

AUDIT COMMITTEE Agenda

Date Thursday 8th September 2022

Time 6.00 pm

Venue Council Chamber, Civic Centre, West Street, Oldham, OL1 1NL

Notes 1. DECLARATIONS OF INTEREST- If any Member requires any 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 Peter Thompson in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Peter Thompson, telephone - 0161 770 5151 or email - peter.thompson@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 on Monday, 5th September 2022.

4. FILMING - The Council, members of the public and the press may record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:

Councillors Ahmad, Alyas, C. Gloster, Islam, Salamat, Arnott, Ball, Hulme and Iqbal

Item No

1 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 (Pages 1 - 6)

 The Minutes of the Audit Committee held 21st July 2022 are attached for approval.
- 6 External Audit Progress Report (Pages 7 - 18)
- 7 2021/22 Annual Statement of Accounts (Pages 19 - 24)
- 8 Update on Financial Administration (Pages 25 - 36)
- 9 Internal Audit and Counter Fraud Progress Report 2022/23 (Pages 37 - 46)
- 10 Proposed Audit Committee Work Programme for 2022/23 (Pages 47 - 54)
- 11 Exclusion of the Press and Public

 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 three items of business on the grounds that they contain exempt information under paragraph(s) 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 2021/22 and New Issues (Pages 55 - 68)
- 13 Update on the Corporate Risk Register for 2022/23 (Pages 69 - 78)
- 14 Potential Risks to the Council linked into Northern Roots (Oldham) Limited (Pages 79 - 86)



AUDIT COMMITTEE
21/07/2022 at 6.00 pm

Present: Councillor Islam (Vice Chair in the Chair)
Councillors Ahmad, Arnott, Ball, C. Gloster, and Iqbal

Also in Attendance:

A. Ryans – Director of Finance

M. Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

J. Miller – Head of Audit and Counter Fraud

L. Walsh – Finance Manager (Capital and Treasury)

A. Newall – Mazars LLP (external auditors)

P. Thompson – Constitutional Services

One member of the public

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Alyas and Salamat.

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 for this meeting of the Committee to consider.

5 **MINUTES OF PREVIOUS MEETINGS**

Resolved:

That the minutes of the meetings of the Audit Committee held on 9th June 2022 and on 21st June 2022, be approved as correct records.

6 **2021/22 ANNUAL STATEMENT OF ACCOUNTS**

The Audit Committee received a report of the Director of Finance that presented an update on the current position regarding the audit and approval of the 2021/22 Statement of Accounts. The report presented an update on the Council's Statement of Accounts for the financial year 2021/22 and highlighted the current position of the external audit by Mazars LLP. The report also confirmed the revised audit deadline for 2022/23 as 30th November 2022 and provided an update on the CIFPA Consultation on Infrastructure Assets.

The Council was required to prepare a Statement of Accounts for each financial year in accordance with statutory timelines and accounting practices. The accounts were subject to scrutiny and approval by the Council's Audit Committee.

The Council had submitted its draft financial statements to the External Auditors, Mazars LLP, on 31st May 2022. For 2021/22, and as in previous years, Authorities must publish the dates of their public inspection period, providing a public notice on their websites when the public inspection period commences. The Council published such a notice and advised that the public inspection period ran from 1st June 2022 to 14th July 2022. No questions or challenges had been received during the inspection period.

In line with good practice, the draft Statement of Accounts had been issued to members of the Audit Committee. The presentation of the draft Statement of Accounts provided Audit Committee Members with the opportunity to review the Council's year-end financial position before they were required to formally approve the accounts. The Statement of Accounts was presented, with a covering report outlining key issues, to the Audit Committee at its meeting of 21st June 2022. This gave members of the Audit Committee the opportunity to consider the key issues and ask officers and the representative of the External Auditor any relevant questions. All matters raised were addressed at the meeting to the satisfaction of the Committee.

The Committee were informed that the audit process cannot be fully finalised until all the value for money work is finalised and the Whole of Government Accounts (WGA) audit is completed. The WGA audit, it was explained, could not be undertaken yet and was programmed for later in the year.

Regarding the holdup to the WGA process, this was due to a delay by HM Treasury in issuing the WGA Toolkit for 2020/21. This meant that the Council had not been able to prepare its WGA and the External Auditor had not been able to finalise the audit of the accounts for the financial year 2020/21. The Council was to submit its WGA for 2020/21, in line with the updated deadline of 31st July 2022. Until the audit of the WGA is completed, the 2020/21 audit therefore remained open. Once the 2020/21 audit process was formally completed, the Council would advertise the outcome.

Following the conclusion of the audit of the 2021/22 Statement of Accounts, the production of the VFM opinion and WGA audit work, the Council will advertise the completion of the 2021/22 audit process on its website and update Members of the Audit Committee. The timeline for this will be subject to the outcome of the consultation of the accounting arrangements for Infrastructure Assets (which is a national issue impacting on every Local Authority).

