress made since the previous risk management paper provided to the Committee in September 2022. She drew Members' attention to the strong link between the Strategic Risk Register and the 2022 – 2025 Strategic Plan, with the latter's set of nine priorities. The report also referred to the training sessions undertaken in the last year which would continue over the next twelve months. Staff had moved on following the decoupling with Cherwell District Council but it had now been possible to build up the teams who were managing the risk as part of the wider corporate performance reporting. The team members were being trained and then additional training would take place in the directorates.

Ms Tustian advised Members that it was intended to provide a training session for the Committee in March and also an update on the Risk Management and Opportunities Strategy, linking with the new strategic plan and budget for next year.

Ms Tustian stated that the report also highlighted successes including the Senior Leadership Team workshop, reviewing and reducing the strategic risks. Work had also been taking place with the services to understand the escalation process from operational to strategic risks. People would know the requirement to contact the team and bring to the Senior Leadership Team if there was a proposal for a new strategic risk. The Strategic Risk Register featured as part of a high level overview within the Business Management and Monitoring Report which came to Cabinet on a bi-monthly basis. This contained 17 Strategic Risks currently.

Members were advised that Ms Tustian and Ian Dyson, Assistant Director of Finance had completed their risk practitioner training and as a result had a number of actions that they would be taking forward for the end of this financial year and the beginning of next. One of these would include a health check of the position across the organisation and linking with Internal Audit.

RESOLVED: That the Committee **NOTED** the update.

12/23 ERNST & YOUNG UPDATE

(Agenda No. 12)

A verbal update was provided to the Committee on the 2020/21 audit by Adrian Balmer of Ernst & Young, the external auditors. He had previously advised the Committee that proposed legislation for infrastructure assets was the substantive issue delaying certification of the 2020/21 accounts. The legislation had subsequently been passed in December 2022. An updated CIPFA Local Authority Accounting Panel Bulletin had now been released and Ernst & Young had shared the initial findings and guidance from the Bulletin with the Council. They were working through the CIPFA information in order to conclude any remaining issues relating to the infrastructure assets, prior to being able to close out the 2020/21 audit and pension fund accounts.

RESOLVED: That the Committee **NOTED** the update.

13/23 OXFORDSHIRE PENSION FUND AUDIT PLANNING REPORT

(Agenda No. 13)

Mr Bulmer presented the report on behalf of the Pension Fund team. He took the Committee through some of the high level risks included within the Audit Plan, set out in the section entitled 'Overview of our 2021/22 audit strategy'. He advised that there was not a lot of change from the previous year in terms of the risk assessment, which was a positive situation. There were risks identified in relation to 'Misstatements due to fraud or error' and 'Risk of inappropriate posting of investment journals'. The rationale for the risks being identified and the proposed approaches to address the risks were set out in the report.

There was deemed to be a significant risk in the 'valuation of complex investments' and inherent risks relating to the 'Valuation of investments under Level 2 fair value hierarchy' and 'IAS 26 – Present value of retirement benefits'. The report set out the processes and procedures to address the risks. Mr Bulmer clarified that the IAS 26 risk had been driven by an update in the accounting standards and not by anything specifically within the Council itself.

Planning materiality had been set at £32.80m which represented 1% of the 2021/22 draft accounts net assets of the scheme. Mr Bulmer explained that there was flexibility for this to be higher but was seen as appropriate when comparing to other funds. The performance materiality, set at £24.60m was driven by the risk assessment based on the prior period. Mr Bulmer made the point that it had been good news that a 75% threshold had been used based on a low level of errors having been identified. The Audit Differences threshold was 5% of the Planning Materiality.

The timeline for the audit cycle in 2021/22 set out in the report was confirmed by Mr Bulmer. He commented that the audit had made significant progress and the draft audit results report would be on the agenda for the March meeting of the Committee. The external auditor would then be in a position to conclude the level of work on the Pension Fund and that would be subject to sign off as would be the case with the main audit.

He confirmed that climate and ESG related matters had become much more prominent in value for money assessments. It had impacts across public sector and private pension funds and internally was a big area of focus for Ernst & Young.

RESOLVED: That the report be **NOTED.**

14/23 COMMITTEE'S WORK PROGRAMME 2022/23

(Agenda No. 14)

Members reviewed the Audit & Governance Committee Work Programme. It was agreed that the following items would be added to, or amended in, the Work Programme:

- Counter Fraud Update (15 March 2023, 19 July 2023 and 29 November 2023)
- Annual Review of the Committee's Terms of Reference (15 March 2023)
- Local Code of Corporate Governance (15 March 2023)
- Chief Internal Auditor's Annual Report (10 May 2023)

- A broader Procurement Update than referred to in the entry for 10 May 2023
- Amendment to the entry for 10 May 2023 – Internal Audit Strategy & Annual Plan 2023/24
- Internal Audit Charter (19 July 2023)
- Governance Review Working Group (19 July 2023, 20 September 2023 and 29 November 2023)
- That the Work Programme sets out that the Audit Working Group Update is a standing item.

RESOLVED: The Audit and Governance Committee Work Programme be updated as set out above.

…….. in the Chair

Date of signing …….