

***AUDIT COMMITTEE
Regulatory Committee
Agenda***

Date Thursday 9 September 2021

Time 6.00 pm

Venue Crompton Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL

Notes

1. DECLARATIONS OF INTEREST- If a Member requires advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or at least 24 hours in advance of the meeting.
2. CONTACT OFFICER for this agenda is christine.wood@oldham.gov.uk
3. PUBLIC QUESTIONS - Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the contact officer by 12 noon, Monday, 6 September 2021.

MEMBERSHIP OF THE AUDIT COMMITTEE

Councillors Ahmad, Alyas, Briggs, Dean, C. Gloster, Islam (Vice-Chair), Lancaster, Salamat and Surjan

Item No

- 1 Apologies For Absence
Committee to receive any apologies for absence.
- 2 Urgent Business
Urgent business, if any, introduced by the Chair
- 3 Declarations of Interest
To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.
- 4 Public Question Time
To receive Questions from the Public, in accordance with the Council's Constitution.



5 Minutes of Previous Meeting (Pages 1 - 8)

The Minutes of the Audit Committee held on Thursday, 29th July 2021 are attached for approval.

6 Audit Findings Report 2020/21 (to follow)

Report to follow.

7 Statement of Accounts 2020/21 (to follow)

Report to follow.

8 Update on Financial Administration in Local Authorities (Pages 9 - 16)

A report to advise the Audit Committee of the recent Section 114 notices and associated reports issued by the Chief Finance Officers (Section 151 Officers) at two Local Authorities (the London Borough of Croydon and Slough Borough Council) and provide information on the recent capitalisation directions issued by the Ministry of Housing, Communities and Local Government to support the financial position of several Local Authorities during 2020/21 and 2021/22.

9 Work Programme for Performance Overview and Scrutiny Committee 2021-2022 (Pages 17 - 24)

10 Proposed Audit Committee Work Programme for 2021/22 and early 2022/23 (Pages 25 - 30)

11 Exclusion of the Press and Public

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

12 Update on the Annual Governance Statement for 2020/21 and New Issues (Pages 31 - 46)

13 Business Grants Scheme Assurance (Pages 47 - 58)

14 Update on the Corporate Risk Register 2021-2022 (Pages 59 - 68)



AUDIT COMMITTEE
29/07/2021 at 6.00 pm

Present: Councillor
Councillors Ahmad, Alyas, Dean, C. Gloster, Islam (Vice-Chair),
Lancaster, Salamat and Surjan

Also in Attendance:

Anne Ryans – Director of Finance
Mark Stenson – Assistant Director of Finance for Corporate
Governance and Strategic Financial Management
Lee Walsh – Finance Manager – Capital and Treasury
Christine Wood – Constitutional Services

Karen Murray – Mazars LLP – External Auditor

Councillor Woodvine

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Briggs
and Salamat*.

* Councillor Salamat attended the meeting from 6.05pm.

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 previous meeting held on
29th June 2021 be approved as a correct record.

6 **RESERVES POLICY FOR 2020/21 TO 2021/22**

Consideration was given to a report submitted to the Committee
presenting the proposed Reserves Policy of the Council for the
financial years 2020/21 to 2021/22 and to incorporate any views
into the final policy.

The Committee was reminded that the Council had developed a
strategic approach to the creation and maintenance of reserves
through the development of a Reserves Policy and the
presentation of the Policy to the Audit Committee. The aim is to
improve the transparency of the level of and the use of reserves.

It was reported that because resources were becoming even
more scarce, any money set aside needed to both support the

priorities of the Council and prevent unforeseen expenditure/events impacting on year-on-year budgets wherever possible. The Committee was advised that the following needed to be considered in relation to decision making around reserves:

- Undertaking an annual review to ensure reserves align with Medium Term Financial Strategies; and
- Having clarity about what earmarked reserves are for; and
- Ensuring earmarked reserves held to mitigate financial risk reflected an up-to-date assessment of risk; and
- Monitoring the level and use of reserves over recent years and comparing the Council's approach to other organisations facing similar circumstances; and
- Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves; and
- Ensuring significant or unexpected variations to budget are dealt with.

The Committee was assured that the Council meets the criteria as detailed above through the regular review of reserves, the Revenue Budget Monitoring reports presented to Cabinet, the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudent of Capital Investment Reports presented alongside the Revenue Budget Report to Council and the production of the Annual Reserves Policy.

It was reported in the second CIPFA Resilience Index published in February 2021 (presenting information in relation to the financial year 2019/20), that none of the Oldham indicators were considered as extremely high risk or a cause for immediate concern. However, there is a challenge in that the Index is a backward look and that consequently the information contained in the Index as at the end of 2020/21 was likely to be out of date by the time it was published and would also be greatly impacted by the issues arising from Covid in 2020/21.

The future impact of the pandemic is unclear. The reserves of the Authority were therefore important in providing support for the financial position giving time for any required budgetary adjustments to be made.

