

**AUDIT COMMITTEE**  
**25/06/2019 at 6.00 pm**



**Present:** Councillor Haque (Vice-Chair, in the Chair)  
Councillors Ahmad, Salamat, Iqbal and Hewitt

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Karen Murray	Mazars External Auditors
Alastair Newall	Mazars External Auditors
Lori Hughes	Constitutional Services
Lee Walsh	Finance Manager - Capital and Treasury

1           **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Dean, C. Gloster, Hobin, Larkin and Sheldon.

2           **URGENT BUSINESS**

There were no items of urgent business received.

3           **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4           **PUBLIC QUESTION TIME**

There were no public questions received.

5           **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the Audit Committee meeting held on 6<sup>th</sup> June 2019 be approved as a correct record.

6           **REVIEW OF THE ROLE OF THE HEAD OF INTERNAL AUDIT**

Consideration was given to a report which outlined how the role of the Head of Internal Audit (HIA) should operate in practice to deliver high quality Internal Audit leadership. The CIPFA Statement on the Role of the Head of Internal Audit was published on 9 April 2019 and set out how stakeholders across the organisation should engage with and support the HIA effectively. CIPFA highlighted the important role of Internal Audit in supporting those objectives and consideration that the HIA needed recognition for their contributions, together with support and encouragement. The report summarised the outcome of a self-assessment of the arrangements at Oldham Council to determine whether the Council was implementing the recommended principles. At Oldham Council, the role of the HIA is undertaken by the Head of Corporate Governance.

The CIPFA Statement on the Role of the HIA outlined five principles that should be demonstrated to ensure Internal Audit effectiveness in Local Government and the Statement acted as a guideline for the expected links between CIPFA's Core Principles for the Professional Practice of Internal Auditing and

the Role of the HIA. The principles underpinned the core activities and behaviours that were expected from the HIA and were supported by a suite of organisational, role based and individual supporting responsibilities that must be met. There were 79 supporting responsibilities in total. The outcome of the review for each principle was outlined in the report.

Members were informed of the organisational partners role which included Unity Partnership and MioCare and that amendments would need to be made to documentation such as the Audit Charter in the future.

Members made an observation that social care integration would need to be addressed as NHS organisations become more of a key partner.

**RESOLVED** that the outcome of the self-assessment by the Head of Corporate Governance to the CIPFA statement on the role of the Head of Internal Audit be noted.

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### **TREASURY MANAGEMENT REVIEW 2018/19**

Consideration was given to the report of the Director of Finance which outlined the Treasury Management Review for 2018/19.

The Council was required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities together with the actual prudential and treasury indicators for 2018/19. The report met the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (approved 28 February 2018);
- A mid-year (minimum) treasury update report (approved 12 December 2018); and
- An annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment placed responsibility on Members for the review and scrutiny on treasury management policy and activities. The report was therefore important as it provided details of the outturn position for treasury activities and highlighted compliance with the Council's policies previously approved by members.

The Council confirmed that it had complied with the requirements under the Code to give prior scrutiny to all of the above treasury management reports. The Audit Committee was charged with the scrutiny of treasury management activities in Oldham and was therefore requested to review the content of the report prior to its consideration by Cabinet and Council. A programme of Treasury Management training had been

developed in conjunction with the Link Asset Services, the Council's Treasury Management advisors.



During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailed the impact of capital expenditure activities during the year with comparators as outlined in the report.

The actual capital expenditure was less than the revised budget estimate for 2018/19 presented within the 2018/19 Treasury Management Strategy Report considered at the Council meeting held on 27 February 2019. The outturn position was significantly less than the £89.658m original capital budget for 2018/19 as approved at Budget Council on 28 February 2018. During the course of the year, the Capital Programme had seen substantial rephasing. A number of major schemes were re-phased or re-aligned into future years to allow for either a review of the scheme or to align with revised project timelines.

No borrowing had been undertaken during the year. This was because of the policy of self-financing which was utilised due to the uncertainty around interest rates and the availability of cash, and the Council used cash reserves rather than incur additional borrowing costs. Other prudential and treasury indicators were outlined in the report. The Director of Finance confirmed that the statutory borrowing limit (the Authorised Limit) had not been breached and that the financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

Members were provided with a briefing note which highlighted the position for 2018/19 which included compliance with statutory requirements, outturn on capital expenditure, capital finance requirements, treasury position and investment portfolio. The finance team had exceeded the target set for themselves in relation to a rate of return on investments made.

Members commented on the good performance of the Finance Team with regard to treasury management activities and also congratulated them on the performance on the Accounts and recorded their thanks to the officers for a job well done.

**RESOLVED that:**

1. The Actual 2018/19 prudential and treasury indicators presented in this report be approved.
2. The Annual Treasury Management Review Report for 2018/19 be approved.
3. The Treasury Management Review Report for 2018/19 be commended to Cabinet.