Resolved:

1. That the report be noted.
2. The committee notes the reasons why the 2020/21 Whole of Government Accounts process is not complete and cannot therefore yet be signed-off.

EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report that had been prepared by the Council's external auditors, Mazars LLP, which provided members with an update on the progress in delivering their responsibilities as the authority's external auditors.



As referred to at Minute 6, above, the external auditor explained that their final remaining responsibility in respect of the 2020/21 financial year related to the Council's Whole of Government Accounts (WGA) return. In May 2022 HM Treasury issued their guidance for councils, and this concluded that they would only require audits of WGA returns for those councils with Income, Expenditure, Assets or Liabilities above £2bn. The National Audit Office (NAO) was in the process of drafting their WGA group audit instructions, and there remained a possibility that those instructions may require the auditors to carry out some work on the council's WGA return. Once the NAO has issued their group instructions, they would liaise with officers to complete any required testing.

In addition, before issuing their certificate to close the 2020/21 audit, they would consider whether there were any matters arising since they issued their audit opinion on the financial statements that may impact on their opinion. In this regard they should consider the Council's response to the forthcoming resolution to the national technical issue on accounting for infrastructure assets.

The Committee were informed that during February and March 2022 Mazars LLP had completed their initial planning work, and early testing for the 2021/22 audit. They had presented their Audit Strategy Memorandum to the Audit Committee's meeting on 10th March 2022, setting out the audit risks which had been identified in respect of the 2021/22 financial statements. There had been no significant change to the risk assessment since issuing their Audit Strategy Memorandum. Mazars had received the Council's draft financial statements and annual governance statement on 31st May 2022, in line with the timetable agreed with officers.

The external auditor explained that their fieldwork visits had commenced in June 2022 and were due to continue until mid-August. They planned to report their findings from their audit to the Audit Committee's meeting, scheduled to be held on 8th September 2022. However, this would be subject to the resolution of the national technical issue in respect of accounting for infrastructure assets. The external auditors also intended to present their commentary on the Council's value for money arrangements at the Audit Committee's meeting on 8th September 2022. Although their work on value for money was not yet complete, they had not identified any risks of significant weakness to draw to the Council's attention thus far.

Resolved:



That the report be noted.

8

REVIEW OF THE SYSTEM OF INTERNAL AUDIT BY THE AUDIT COMMITTEE

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management that updated Members regarding the 2021/22 internal assessment of the system for Internal Audit within the Council. The financial year 2021/22 had been a challenging year for the system of Internal Audit within Oldham Council due to resources being diverted to administrative activity to respond to the Covid-19 pandemic. The 2021/22 internal assessment of the Corporate Governance team (Internal Audit, Counter Fraud, Risk and Insurance) via the Balanced Scorecard Report concluded that the overall service was good. The Scorecard has assessed the following matters as Amber/ Red.

Scorecard 2.8: Corporate Initiatives and Monitoring: This had been assessed as Amber/Red and related to Adult Social Care having an inadequate opinion; a reflection of the on-going challenges within the Adult Social Care Service around improving the audit opinion on this Fundamental Financial System, which has been included in the Annual Report by the Chief Internal Auditor, that had been submitted to this Committee's meeting on 21st June 2022.

Scorecard 2.9: Compliance within Council on Procedure Rules: This related to an issue highlighted in the 2021/22 Annual Governance Statement whereby some relationships with suppliers required improved documentation.

Some of the issues reported in the Balanced Scorecard were wider internal control issues rather than specific to the System of Internal Audit. However, it was proposed to keep this reporting methodology, as it represented a pragmatic way to provide an overview of the overall control environment of the Council supported by professional best practice.

Resolved:

The Committee notes the self-assessment provided by the Assistant Director of Corporate Governance and Strategic Financial Management that the overall system of Internal Audit had been fit for purpose in 2021/22.

9

PROPOSED AUDIT COMMITTEE WORK PROGRAMME FOR 2022/23

The Committee received a copy of the proposed Audit Committee's Work Programme for 2022/23.

Resolved:

That the proposed Audit Committee's Work Programme for 2022/23 be noted.

10

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 two items of business on the grounds that they contain exempt information under paragraphs 1 and 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.

11

PARTNERSHIP RISK DASHBOARD

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management, which further to previous reports submitted on this matter in the last two years highlighted the potential risks to the Council from poor supervision of companies/partnerships of which it has ownership. It also advised how governance oversight elsewhere (including that of the Audit Committee at several Councils), had failed to identify this risk resulting in significant financial loss. Whilst the report did not highlight any immediate areas of concern for Oldham, this Committee therefore requested the Assistant Director of Corporate Governance and Strategic Financial Management prepare a report for its consideration at least every six months, which presents the potential risks to the Council from the partnerships in which it has an interest. The submitted report updated the report that had previously been presented to the Audit Committee on 2nd November 2021.