The Committee was advised that the 2020/21 to 2021/22 reserves policy, which was attached to the report at Appendix 2, had been prepared, following the finalisation of the financial outturn position at the end of 2020/21 and after a risk-based review by the Director of Finance, having regard to Corporate Priorities. Fourteen major Earmarked Reserves had been included in the Policy which were detailed in Appendix 1 as attached to the report. Details pertaining to the 14 major Earmarked Reserves were also outlined within the report.

It was reported that the accounts were closed with a balance of Earmarked Reserves of £133.512m (an increase of £34.152m),

Revenue Grant Reserves of £20.145m (an increase of £12.212m) and Schools Reserve of £9.306m (an increase of £3.819m). In total, reserves are £142.964m, an overall increase of £50.183m. Overall, reserves were increased in part due to the receipt of some Covid specific grants (including £25.182m compensation for Business Rates reliefs awarded in 2020/21). Covid specific reserves will be used in 2021/22.

It was reported that the level of reserves held at the end of 2020/21, which were detailed within the Summary of Earmarked Reserves 2020/21 were deemed sufficient to ensure the Council's financial resilience for 2021/22. The Committee noted that there had been an immediate call on Earmarked Reserves at the beginning of the year to reflect the use of reserves to balance the budget for 2021/22 of £42.012m (37%) leaving a balance of £71.501m. Of this balance, a further £12.297m was proposed to be used to support the revenue budget in 2022/23 leaving a remaining balance of £59.204m available for use.

The Policy sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use.

In response to queries from Members, it was confirmed that:

- There is no set formula for deciding the appropriate level of reserves,
- Applications to use reserves are considered on a case-by-case basis.
- The Council remains financially resilient.
- There was no timescale for the use of reserves but if left unused, the retention of the reserve will be challenged
- Whilst there was concern in the past that some Authorities had very high reserves and were therefore not utilising their resources effectively, there is now concern that some Authorities have insufficient reserves. This has been demonstrated by a number of Authorities recently requesting financial support from the Ministry of Housing, Communities and Local Government.

In response to clarification sought by Members, it was acknowledged that overall reserves had been increased due to the receipt of the Covid specific grants (including £25.182m compensation for Business Rates reliefs awarded in 2020/21 and retained for use in 2021/22) and that this has had the effect of abnormally increasing reserves. However, the position is the same for all Authorities awarding Business Rate reliefs and with unspent Covid specific grant at the end of 2021/22.

In response to concerns regarding use of reserves to support the budget, the Committee was advised that the current Medium-Term Financial Strategy has been prepared on the basis of utilising reserves to allow time for transformational activity to be undertaken to address the underlying budget challenge.

RESOLVED – That the Audit Committee approve the proposed Reserves Policy for 2020/21 to 2021/22.

7

EXTERNAL AUDIT - AUDIT COMPLETION REPORT

Consideration was given to the Council's Audit Completion Report (ARC) which was attached to the report at Appendix 1 for the year ending 31st March 2021 as prepared by the Council's External Auditor, (Mazars LLP). The ARC advised of the key issues in relation to the audit of the 2020/21 Statement of Accounts.

The ARC advised that the impact of the Covid-19 pandemic on the audit had been significant for a second audit year. It was reported that although the Council's finance team and management had co-operated fully throughout the audit, the requirement for the Mazars Audit team and Council staff to work remotely had meant that the audit work had taken longer to complete and finalise than would ordinarily be the case. The Council's finance and audit teams were thanked by the External Auditor for their support during the process.

The Committee was advised that work was nearing completion. Details of outstanding matters in relation to the audit were highlighted in section 2 of the Audit report (Status of the Audit).

The Committee was reminded that details of the intended audit approach in Mazars Audit Strategy Memorandum had been presented to the meeting of the Audit Committee in June 2021 and that no changes to the approach had been made following this. Details of the approach were highlighted in section 3 of the Audit report (Audit approach).

Findings on individual key audit matters, along with how the audit had addressed the key audit matters were highlighted in the Audit Report in section 4 (Significant Findings).

One recommendation was made in relation to internal controls in section 5 of the Audit Report (Internal control recommendations) at level 3 (low level) in relation to the Housing Benefit to General Ledger reconciliations.

Outlined in the Audit Report at section 6 (Summary of misstatements) were the misstatements that had been identified during the course of the audit and details of misstatements that had been adjusted by management during the course of the audit. It was reported that based on the work completed to date, there were no significant adjusted misstatements to bring to the attention of the Committee.

In response to an issue that had been highlighted in section 5 of the Audit Completion Report, in relation to Housing Benefit to General Ledger reconciliations, it was suggested and agreed that an update report be presented to a future meeting of the Committee, in relation to the matter.

In response to clarification sought around an error as detailed in Section 6 of the Audit Report, “testing of income received after the year end identified one government grant for £228k which related to a 2020/21 grant but had been received in May 2021” it was clarified that when the grant was received, the Council had already passed its cut-off date for the inclusion of transactions in the 2020/21 accounts and had recognised this income in 2021/22. The Committee was advised that by applying the audit methodology, the £228k error had been extrapolated, and if the error was representative of the whole population, short term debtors and costs of services income would be understated by £1,174k. It was explained to the Committee that the Council was working to an accelerated timetable and a management decision had been taken not to reopen the accounts due to the work, time and effort that would be required for such a comparatively small sum.

