

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 £113.512m (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 delegated 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.