In considering the report, a member referred to paragraph 1.2 of the confidential report regarding 'losses that were emerging at a housing company that had been established by a London Borough Council, as work to exit from past commitments continued. In this regard the Assistant Director of Corporate Governance and Strategic Financial Management, reported that whilst this was not an issue for Oldham Council at present, he undertook to submit a report to a future meeting of the Committee on the associated risks of establishing a housing company.

A member referred to the financial management risks associated with partnerships that the Council is engaged with, particularly Northern Roots. The Assistant Director of Corporate Governance and Strategic Financial Management undertook to present a report on this matter to the Committee's next scheduled meeting on 8th September 2022.

Resolved:

1. That the report be noted.
2. The Assistant Director of Corporate Governance and Strategic Financial Management be requested to submit a report to the Committee's next scheduled meeting, on 8th September 2022, regarding the control of financial management risks associated with partnerships that the Council is engaged with, particularly Northern Roots.
3. That the Assistant Director of Corporate Governance and Strategic Financial Management be requested to submit a report to a future meeting of the Committee regarding

the various risks associated with the establishment of a housing company.

12

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2021/22

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management that updated members on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as areas requiring improvement in internal control within the draft Annual Governance Statement for 2021/22.

Resolved:
that the report be noted.

The meeting started at 6.00pm and ended at 7.15pm.





Report to Audit Committee

Audit Progress Report

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

Officer Contact: Anne Ryans, Director of Finance

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

Ext. 07825 788491

8 September 2022

Reason for Decision

This is the consideration by the Audit Committee of the Audit Progress Report produced by the External Auditor Mazars LLP.

Executive Summary

This report attached as Appendix 1, details the progress made on the external audit of the draft Statement of Final Accounts for 2021/22 and other matters the External Auditor feels appropriate to highlight to the Audit Committee.

Recommendations

That the Audit Committee notes the attached report.

Appendix 1

Audit Progress Report

Oldham Metropolitan Borough Council

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September 2022



1. Audit Progress
2. National Publications

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01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

2020/21 audit

Our final remaining responsibility in respect of the 2020/21 financial year relates to the Council's whole of government accounts (WGA) return. We are still awaiting the National Audit Office to clarify whether they require any work to be carried out on the Council's WGA return.

2021/22 audit

We commenced our audit of the Council's draft financial statements in June 2022. Our original timetable was to complete our testing by the end of August 2022, although that timetable has been subject to some delays. There are specific audit risks in the 2021/22 financial statements which have not been present in previous year's statements, for example:

- The transactions involving the Council's interest in Meridian have resulted in the Council consolidating Meridian into their Group financial statements for the first time, and there are related accounting and reporting consequences from the transactions.
- The accounting treatment of the transfer of Saddleworth School from DfE to the Council, which is a material transaction requiring specific audit procedures.
- The Council's subsidiary, Miocare, has changed its accounting year end to 31 March, impacting on the Council's Group accounts consolidation adjustments.

In addition there have been some delays in obtaining supporting evidence, primarily from third-parties who are outside the direct control of the Council, and responses to some audit queries, largely from the wider organisation. This has meant that audit is not yet completed. We hope to complete the audit work during September in order to report our audit findings to the next Audit Committee meeting.

02

Section 02: **National Publications**

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA/LASAAC Code Of Practice On Local Authority Accounting In The United Kingdom 2022/23	Code of Practice for 2022/23 financial statements
Department for Levelling Up, Housing and Communities		
2	Guidance on flexible use of capital receipts	Updated guidance on the type of projects that qualify for the capital receipts flexibility programme 2022-2025
3	Better Care Fund planning requirements 2022-23	Planning requirements for local authorities for the BCF 2022/23 year
National Audit Office (NAO)		
4	Improving government data: A guide for senior leaders	A good practice insight guide for senior leadership
Public Sector Audit Appointments Ltd		
5	Consultation on 2022/23 scale of audit fees	Consultation document

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NATIONAL PUBLICATIONS

CIPFA

1. CIPFA/LASAAC Code Of Practice On Local Authority Accounting In The United Kingdom 2022/23, July 2022

Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2022/23 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2022.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. The Code applies to local government organisations across the UK including local authorities, police bodies, fire services and other local public service bodies.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements. Changes include:

- Clarifying and expanding the applicability of the Code to Welsh authorities and bodies including corporate joint committees
- Amendments to clarify the treatment of social benefits
- Provisions which allow local authorities to account for leases in accordance with IAS 17, while also offering the option for local authorities to choose to adopt IFRS 16 on a voluntary basis. Where the latter option is taken, service concession arrangement liabilities must also be measured in accordance with the measurement requirements of IFRS 16.

The Code sets out the relevant requirements on local authority accounting including material developed as a result of an exceptional consultation which explored options which might help alleviate pressures on the timetable for publication and audit of local authority financial statements. However, preparers should be aware that further consultation has been undertaken in relation to accounting for infrastructure assets, and this may result in amendments and updates being made to this edition of the Code and potentially other earlier editions of the Code.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202223-online>

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

2. Guidance on flexible use of capital receipts, August 2022

This is an updated direction and statutory guidance to extend the freedom for local authorities to use eligible capital receipts to fund the revenue costs of projects that deliver ongoing savings or improved efficiency. This direction revokes and replaces the direction of the same name issued on 4 April 2022.