In response to queries from Members:

- In relation to Value for Money (VFM) opinion, Members were advised that this would be provided with the Auditors Annual Report at the final conclusion of the audit, but so far, no significant weaknesses had been identified that would lead to the making of a recommendation.
- In relation to whether it the Committee should be apply more scrutiny to the company and partnership arrangements of the Council, the Committee was advised that although some other Authorities had experienced financial difficulties as a result of companies /partnerships, Oldham was an authority taking less risks which limited any potential financial impact and that consequently this is not a priority issue for External Audit.

RESOLVED –

1. That the Council’s draft Audit Completion Report for the year ending 31st March 2021 be noted; and
2. That an update report be presented to a future meeting of the Committee regarding the Internal Control recommendations relating to the Housing Benefit to General Ledger reconciliations as detailed in Section 5 of the Audit Completion Report.

8

2020/21 ANNUAL STATEMENT OF ACCOUNTS

Consideration was given to a report presenting the 2020/21 Draft Statement of Accounts which was attached to the report at Appendix 1.

The Committee was advised that the Council had submitted its draft financial statements to the External Auditors, Mazars LLP, on 6th June 2021 which had been a little later than anticipated due to the impact of the pandemic. To facilitate the audit process, the Council had made working papers available to the auditors prior to the handover of the Statement of Accounts.

The public inspection had commenced on 17th June 2021 and had concluded on 28th July 2021. No objections were received.

The Committee was reminded that the draft Statement of Accounts had been presented, with a covering report outlining key issues to the meeting of the Committee on 29th June 2021. This had provided members of the Audit Committee the opportunity to consider the key issues and ask officers and the External Auditor any relevant questions. All matters that had been raised had been addressed at that meeting to the satisfaction of the Committee.

The reported highlighted the following:

- The overall revenue outturn position for 2020/21 was a surplus of £2.153m
- The year-end variances that are attributable to each Portfolio
- The level of Grants received in relation to the COVID-19 Pandemic
- School balances as 31st March 2021 were £9.306m
- The Dedicated Schools Grant (DSG) deficit was £3.560m which is now held in an unusable reserve rather than being netted off the Schools balances (as presented in the accounts in previous years)
- The final Housing Revenue Account (HRA) balance was £21.370m
- The balance on the Collection Fund was a deficit of £27.213m
- The revenue account earmarked reserves at £113.512m, other earmarked reserves at £29.452m (Revenue Grant Reserves of £20.145m plus School Balances as above) and an increase in the General Fund balance of £2.153m to £17.263m, reflective of the revenue outturn position
- Expenditure on the Council's Capital Programme for 2020/21 was £73.22m which is an increase on the month 9 forecast expenditure of £71.012m. The increase in expenditure required funding allocated to future years to be re-profiled to fully finance the Capital Programme in 2020/21
- The significant items in each of the primary financial statements
- The preparation of Group Accounts incorporating the Council's two wholly owned companies – the Unity Partnership Ltd. And MioCare Community Interest Company
- The Annual Governance Statement
- The performance of the Finance Team in closing the accounts.

It was reported that the audit of the Accounts was now substantially complete with a few significant outstanding items, which were outlined within the report, along with some other small items that needed to be completed.

As the outstanding matters had not been resolved, The External Auditor was content with a recommendation that the Committee considered the accounts but **Page 6** rejected the final approval of the

Council's Statement of Accounts, on resolution of the outstanding items, to the Vice-Chair of the Audit Committee having regard to the advice of the Director of Finance and the External Auditor. Also attached to the report at Appendix 2 were details of the changes to date, to the Draft Statement of Accounts. The Committee was requested to consider the Accounts and the changes made.

It was further reported that the audit process could not be fully finalised until all remaining issues were resolved and the Whole of Government Accounts (WGA) audit was completed, and that the WGA audit could not be undertaken yet and was programmed for later in the year. Mazars LLP was required to provide the Council with an Annual Audit Completion Report (as referred to in item 7). The Committee was advised that no material errors had been identified for the 12th successive year.

The Committee was reminded that this was the third year that the Council's audit had been undertaken by Mazars LLP, and that due to the Covid-19 pandemic, extensive testing had been conducted, including the examination of samples and more in-depth review of processes. It was reported that the overall audit process, to date, had been positive and despite the additional testing, the ACR had resulted in one low priority ranking recommendation regarding Housing Benefit reconciliations (as referred to in item 7).

In addition to the Statement of Accounts, the Committee was required to note the Management Letter of Representation which was attached to the report at Appendix 3. This was a formal letter prepared by the External Auditor but signed on behalf of the Council by the Director of Finance. The letter attested to the accuracy of the financial statements, which the Council had submitted to the auditors for their analysis. The Management Letter of Representation enabled the Council to declare in writing the Statement of Accounts and other presentation to the Auditors were sufficient and appropriate and without omission of material facts, to the best of management knowledge. This letter was used by the Auditor as part of the audit evidence.

In response to queries from Members, it was confirmed that:

- There will be Code changes implemented for the closure of the accounts for 2021/22 but the Council does not see these Code changes as having a significant impact on the accounts.
- As part of the ongoing development of the Audit Committee, training is being arranged by the Council external advisors and constitutional services are arranging an appropriate date.