**EARMARKED RESERVES POLICY FOR 2018/19 TO 2019/20**

Consideration was given to a report which provided information on the proposed Reserves Policy of the Council for the financial

years 2018/19 to 2019/20 and incorporated any views into the final policy.



Since the financial year 2014/15, the Council had developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy. The presentation of the policy introduced improved transparency into this process which had previously been managed at the discretion of the Chief Financial Officer when the closure of the Finance Accounts had been undertaken.

The Committee were advised that there had been several reports issued by the National Audit Office (NAO) on the subject of financial resilience within Local Authorities alongside a recent proposal by the Chartered Institute of Public Finance & Accountancy (CIPFA) for a Local Authority Financial Resilience Index. These issues had been prompted by the risk of financial failure at Northamptonshire County Council during 2018. The policy was presented to both review and provide assurance that the Council managed its reserves effectively. The Reserves Policy, as appended to the report, presented the Council's strategic approach to the creation and maintenance of reserves.

Members were advised that financial resilience was a key indicator of the financial stability of the Council and that the level of reserves was central to this. There was, however, no set formula to determine an appropriate level of reserves and the local circumstances of Councils had to be considered.

Members were informed there had only been small movement in the level of reserves from the end of 2017/18 to 2018/19. The 15 categories of reserves were highlighted to Members. Actual and highlighted major reserves were set out in the policy.

The management of reserves were reviewed at the end of the year and any reserves no longer needed would be released. It was important to recognise flexibility at the end of the year and the Director of Finance would use this flexibility to determine the level of reserves when needed. The in-year use of reserves was reported to Cabinet as part of the financial monitoring reports.

Members questioned the reserves for Brexit and if there were any conditions on the allocation received from Government. Members were informed that the authority had been allocated £105k in the previous financial year and a further £105k this financial year to be used to support any issues which arose out of Brexit initiatives. There was a degree of flexibility in the use of the funding and the same amount had been provided to each authority with the powers and responsibilities as Oldham. The resource had not yet been called upon.

Members asked about the reserves earmarked for Property Strategy and were informed this was to finance the undertaking of any due diligence exercises required in relation to a commercial property investment.

**RESOLVED** that the Reserves Policy for 2018/19 to 2019/20 be noted as suitable from a governance perspective.

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### **EXTERNAL AUDIT: AUDIT UPDATE REPORT**

Consideration was given to the Audit Progress Report 2019 produced by the external auditor Mazars LLP. The report included key information that the external auditors wished to bring to the attention of the Committee and provided an update on progress in delivering their responsibilities as the external auditor.

The External Auditor had completed their detailed interim audit work which included:

- Obtaining documentation of controls in the Council's key financial systems;
- Testing transactions through the year to date to reduce the level of testing required at the final audit visit;
- Meeting with finance staff for the clarification of requirements and expectations;
- Issuing the 'Client Deliverable List' which set out the expected working papers and supporting information required to complete the final audit visit;
- Commencing and predominantly completing the final visit audit work on the Council's 2018/19 draft financial statements;
- Completing the audit fieldwork for the 2018/19 VFM Conclusion; and
- Ongoing liaison discussions held with Internal Audit colleagues as part of the approach to maintain an accurate understanding of the Council.

At the time of drafting the report, the final audit fieldwork was in the final stage and there were a small number of audit queries to resolve. The receipt of external assurances on the pension liability valuation and valuations related to the investment in Manchester Airport were awaited. However, there were no significant matters which were required to be reported.

The external auditors highlighted the national publication section which may be of interest from the Audit Office, CIPFA and the Local Government Association (LGA).

**RESOLVED** that the Audit Progress Report be noted.

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### **AUDIT COMPLETION REPORT: YEAR ENDING 31 MARCH 2019**

Consideration was given to a report which presented the Council's draft Audit Completion Report for the year ending 31 March 2019 as prepared by the External Auditor, Mazars LLP.

The report advised of the key issues related to the audit of the 2018/19 Statement of Accounts. The detailed scope of the work

as the appointed auditor for 2018/19 was set out in the National Audit Office's (NAO) Code of Audit Practice. The external auditor's responsibilities and powers were derived from the Local Audit and Accountability Act 2014 and as outlined in the Audit Strategy Memorandum. The audit was conducted in accordance with the International Standards of Auditing (UK) and focused on audit risks that the external auditors had assessed as resulting in a higher risk of material misstatement.

The report outlined the detailed findings from the auditors' work on the financial statements and the conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. The report included the conclusions on the audit risks and areas of management judgements.

At the time of drafting the report, the audit of the accounts had been substantially completed, however, several items remained which required resolution. These items were in the main outside the control of the Council and included investment property, pension liability, long term investments, testing of general IT controls and signed final statements and management representation letter.

The scope of the work which included identifying significant audit risks, key audit matters and other areas of management judgement was outlined in the Audit Strategy Memorandum considered by the Audit Committee on 10 January 2019. Consideration was given to an additional area of management judgement as part of the audit which was the methodology and assumptions underpinning the Council's valuation of its investment in Manchester Airport Holdings Limited.