Capital receipts are the money councils receive from asset sales, the use of which is normally restricted to funding other capital expenditure or paying off debt. The receipts cannot usually be used to fund revenue costs. The direction introduces a new restriction that authorities may not use the flexibility to fund discretionary redundancy payments, i.e. those not necessarily incurred under statute. This does not affect other types of severance payments and, to be clear, does not restrict, including pension strain costs, which may still be qualifying expenditure.

The direction allows authorities to use the proceeds from asset sales to fund the revenue costs of projects that will reduce costs, increase revenue or support a more efficient provision of services. This is an extension of the flexibility that has been in place since 2016, and will allow this freedom to continue to 2024/25 to help authorities plan for the long-term.

This direction clarifies that the capital receipts obtained must be disposals by the local authority outside the “group” structure.

As reproduced in the direction issued on 4 April 2022, this direction includes the requirement to submit the planned use of the flexibility in advance of use for each financial year. This condition can be met by sending the authority’s own strategy documents provided they contain the detail asked for in the direction. This is not an approval process, the information must be sent to ensure transparency and allow proper monitoring by central government.

<https://www.gov.uk/government/publications/final-guidance-on-flexible-use-of-capital-receipts>

3. Better Care Fund planning requirements 2022-23, July 2022

The Better Care Fund (BCF) planning requirements set out details of the requirements that BCF plans must meet. They apply to both integrated care boards and local authorities, and they are published jointly with the Local Government Association.

<https://www.england.nhs.uk/publication/better-care-fund-planning-requirements-2022-23/>

NATIONAL PUBLICATIONS

National Audit Office

4. Improving government data: A guide for senior leaders, July 2022

This guide is for senior leaders responsible for delivering government services. The NAO's aim is to encourage decision-makers to realise the benefits of better use of data by helping them understand in more detail the core issues to be addressed which have held back progress in the past.

The guide focuses on data to support the operational delivery of public services, but the NAO intends that much of their guide will also be relevant to data for decision-making and to improve performance.

The guide discusses overcoming barriers in data sharing, data quality, data standards, resourcing, access to raw data and APIs (application programming interfaces), creating cross-government data sets for multiple users, data analytics.

[Improving government data: A guide for senior leaders - National Audit Office \(NAO\) insight](#)

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Ltd

5. Consultation on 2022/23 scale of audit fees, August 2022

PSAA is consulting on the fee scale for 2022/23 audits. This is the final fee scale under PSAA's current audit contracts, which cover audits of the financial statements of opted-in bodies for the five-year period 2018/19 to 2022/23. Audit work under the proposed 2022/23 fee scale will largely be undertaken from autumn 2023 onwards.

This fee scale consultation is separate from the procurement exercise PSAA is currently undertaking for audit contracts that will apply for the next five years, for audits from 2023/24. Audit work under the new contracts will take place from 2024 onwards. Any audit fee implications arising from the results of the procurement will be covered by our consultation on the 2023/24 fee scale in twelve months' time.

Consultees will be aware that auditors and auditing have been subject to very high levels of scrutiny in recent times following a number of widely reported financial failures in the private sector. These changes have resulted in significant tensions and pressures in the wider audit market and profession and have led to a series of government-commissioned reviews of audit and audit regulation. The Department for Levelling Up Housing and Communities (DLUHC) has announced a range of measures to be implemented to address the issues identified in the local audit framework specifically. These include a new system leader role to be discharged by a new regulator, the Audit Reporting and Governance Authority (ARGA) when it is established under future legislation.

This consultation on the 2022/23 fee scale is taking place in the context of these pressures and changes. The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2022/23 fee scale, managing the impact of three key elements:

- fee variations approved in relation to 2019/20 and 2020/21 audit work which relate to recurrent audit work that is needed in subsequent audit years;
- changes in local audit requirements; and
- the impact of changes in inflation.

The consultation will close on Friday 30 September 2022.

<https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2022-23-auditor-appointments-and-audit-fee-scale/>

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Oldham
Council

Report to Audit Committee

2021/22 Annual Statement of Accounts

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

Officer Contact: Anne Ryans – Director of Finance

Report Author: Lee Walsh – Finance Manager (Capital and Treasury)
Ext. 6608

08 September 2022

Reason for Decision

The Audit Committee is charged with scrutiny and approval of the Statement of Accounts. This report presents an update on the current position regarding the audit and approval of the 2021/22 Statement of Accounts.

Executive Summary

The report presents an update on the Council's Statement of Accounts for the financial year 2021/22.

The report highlights the current progress of the audit of the 2021/22 accounts by Mazars LLP. It also advises of the developments with regard to the preparation and review of the Whole of Government Accounts for both 2020/21 and 2021/22 and provides an update on the Chartered Institute of Public Finance and Accountancy (CIFPA) consultation on Infrastructure Assets.