RESOLVED – That the Audit Committee:

1. Note the Council's Statement of Accounts for 2020/21; and
2. Note the Management Letter of Representation; and
3. Delegate the approval of the Council's Statement of Accounts to the Vice-Chair of the Audit Committee having regard to the advice of the Director of Finance and the External Auditor.

9

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraphs 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

10

FEEDBACK ON FINANCIAL REPORTING COUNCIL (FRC) REVIEW OF EXTERNAL AUDIT

A report was submitted to present the findings of the independent review of the external auditor which were detailed in Appendix 1, as attached to the report.

RESOLVED – That the Audit Committee note the findings of the Independent Review undertaken by the FRC into the work of our external auditor.

The meeting started at 6pm and ended at 7.15pm.



Oldham
Council

Report to Audit Committee

Update on Financial Administration in Local Authorities

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

Officer Contact: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Report Author: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

Ext. 4783

9 September 2021

Purpose of Report

The purpose of this report is to advise Members of the recent Section 114 notices and associated reports issued by the Chief Finance Officers (Section 151 Officers) at two Local Authorities (the London Borough of Croydon and Slough Borough Council) and provide information on the recent capitalisation directions issued by the Ministry of Housing, Communities and Local Government to support the financial position of several Local Authorities during 2020/21 and 2021/22.

Executive Summary

The detailed information published in the public domain for the London Borough of Croydon has identified that the Scrutiny Committee should have better held the Executive of the Council to account in ensuring operational services spent within their agreed budget allocation and on oversight of Council's partnerships. This report has been prepared to assist the Committee to:

- a) discharge its future Scrutiny function in ensuring there is consideration that the Council effectively manages its budget and oversees partnerships arrangements.
- b) appropriately consider the work programme included elsewhere on the Agenda.

Recommendations

The Committee notes the report and utilises the information provided when considering the work programme elsewhere on the Agenda.

Update on Financial Administration in Local Authorities**1 Background**

- 1.1 The Performance Overview Scrutiny Committee within the Council has responsibility for scrutinising the deliverability of the Council's agreed budget and providing oversight of key partnerships. In this regard, the Scrutiny Committee considered an update report on the Financial Administration in Local Government at its meeting on 26 August 2021. It is important to bring the matters outlined in that report to the attention of the Audit Committee as the Committee also has a key role in such matters.
- 1.2 The issuing of the Section 114 notice at the London Borough of Croydon has been subject to review by the Ministry of Housing, Communities and Local Government (MHCLG) Select Committee. This, alongside the Public Interest report issued by the External Auditor in relation to the London Borough of Croydon, has identified the importance of effective Scrutiny to ensure that services deliver within their agreed budget envelope. The view expressed to the MHCLG Select Committee was that if Croydon had brought under control the budget in the overspending areas of Children's and Adults Social Care, the Council would not have needed to engage in high risk commercial investments to generate extra income to balance its budget.
- 1.3 Events have also identified a lack of oversight of partnerships in several Authorities resulting in historic losses materialising in the 2020/21 accounts. This has contributed to the issuing of the Section 114 notices at both Slough and Croydon. It has also led to certain Authorities such as Nottingham City Council having to obtain a capitalisation direction from the MHCLG to set a balanced budget for 2021/22.

2 London Borough of Croydon**Section 114 notice**

- 2.1 During 2020, the Section 151 Officer at the London Borough of Croydon issued two Section 114 notices (explanation of such a notice attached as Appendix 1) which limited the spending of the Council to statutory and contractual items. To balance its revenue budget for the financial year 2020/21, the Council relied on a substantial contribution in respect of anticipated loan interest (on money advanced to fund construction) from its wholly owned Housing Company (named Brick by Brick). The company had not achieved the level of construction it anticipated as per its business plan and therefore was not able to repay these loans and the interest due to the Council in the financial year 2020/21.
- 2.2 The information provided to the MHCLG Select Committee to consider the challenges, identified that the system for oversight of the partnerships within the Borough was poor and those Members who had a governance role (both Scrutiny and Audit) to hold the Executive to account, did not discharge their duty effectively. It has been reported, as an example, that when reports were presented to Scrutiny by Brick to Brick, that key information was not made available. With hindsight the Scrutiny Committee should have insisted this information was made available.

Public Interest Report

- 2.3 The Public Interest report prepared by the External Auditor identified several instances of poor governance linked into the oversight of the Housing Company, management of other Council owned companies and other commercial investments. In addition, reports in the

local press indicate the External Auditor is undertaking a value for money review of a significant refurbishment of a major cultural venue overseen by the Housing Company which has now cost the Council £70m (significantly over the original budget). The original intention was that the refurbishment costs were to be financed from the profits of a housing development on land next to the cultural venue. This housing development has not yet taken place and following a recent review by the Council, the development will not now be undertaken by its wholly owned housing company. As such the Council has had to finance the costs of the refurbishment from its own capital resources, with a direct impact on financing costs which are charges against the revenue budget on an annual basis. In addition, the accounting arrangements applied to the 2019/20 Croydon Statement of Accounts (now the Council is funding the scheme) are under consideration. These have the potential to affect the reported level of general balances previously presented by the Council.