The external auditors would issue an unqualified opinion. The period of inspection for objections had passed and no objections had been received. The external auditors were grateful for the level of cooperation and the high-quality statements. The accounts had been ready well in advance of the deadline. There were some outstanding issues, but these had reduced since the time of the production of the report. The external auditors were still waiting for the outcome of a national issue related to pensions and those liabilities may need to be taken into account on the valuation. A report on the final position was due later in the week and was likely to have an immaterial difference to the accounts.

Section 3 set out the risks and with the exception of the pensions issue referred to earlier there was nothing to be reported. The investment in Manchester Airport Group referred to in the report had been resolved.

Other than some non-material adjustments as described in Section 5 of the report, there were no significant matters arising from the audit of the Group Financial Statements consolidation process. There were internal control recommendations. The external auditors highlighted pension liability, MioCare and Unity Partnership.

The Value for Money Conclusion was a positive statement. The Council had arrangements in place for effective use of resources and managed its finances effectively. The external auditors referred to the Ofsted outcome and concluded that it did not qualify as a risk.

The external auditors expressed their sincere thanks for the significant support and assistance of the Council's finance team.

**RESOLVED** that the draft Audit Completion Report for the year ending 31<sup>st</sup> March 2019 be noted.

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## **2018/19 STATEMENT OF ACCOUNTS**

Consideration was given to a report of the Director of Finance which outlined the Audit Committee was charged with the scrutiny and approval of the Statement of Accounts. The report presented the Council's Statement of Accounts for the financial year 2018/19.

The report highlighted the following:

- The overall revenue outturn position for 2018/19 had a surplus of £0.849m. This was an increase on the favourable variance of £0.255m projected at month 9 that was reported to Cabinet on 25 March 2019.
- The year-end variances that were attributable to each portfolio.
- Schools balances at 31 March 2019 were £6.925m but were offset by the deficit on the Dedicated Schools Grant (DSG) of £2.723m leaving a net balance of £4.202m held with other earmarked reserves.
- The final Housing Revenue Account (HRA) balance was £21.305m.
- The balance on the Collection Fund was a surplus £4.147m.
- The small reduction in revenue account earmarked reserves of £2.108m to a level of £80.623m, an increase in other earmarked reserves to a level of £12.935m and an increase in balances to £14.840m reflective of the revenue outturn position.
- Expenditure on the Council's Capital Programme for 2018/19 was £48.564m which was a small increase on the month 9 forecast of £48.267m. The increase in expenditure required funding allocated to future years to be re-profiled to fully finance the Capital Programme in 2018/19.
- Capital receipts in year totalled £6.180m, which when taken with the brought forward balance, gave a total of £14.927m, which was used to finance the Capital Programme in year.
- The significant items in each of the primary financial statements.
- A small number of changes to the draft Statement of Accounts.

- The high level of performance of the Finance Team in closing the accounts to such accuracy and in a shortened timescale.

The presentation of the audited Statement of Accounts provided the Audit Committee with the opportunity to review the Council's Statement of Accounts and any amendments made to date as a result of the audit process and following the conclusion of the period for public inspection.

The Committee were advised that at the time of the publication of the agenda, the audit, although substantially completed, required the resolution of an outstanding item related to the measurement of Pension Liability. This had been delayed due to a national issue involving two legal cases. As it had been anticipated, that it was unlikely that the national issue would have been resolved by 25 June 2019, the External Auditor was content with the recommendation that the Committee consider the accounts, but delegated the final approval of the Council's Statement of Accounts (once there had been a national resolution on the pensions issue) to the Vice Chair of the Audit Committee and the Director of Finance on receipt of advice of the External Auditor.

Having regard to the comments of the External Auditor included in reports considered previously on the agenda, revised group accounts were provided to the Committee members. However, it was noted that there was no impact on the outturn presented to the Audit Committee on 6 June 2019. The Committee was informed that the report had been issued with the agenda papers whilst there was still some work ongoing.

Members asked about their ability to review the accounts of the organisations included in the group accounts and were informed that Members sat on MioCare and Unity Partnership Boards and were able to ask questions on the financial position of the respective organisations. Members were informed that MioCare worked on a different financial year which ended in December and its accounts for 2018 had already been subject to an external audit review and had been approved. The audit of the Unity accounts had yet to be completed but would be brought to a future meeting. Members were advised that undertaking the transactions to reflect a part-year acquisition of Unity had been complicated.

**RESOLVED that:**

1. The Council's Statement of Accounts be accepted subject to the conclusion of the national pensions matter for which the Council was awaiting the advice of the External Auditor.
2. The Management Letter of Representation be noted.
3. Delegation of approval of the Council's Statement of Accounts to the Vice Chair of the Audit Committee and the Director of Finance on receipt of advice from the External Auditor be approved.

The meeting started at 6.00 pm and ended at 6.52 pm