Recommendations

That members of the Audit Committee note the update on the audit of the Council's Statement of Accounts for 2021/22 and related matters.

1 Background

- 1.1 The Council is required to prepare a Statement of Accounts for each financial year in accordance with statutory timelines and accounting Codes of Practice issued by the Chartered Institute Of Public Finance and Accountancy (CIPFA). The accounts are subject to scrutiny and approval by the Council's Audit Committee.
- 1.2 The Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 31 May 2022. For 2021/22, and as in previous years, Authorities must publish the dates of their public inspection period, providing a public notice on their websites when the public inspection period commences. The Council published such a notice and advised that the public inspection period ran from 1 June 2022 to 14 July 2022. No questions or challenges were received during this inspection period.
- 1.3 In line with good practice, the draft Statement of Accounts was issued to Audit Committee members. The presentation of the draft Statement of Accounts provided Audit Committee Members with the opportunity to review the Council's year-end financial position before they are required to formally approve the accounts. The Statement of Accounts was presented, with a covering report outlining key issues, to the Audit Committee at its meeting of 21 June 2022. This gave members of the Audit Committee the opportunity to consider the key issues and ask officers and the External Auditor any relevant questions. All matters raised were addressed at the meeting to the satisfaction of the Committee. An update on the progress of the audit of the accounts and other related issues was presented to the Audit Committee on 21 July 2022.
- 1.4 The legislation requires that following the conclusion of a 30-working day period of public inspection the Council is able, subject to audit, to submit the Statement of Accounts for consideration and approval to Committee or by Members meeting as a whole. For Oldham, the body designated to receive the accounts is the Audit Committee. As outlined in section 2, the audit is still in progress and an update is provided elsewhere on the agenda by the External Auditor.

2 Current Position

- 2.1 As advised above, the Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 31 May 2022 which is within the statutory deadline and was the Council's internal deadline as agreed with the External Auditor. The public inspection period began on 1 June 2022 and concluded on 14 July 2022.
- 2.2 The audit of the accounts commenced on 6 June 2022 and is moving to a conclusion with all queries (as far as possible) being promptly addressed. In order to facilitate the audit process, the Council made working papers available to the auditors at an early stage and as part of the Council's interim audit during the financial year.
- 2.3 The Council prepares its Statement of Accounts in line with the CIPFA Code of Practice. For 2021/22 there were no major changes to the original Code. However, as reported to the Audit Committee on 21 June 2022 with a further update on 21 July 2022, there was an emergency consultation issued on the accounting practice for Infrastructure Assets. The Council responded to the consultation which concluded on 14 June 2022.
- 2.4 On 27 July 2022, CIPFA LASAAC (a partnership between CIPFA and the Local Authority (Scotland) Accounts Advisory Committee) issued an update statement on the outcomes of the consultation on Infrastructure Asset reporting issues. In the document it stated that CIPFA LASAAC considered ways in which an adaptation could be

developed. However, it was not able to agree an approach that addressed the concerns of all stakeholders while also supporting high quality financial reporting. A key concern for CIPFA LASAAC was to ensure the best available information or evidence is being used to update the carrying value of infrastructure assets when elements are derecognised.

- 2.5 It was CIPFA LASAAC's view that a temporary solution should remain consistent with the objective of high-quality information in financial reporting. CIPFA and CIPFA LASAAC considered that a sector wide approach to resolution of the reporting of highways infrastructure assets should be sought. Further consultation with key stakeholder groups will take place to take forward better articulation and evidencing of the approach to the derecognition provisions and the remainder of its temporary proposals.
- 2.6 CIPFA LASAAC concluded that it will not take forward Code amendments that are not consistent with high quality financial reporting. As a consequence, it is unlikely that proposals for a short-term solution will alleviate all stakeholders concerns and if CIPFA LASAAC considers that there is a need to consult on an augmentation to the temporary solution it will aim to do so in the summer with resolution by autumn. At the time of writing this report, there have been no further requests for a consultation on the matter. It must again, be noted that any delays on the Infrastructure Asset reporting issues may delay the conclusion of the audit of the Council's Statement of Accounts for 2021/22.
- 2.7 Mazars LLP is not yet in a position to complete work on the Value for Money (VFM) opinion in respect of the Council's arrangements for the year ended 31 March 2022. This is not an issue for concern as work will be scheduled to be completed later in the audit and the Audit Committee will be updated by Mazars LLP as to progress.
- 2.8 It is important to note that the audit process cannot be fully finalised until all the VFM work is finalised and the Whole of Government Accounts (WGA) are completed.
- 2.9 With regard to the WGA, a delay by HM Treasury in issuing the WGA Toolkit for 2020/21 meant that work in this area could not commence in line with expected timelines. However, the Council was able to finalise and submit the WGA for the financial year 2020/21 in accordance with revised deadlines.
- 2.10 The Council has been advised that the Government does not require any audit work on the 2020/21 WGA, however, as the National Audit Office audits the WGA, it has not yet advised if it requires any work on the Oldham WGA. The External Auditor must wait for notification as to any action required.
- 2.11 Until the audit review of the WGA can be completed, the 2020/21 audit remains open. Once the 2020/21 process is completed, the Council will advertise the conclusion of the 2020/21 audit process.
- 2.12 It is important to note that the infrastructure assets issue will need to be considered in the context of the 2020/21 accounts as the Auditor must consider if there have been any developments which would have a material impact on the accounts and then take appropriate action. This will have an impact on the timeline for the conclusion of the 2020/21 audit.
- 2.13 Following the conclusion of the audit of the 2021/22 Statement of Accounts, the approval of the accounts, the production of the VFM opinion and conclusion of the 2021/22 WGA work, the Council will advertise the completion of the 2021/22 audit process on its website and update Members of the Audit Committee accordingly.