Capitalisation Direction

- 2.4 The capitalisation direction (the ability to finance revenue expenditure as if it was capital spending) has now been agreed by the MHCLG for the financial year 2020/21 at a level of £70m, with the principle agreed that there may be a further capitalisation direction totalling £50m for the financial year 2021/22. This has enabled Croydon to set a balanced budget by borrowing money from the Public Works Loan Board (at an enhanced rate of interest) in order to underpin its revenue budget. This money and the associated interest will need to be repaid by the Council in line with its Minimum Revenue Provision (MRP) policy. Indications on the provisional out-turn are that the overspend for the financial year 2020/21 is just below the maximum capitalisation level of £70m although, the unresolved issues on accounting for the costs associated with the cultural venue and previous loan interest to be received from the housing company, could impact on both the 2019/20 and 2020/21 financial position.

Government Intervention

- 2.5 One condition for Croydon receiving the agreed financial support has been the appointment of an Improvement and Assurance Panel, to ensure going forward, that the Council is operated on a sound footing. The Panel has produced two reports for the MHCLG which are made available in the public domain. The second report highlights the financial position remains extremely challenging and will take some time to resolve.

3 Slough Borough Council

- 3.1 On the 2 July 2021 the Interim Section 151 Officer at Slough Borough Council issued a Section 114 notice for Slough Borough Council. This followed the External Auditor only considering signing off the accounts for the financial year 2018/19 if an adjustment was processed which reduced the agreed level of general balances to £0.550m. The adjustment related to the Council overstating the income it expected to receive from a joint venture (set up for commercial purposes). Such an adjustment impacted on the 2019/20 and 2020/21 accounts which are currently undergoing audit and could be subject to an adjustment which further reduces the level of general balances.
- 3.2 The impact on the 2019/20 and 2020/21 accounts is currently being worked through. However, the interim Section 151 Officer was of the view that the Council was effectively bankrupt and issued the Section 114 notice estimating that the level of general balances as of 31 March 2021 would be -£56m (a deficit of £56m). Effectively the interim Section 151 officer has identified that the Council did not set balanced budgets for the financial years 2018/19, 2019/20, 2020/21 and 2021/22. In this officer's report to Council in July when the Section 114 notice was discussed, the officer highlighted that the Council had

not charged MRP appropriately to its revenue account since the 2016/17 Statement of Accounts. This therefore meant that the cost of its borrowings, which had increased substantially over the last five years, had been understated in the accounts. Prior to the appointment of the Interim Section 151 Officer, the Council had requested a capitalisation direction of £15.2m. Recent information in the public domain indicates this will now need to be increased as this is expected to be insufficient to address the underlying financial position.

4 Capitalisation Directions

4.1 In addition to the two Authorities who have had Section 114 Notices issued by their Section 151 Officer, the MHCLG has agreed to capitalisation directions at the Authorities detailed below:

- Peterborough City Council
- Eastbourne Borough Council
- The London Borough of Bexley
- Luton Borough Council
- Nottingham City Council
- Wirral Metropolitan Borough Council
- Redcar and Cleveland Unitary Authority
- Copeland Borough Council

4.2 Whilst the circumstances of each Authority requesting a capitalisation direction are linked into their own unique circumstances, some common themes are emerging as to why such a direction is required. These are:

- a failure to set aside sufficient MRP to cover the cost of borrowing undertaken;
- setting a budget with a very low level of general balances (as such the ability of the authority to absorb a financial shock is minimal); and
- poor partnership governance of wholly owned companies.

4.3 In reviewing its work programme, it is suggested that this Committee liaises with the Performance Overview and Scrutiny Committee to ensure adequate oversight of these areas within the Council.

4.4 One condition of this extra Government support is that each Council must commission a review of its financial administration including its financial resilience. The Chartered Institute of Public Finance and Accountancy has been commissioned to undertake each of these reviews. As such, further information on the financial practices of these Authorities is likely to be considered in the public domain once these external reviews have been concluded.

5 Impact on the Future Work Programme of the Performance Overview and Scrutiny Committee and Audit Committee

5.1 The findings as per the report produced by the MHCLG Select Committee indicate that the primary failure at the London Borough of Croydon was the inability of the Council to deliver a balanced budget with overspendings on certain service areas not being challenged. The Select Committee therefore considered it appropriate to incorporate the need for effective budget scrutiny into its work programme. The Audit Committee, therefore, will need to consider how its work can complement this approach.

6 Actual Work Programme

6.1 The suggested work programme is also on the agenda of the Audit Committee. This report is aimed at ensuring Members of the Committee consider how the work programme is shaped to address all areas deemed appropriate.