2.14 Given that the 2020/21 audit has not yet been completely finalised and that the accounting arrangements for the Infrastructure Assets issue are still uncertain, then the finalisation of the 2021/22 audit may take some time.

3 Options/Alternatives

3.1 The Audit Committee Members can either choose to note the update on 2021/22 Statement of Accounts or not to do so. There are no other alternatives.

4 Preferred Option

4.1 The preferred option is that Audit Committee Members note the update of the 2021/22 Statement of Accounts.

5 Consultation

5.1 Consultation has taken place with the Council's External Auditors, Mazars LLP, in addition members of the public have had the opportunity to inspect the Council's Statement of Accounts and supporting documents during the 30-working day public inspection period which concluded on 14 July 2022. No questions or challenges were received during this inspection period.

5.2 The draft Statement of Accounts for the financial year 2021/22 was presented to the Audit Committee meeting of 21 June 2022 which was a key element of the consultation process. All questions and issues raised by Members were answered to the satisfaction of the Audit Committee. A further update on the progress of the Audit was presented at the meeting on the 21 July 2022.

5.3 The 2021/22 financial position, which includes a review of the Statement of Accounts is an agenda item at the meeting of the Performance Overview and Scrutiny Committee on 1 September 2022.

5.4 Formal presentation of the accounts to Members of the Audit Committee will take place at a future meeting once the outcome and implications of the Infrastructure Asset consultation is known. This will allow the opportunity for a further review and scrutiny prior to the approval of the accounts.

6 Financial Implications

6.1 Dealt with in the body of the report.

7 Legal Services Comments

7.1 There are no Legal implications.

8 Co-operative Agenda

8.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource implications.

10 Risk Assessments

10.1 There are no risk implications as a result of this report.

11 IT Implications

11.1 There are no IT implications as a result of this report.

12 Property Implications

12.1 There are no Property implications.

13 Procurement Implications

13.1 There are no Procurement implications.

14 Environmental and Health and Safety Implications

14.1 There are no Environmental and Health & Safety implications as a result of this report.

15 Equality, Community Cohesion and Crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 Not Applicable

17 Key Decision

17.1 No

18 Key Decision Reference

18.1 Not Applicable.

19 Background Papers

19.1 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: Audit Committee meeting papers – 21 June 2021
<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8596&Ver=4>

Officer Name: Lee Walsh
Contact: lee.walsh@oldham.gov.uk

20 Appendices

20.1 There are no Appendices.

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Report to Audit Committee

Update on Financial Administration

Portfolio Holder: Cllr 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

8 September 2022

Purpose of the Report

The purpose of this report is to update Members of the Audit Committee on key matters both nationally and locally impacting on Audit and Governance.

Executive Summary

The key matters covered in this report as detailed below are issues of Financial Administration at the following Authorities/ organisations:

- Nottingham City Council
- The London Borough of Croydon
- Slough Borough Council
- Northumberland County Council
- Thurrock Council
- Liverpool City Council
- Sandwell Metropolitan Council
- Luton Borough Council
- Lancashire County Council
- Northwest Community Bank
- Together Energy

The report also advises of a recent communications from the Department for Levelling Up, Housing and Communities (DLUHC) about the future use of capital receipts and the engagement of consultants for the purposes of interpreting Government policy.

It also details other areas of potential interest which could result in further reports which are critical of financial administration for the Authorities detailed above.

Recommendation

The Committee is asked to note the key matters detailed in this report on Audit and Governance.

1 Section 114 Notices Issued by Local Authorities

- 1.1 There have now been four Authorities where the Section 151 Officer has issued a Section 114 Notice since the start of the pandemic. These are the London Borough of Croydon, Slough Borough Council, Nottingham City Council and Northumberland County Council. Two of these Notices (relating to the London Borough of Croydon and Slough) are due to the Councils not having adequate reserves/ general balances to cover day their day to day expenditure. As a result, the two Councils have sought and been granted on-going central Government support via a capitalisation direction (an authority to borrow to meet the costs of revenue expenditure). The other two Notices issued (relating to Nottingham City Council and Northumberland County Council) are more technical in the nature of the breach which has occurred and are covered in more detail in the paragraphs below.