7 Consultation

7.1 N/A.

8 Financial Implications

8.1 N/A.

9 Legal Services Comments

9.1 N/A.

10 Cooperative Agenda

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 Risk Assessments

12.1 N/A

13 IT Implications

13.1 N/A.

14 Property Implications

14.1 N/A.

15 Procurement Implications

15.1 N/A.

16 Environmental and Health & Safety Implications

16.1 N/A.

17 Equality, community cohesion and crime implications

17.1 N/A.

18 Equality Impact Assessment Completed?

18.1 N/A.

19 **Key Decision**

19.1 N/A.

20 **Forward Plan Reference**

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: MHCLG Local authority financial sustainability and the section 114
<https://publications.parliament.uk>
Report in the Public Interest concerning the Council's financial position and related governance arrangements – London Borough of Croyden
<https://www.croydon.gov.uk>

Officer Name: Mark Stenson
Contact No: Extension 4783

22 **Appendices**

22.1 Appendix 1 - A Section 114 Notice

What is a S114 Notice?

Within the Local Government Finance Act 1988, Section 114 (3) dictates that:

“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

In general terms this means that for Local Government, it is the Chief Finance Officer or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council's leadership on its financial plans. Uniquely across the public sector however, the CFO also has the power and responsibility to legally suspend spending for a period of time if they judge the council does not have a balanced budget or the imminent prospect of one.

What happens when a S114 Notice is issued?

It means that no new expenditure is permitted, with the exception of safeguarding vulnerable people and statutory services, however existing commitments and contracts will continue to be honoured.

Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.

The only allowable expenditure permitted under an emergency protocol would include the following categories:

- existing staff payroll and pension costs
- expenditure on goods and services which have already been received
- expenditure required to deliver the council's provision of statutory services at a minimum possible level
- urgent expenditure required to safeguard the vulnerable citizens
- expenditure required through existing legal agreements and contracts
- expenditure funded through ring-fenced grants
- expenditure necessary to achieve value for money and / or mitigate additional in year costs

Councillors have 21 days from when a Section 114 notice is issued to discuss the implications at a Full Council meeting.

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PERFORMANCE OVERVIEW AND SCRUTINY COMMITTEE

WORK PROGRAMME 2021/22

<p>Thursday 24 June 2021</p> <p>As a result of guidance indicating that the number of people who gather indoors should be restricted and noting current Covid infection rates, the expiry of Regulations which removed the legal requirement for meetings to be held in person, and the nature of the programmed business, the programmed business was considered in an informal setting.</p>	<p>Performance Report – Quarter 4, 2020/21</p>	<p>To scrutinise Council performance against agreed performance measures</p>	<p>Portfolio – Leader of the Council. Strategic Director – Communities and Reform. Matt Drogan, Head of Strategy and Performance.</p>	<p>Service performance reporting</p>
	<p>Corporate Performance Reporting Process 2021/22</p>	<p>To advise the Committee on the Council’s new corporate performance reporting process for 2021/22</p>	<p>Portfolio – Leader of the Council. Strategic Director – Communities and Reform. Matt Drogan, Head of Strategy and Performance.</p>	<p>Service performance reporting</p>

Thursday 26 August 2021	Financial Outturn for 2020/21	To scrutinise the Council's financial performance against the agreed Budget.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Budget performance reporting
	Revenue Monitor and Capital Investment Programme 2021/22 Month 3	To scrutinise the Council's financial performance against the agreed Budget.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Budget performance reporting
	Update on Additional School Places and Admissions	Update Report	Portfolio – Education and Skills Managing Director – Children and Young People Andy Collinge, Head of School Support Services	Report requested by the Performance and Value for Money Select Committee, August 2020
	Update on Financial Administration in Local Authorities.	Update Report	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Report to assist the Committee in its scrutiny role
	Key Decisions	The forward plan outlining key decisions to be taken by Cabinet.	Portfolio Cabinet	Report to assist the Committee in its scrutiny role for decisions it could consider for Call In.
Thursday 7 October 2021	Performance report – Quarter 1, 2021/22	To scrutinise Council performance against agreed performance measures.	Portfolio – Leader of the Council. Strategic Director – Communities and Reform. Matt Drogan, Head of Strategy and Performance.	Service performance reporting

	Oldham Safeguarding Adults Board Annual Report 2020/21- and Three-Year Strategy.	To receive and consider the Board's Annual Report and Three-Year Strategy.	Dr Henri Giller, Chair of the Board. Portfolio - Health and Social Care Julie Farley, Business Manager, Oldham Safeguarding Adults Board.	Annual Report consideration.
	Oldham Safeguarding Children Board Annual Report 2020/21- and Three-Year Strategy.	To receive and consider the Board's Annual Report and Three-Year Strategy.	Dr Henri Giller, Chair of the Board. Portfolio - Children and Young People. Lisa Morris, Business Manager, Oldham Safeguarding Children Partnership.	Annual Report consideration.
	Update on the Implementation of the Creating a Better Place Capital Programme.	Update Report	Portfolio – Leader of the Council. Emma Barton, Director of Economy	Delivery of the Capital Programme.
	SEND Review Update	To update progress against the completion of improvement actions and actions to improve attendance, reduce exclusions and raise achievement for children and young people with SEND.	Portfolio – Education and Skills Managing Director – Children and Young People David Shaw, Assistant Director SEND.	Report requested by the Performance and Value for Money Select Committee, February 2021
	A detailed report on areas of overspend if required following	To ensure operational areas at risk of overspending have plans to manage within agreed resources.	Appropriate portfolio holder and Director responsible for the Service	Budget performing reporting

	the month 3 revenue monitor report			
	Unity Partnership Limited Annual Report 2020/21	To scrutinise the performance of Unity Partnership.	Portfolio – Finance and Low Carbon. Dominic Whelan, Chief Operating Officer, Unity Partnership Limited.	Annual Report consideration
	Key Decisions	The forward plan outlining key decisions to be taken by Cabinet.	Portfolio Cabinet	Report to assist the Committee in its scrutiny role for decisions it could consider for Call In.
Thursday 18 November 2021	Update on contract monitoring within the Council for a selected operational area	Update Report as requested by the Committee.	Appropriate portfolio holder and Director responsible for the Service supported by Mike Barker the Strategic Director of Commissioning.	Budget and Service Performance Reporting
	Local Government Ombudsman – Annual Report	To scrutinise the Council’s position regarding complaints and complaints pursued through to the Ombudsman.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance. Caroline Lee, Head of Revenues and Benefits	Annual Report consideration.
	Update on implementation of the Housing Strategy	Update Report	Portfolio – Housing. Emma Barton, Director of Economy	Delivery of the Housing Strategy.

	Update on Implementing the findings of the Peer Review	Update Report	Portfolio – Leader of the Council. Chief Executive.	Service performance reporting
	Key Decisions	The forward plan outlining key decisions to be taken by Cabinet.	Portfolio Cabinet.	Report to assist the Committee in its scrutiny role for decisions it could consider for Call In.
Thursday 16 December 2021	Performance Report Quarter 2, 2021/22	To scrutinise Council performance against agreed performance measures.	Portfolio – Leader of the Council. Strategic Director – Communities and Reform. Matt Drogan, Head of Strategy and Performance.	Service performance reporting
	Revenue Monitor and Capital Investment Programme 2021/22 Month 6	To scrutinise the Council's financial performance against the agreed Budget.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Budget performance reporting
	Children's Services - update on financial performance and Improvement Plan	To receive updates in respect of financial performance in Children's Services and delivery of the Improvement Plan	Portfolio – Education and Skills. Managing Director – Children and Young People.	Periodic performance update report; previous report December 2020.
	Repeat Referrals in Children's Social Care	To receive an update on re-referral performance, an overview of the five key themes relating to the re-	Portfolio – Education and Skills.	Item required by Performance and Value for Money Select Committee, December 2020.

		referral rate and actions to ensure close management of this key performance indicator.	Managing Director – Children and Young People. Elaine Devaney, Director of Children’s Social Care/ Gemma Gerrish, Assistant Director Social Work Services.	
	Partnership Dashboard	To assess the overall risk on partnerships to the Council.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Budget performance reporting
Thursday 10 February 2022	Review of OCL and the operation of the Leisure Contract	To scrutinise in detail the Leisure Contract including the impact of the pandemic	Portfolio – Health and Social Care. Strategic Director – Communities and Reform	Financial and Performance Report
	Regional Adoption Agency - update	To scrutinise delivery and financing of adoption services in the Borough.	Portfolio – Children and Young People. Managing Director – Children and Young People. Elaine Devaney, Director of Children’s Social Care/Karen Brannick, Head of Adoption Now;	Periodic performance update report; previous report March 2021
	Review of Northern Roots	To scrutinise the operation of Northern Roots which it is intended will be a Council owned entity to develop an	Portfolio – Leader of the Council. Strategic Director – Communities and Reform	Review of an Emerging Partnership to assess risk to the Council

		Eco Park part funded by the Towns Fund.	Emma Barton, Director of Economy	
	Key Decisions	The forward plan outlining key decisions to be taken by Cabinet.	Portfolio Cabinet.	Report to assist the Committee in its scrutiny role for decisions it could consider for Call In.
Thursday 24 March 2022	Performance report Quarter 3, 2021/22	To scrutinise Council performance against agreed performance measures	Portfolio – Leader of the Council. Strategic Director – Communities and Reform. Matt Drogan, Head of Strategy and Performance.	Service performance reporting.
	MioCare Group – Performance Report	To scrutinise the performance of the MioCare Group	Portfolio - Health and Social Care. Karl Dean, Managing Director, Miocare Group	Annual Report consideration.
	Revenue Monitor and Capital Investment Programme 2021/22 Month 9	To scrutinise the Council's financial performance against the agreed Budget.	Portfolio – Finance and Low Carbon. Anne Ryans, Director of Finance.	Budget performance reporting.
	Key Decisions	The forward plan outlining key decisions to be taken by Cabinet.	Portfolio Cabinet.	Report to assist the Committee in its scrutiny role for decisions it could consider for Call In.