London Borough of Croydon

- 1.2 As previously reported to this Committee, it was necessary for the Section 151 Officer at Croydon to issue a Section 114 Notice (linked into the overall financial resilience of the Council) which was closely followed by the production of a Public Interest report (prepared by the External Auditor) outlining inadequate financial administration including a lack of effective oversight of partnerships which included its wholly owned housing company "Brick by Brick". As further work was undertaken to understand the issues it became apparent that one project delivered on behalf of the Council by this housing company to refurbish the cultural venue "Fairfield Halls" (not detailed in the original Public Interest report) had not gone to plan. This resulted in the production of a second Public Interest report which was critical both of the original procurement (utilising Brick by Brick to procure the contractor) and subsequent project management by Brick by Brick of the works undertaken on the refurbishment which cost more than budgeted with elements of the planned works still not completed. The original business case to finance the cost of refurbishment of Fairfield Halls from the residential development of a large development site of land located next to the venue, proved to be unrealistic and the Council ultimately was required to finance the project from its own capital resources.
- 1.3 Currently there remains one other significant issue at the London Borough of Croydon which is subject to external scrutiny by the External Auditor. This relates to the transfer of assets (a proportion of housing stock) from the Housing Revenue Account to a wholly owned Council Company. This generated a financial benefit to the General Fund. This is a complex issue, and the consideration of the accounting merits of the transaction is ongoing. There remains the potential that the External Auditor decides the past action taken by the London Borough of Croydon is not appropriate. At present there are external Inspectors appointed who are overseeing the response of the Council to the financial predicament it finds itself from previous decisions made. The latest update on the progress made by the Council to improve its financial processes from the Inspection is expected imminently.

Slough Borough Council

- 1.4 The events at Slough Council whereby the Authority accounted for income generated from a joint venture partnership which, after a review by the External Auditor, it was determined that the income levels were not as high as originally expected and resulted in an agreed adjustment to their 2018/19 accounts. This had the impact of reducing their general balances to virtually nil (effectively making them financially insolvent) compared to the financial position originally reported when the draft Statement of Accounts were submitted for External Audit.

- 1.5 The concerns over the financial administration at the Council resulted in the recruitment of an experienced interim Section 151 Officer. Following a review of the financial position the interim Section 151 Officer issued a Section 114 Notice based on their view of the lack of overall financial resilience of the Council. In subsequently reviewing the finances of the Council, it became apparent that the previously agreed policy for charging Minimum Revenue Provision (MRP) did not follow the professional guidance issued to govern effective Capital Accounting or align to good Treasury Management practices in not setting aside an appropriate budget to facilitate repayments of debt. Slough had undertaken significant borrowing, in part, to fund significant investments in both partnerships and commercial property to generate an ongoing income. This has resulted in further adjustments to its accounts leading to a deterioration in the previously reported financial position covering several financial years. It has also required the Government to underwrite significant levels of capitalisation to support future budgets.
- 1.6 To remain financially solvent, Slough could require capitalisation directions up to £500m. One plan going forward to manage the finances is for Slough to sell off its assets to reduce the overall level of debt.

Nottingham City Council

- 1.7 The losses incurred by Nottingham City Council from setting up and then operating its own energy company (Robin Hood Energy) have previously been reported to this Committee. These significant financial losses led to a review which highlighted poor oversight of all Nottingham City Council partnerships including the Arm's Length Housing Company (Nottingham City Homes). After a period, the Secretary of State for the Department of Levelling Up, Housing and Communities considered that the City Council could not manage the issues under its own direction and has appointed independent Inspectors to continue the work already underway to improve financial administration.
- 1.8 This ongoing work identified an issue whereby between 2014 and 2021 the amount charged to the Housing Revenue Account for services provided within the Council which were then credited to the General Fund were excessive (estimated to be £14.366m). This breach has resulted in the Interim Treasurer of Nottingham City Council issuing a Section 114 Notice. The outcome is that Nottingham City Council will have to repay the £14.366m to the Housing Revenue Account impacting on its overall financial resilience.

Northumberland County Council

- 1.9 The fourth Section 114 Notice was issued by the Interim Treasurer of Northumberland County Council. It was in relation to a partnership developed in conjunction with the NHS. There were several joint roles working across the Council and the NHS which included that of the Chief Executive. The partnership resulted in the two parties (the NHS and the Council) developing a consultancy business which charged for services provided to other countries. The responsibilities in relation to the services to be provided by the consultancy, how it charged for services and payments made to key staff, including the Chief Executive, were not documented and agreed in accordance with the Constitution of the Council. As such the Section 114 Notice was issued based upon this. Ironically it appears that the charges for consultancy made under the partnership did cover the costs incurred. The outcome is that the Chief Executive has now left the Authority.