PENDING ISSUES

<p>Primary and Secondary School Performance – The Chair to meet and discuss with the Portfolio Holder and the Director of Education, Skills and Early Years the ongoing consideration by the Committee of these issues.</p>	<p>Portfolio – Children and Young People. Managing Director – Children and Young People. Richard Lynch, Director of Education, Skills and Early Years/Tony Shepherd, Head of Learning.</p>	<p>Periodic performance update report, previous report re secondary school performance, March 2021; primary school performance a 'pending' item on the 2020/21 Performance and Value for Money Select Committee work programme.</p>
<p>The impact of the proposed health integration on the Council and its future operations.</p>	<p>Portfolio-Health and Social Care. Mike Barker Strategic Director of Commissioning.</p>	<p>Budget and Performance Monitoring.</p>

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 9 September 2021, 6.00pm.	Audit Findings Report	Updated report to support the external audit of the 2020/21 Statement of Final Accounts.
	2020/21 Statement of Final Accounts	This is a progress report on the audit of the 2020/21 Statement of Final Accounts.
	Update on Financial Administration in Local Authorities	A report detailing challenges experienced in the financial administration at other local authorities as reported in the public domain. The aim is to target the work of the Committee alongside the Scrutiny function.
Page 25	Work Programme for the Performance Overview Scrutiny Committee	A report on the proposed work programme of the key Scrutiny Committee to ensure its work and that of the Audit Committee both cover the key areas of administration to ensure appropriate oversight in the Council.
	Proposed Audit Committee Work Programme for the Statement of Accounts 2021/22	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Update on Annual Governance Statement for 2020/21 and New Issues for 2021/22	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Update on the Corporate Risk Register	This sets out the position as of 30 June 2021 in relation to matters included on the Corporate Risk Register.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Tuesday 2 November 2021, 6.00 pm	External Audit Progress Report November 2021	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Treasury Management Mid-Year Review	The planned scrutiny of the 2021/22 Treasury Management mid-year review report before submission to Cabinet in November.
	Update on External Audit Matters	An update if required, on national developments linked into the ongoing developments and consultations on the provision of external audit to Local Government Bodies.
Page 26	Update on progress in addressing the recommendation made by the External Auditor in the 2020/21 Audit Findings Report	To provide and update on the improvement in the reconciliation of the Housing Benefits system as recommended in the 2020/21 Audit Findings Report.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme for 2022/23 including actions required to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Internal Control Matters for Payroll: Update	This updates the Audit Committee on the key internal control matters supporting the administration of the payroll system identified as a key area for improvement.
	Private Report; Internal Control Matters for Contracting/ Commissioning	This updates the Audit Committee on the progress made by the Council to address a key issue to strengthen control as detailed in the Annual Governance Statement.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
Tuesday 17 January 2022, 6.00pm.	External Audit Progress Report January 2022	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Data Protection Update	Routine General Data Protection Regulation (GDPR) report by the Data Protection Officer as required under GDPR Legislation.
Page 27	Treasury Management Strategy Statement 2022/23	This sets out the Proposed Treasury Management Strategy for 2022/23 to support the Corporate Objectives of the Council.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Partnership Risk Dashboard	This is the regular report produced for the Committee to assess the ongoing risk to the Council from its key partnerships.
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 10 March 2022, 6.00 pm	External Audit Annual Audit Letter 2020/21	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Audit of Teachers' Pensions Agency Return 2020/21	This report considers the feedback following the external Audit of the Teachers' Pension Agency return.
	Audit of Housing Benefit Subsidy 2020/21	This report considers the feedback on the audit of the housing subsidy grant claim.
	2021/22 Proposed Accounting Policies and Critical Judgements	In advance of the approval of the accounts an opportunity for the Audit Committee to review the Proposed Policies and Judgements for 2021/22 Statement of Accounts.
Page 28	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	Proposed Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Internal Audit Plan 2022/23	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Partnership Risk Dashboard	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday early June 2022, 6.00pm	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under GDPR.
	External Audit Progress Report May 2022	An update produced by the external auditor of issues to be brought to the attention of the Committee.
	Informing the Risk Assessment 2021/22 (Director of Finance)	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Informing the Risk Assessment 2021/22 (Chair of the Audit Committee)	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
Page 29	Review of System of Internal Audit by the Audit Committee	Annual Review of the system of internal audit using the balanced scorecard.
	2022/23 Internal Audit and Counter Fraud Plan	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Internal Audit Charter 2022/23	Proposed update to the Audit Charter for 2022/23 to reflect any changes required
	Update of Local Code of Corporate Governance to June 2022	Update of the previously agreed Local Code of Corporate Governance.
	Private Report: Corporate Risk Register 2021/22 – end of year review	This updates the Audit Committee on the implementation of the Framework previously agreed and the issues identified in the Corporate Risk Register.
Late June 2022, 6.00pm	2021/22 Annual Report by the Assistant Director of Corporate Governance and Strategic Financial Management	Annual Report based on the work conducted by Audit and Counter Fraud Team, Insurance/ Risk and Information Governance teams to determine the overall control environment of the Council.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Annual Governance Statement 2021/22	Draft Annual Governance Statement included within the Statement of Accounts for review and scrutiny.
	2021/22 Draft Annual Statement of Accounts	Draft Statement of Accounts subject to external audit for approval by the Committee.
	Review of Corporate Fraud Policies	An annual review of the Counter Fraud Suite of policies to reflect the recent legislation.
	Private Report; Senior Information Risk Owner (SIRO) Update	Annual report of the SIRO including an overview of reported data breaches.
Page 30	Private Report; Partnership Risk Dashboard	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.

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