2 Council Investment Decisions

- 2.1 There are some Council investments whereby losses have either become apparent or there is a risk of future losses not yet recognised in their financial statements. The situation at the London Borough of Croydon around their investment in the wholly owned company

“Brick by Brick” and the Slough Borough Council investment in partnerships have previously been reported to this Committee so are not repeated in this report.

- 2.2 Issues at Thurrock Council, Warrington Borough Council via their investment in Together Energy and a further issue at the London Borough of Croydon linked into the transfer of Housing Revenue Account assets to a wholly owned company are detailed below. There has also been a proposed joint venture between Liverpool, Wirral and Preston Councils to set up a Community Bank which highlights the risks of setting up partnerships and not concentrating on core business. A recent communication from the Department of Levelling Up, Housing and Communities highlighting the risks to Authorities should they engage consultants to propose innovative approaches to financial transactions is also detailed in this Section of the report. Further detail of this communication can be found at paragraph 2.11 and at Appendix 1.

Thurrock Council

- 2.3 The risks of losses on the green investments made by this Council have been highlighted by the Bureau of Investigative Journalism and subsequently reported in the national press. There are perceived risks with two current investments:
- The Council invested in a bond totalling £30m issued by the Cyprus Stock Exchange in a company called Pure World Energy. There is a risk this company may not be in a financially resilient position to repay this bond in full.
 - The company invested in wind farms originally financed by a company called Rockfire Capital. In a court case (not involving Thurrock) it has become apparent the value of money invested in these wind farms may not be sufficient to recoup the original investment. The reported shortfall as reported in the popular press could amount to £130m.

Warrington Borough Council - Investment in Together Energy

- 2.4 As part of its Treasury Management Strategy to generate income from third party investments, Warrington Borough Council acquired a 50% equity shareholding in the company, Together Energy, paying £17m. At the point Warrington became a shareholder in the company, Together Energy acquired the domestic customers of Bristol Energy (a Local Authority company which had failed).
- 2.5 In addition, over the period of the shareholding the Council has provided guarantees linked into certain matters for the Company which prolonged its operation as a going concern. The company subsequently went into liquidation as Warrington were no longer prepared to provide guarantees to enable the company to continue as a going concern. At the time the company went into liquidation it could not cover certain commitments in relation to Renewable Energy. The expected financial losses from this investment are expected to materialise as the company liquidation is progressed. Recent publications advise that the cost to the Council will not exceed £18m.

London Borough of Croydon

- 2.6 The investment by the London Borough of Croydon in their housing company has resulted in significant financial loss which will impact on the residents. The company is in the process of winding up its operation but the losses to the Council despite land transfers at no cost to the Company are likely to total £100m.

Northwest Community Bank

- 2.7 This was a planned joint venture between Liverpool City Council, Wirral Metropolitan Borough Council and Preston Borough Council. The aim was for the constituent members to invest between them an amount of £20m to finance a community bank to be constituted as per the regulatory framework overseen by the Financial Conduct Authority (FCA). The work undertaken on this collaborative project obtained the approval of the FCA which would have enabled the entity to operate as a community bank.
- 2.8 As the project moved from the planning stage to the implementation stage the financial resilience at Wirral Council declined and Liverpool City Council was subject to a Best Value Inspection. These events have influenced both these organisations capacity to support the initiative. Observations by the externally appointed inspectors/ advisors at both Liverpool and Wirral indicate the resource utilised on this investment diverted resource from concentrating on more routine financial administration.

Department of Levelling Up, Housing and Communities recent guidance to Local Authorities

- 2.9 Following his appointment as the Secretary of State for the Department of Levelling Up, the new Secretary of State challenged a proposed investment decision from Bournemouth, Poole and Christchurch Council which proposed the transfer of assets including beach huts to a wholly owned Council Company. This was followed by a letter dated 2 August 2022 whereby the use of capital receipts to fund transformational projects is to be limited to schemes which retain in the control of Councils.
- 2.10 The statutory guidance is beginning to reflect a Central Government concern that Councils are not always utilising their flexibilities on investments wisely or in accordance with expected practice.
- 2.11 Furthermore, a letter was issued on 19 August 2022 from the Secretary of State for the Department of Levelling Up, Housing and Communities, expressing concern that some Local Authorities are engaging in high risk commercial practices and are sometimes using external advice to implement risky strategies that “push at the bounds of what is permitted”. Whilst it is acknowledged that external advice is required to assist with operational movements, the Secretary of State is clear that companies should not gain by pushing risky and novel practices using public funds and which the Government will need to intervene to prevent. A copy of this letter can be found at Appendix 1.

3 Potential Improvements in Financial Control requiring Implementation

- 3.1 The situation at Liverpool City Council whereby procurement arrangements required improvement have previously been reported to this Committee. There are two matters recently in the public domain which require reporting which are detailed below relating to Luton Borough Council and Lancashire County Council.

Luton Borough Council

- 3.2 One risk identified in the 2021/22 Annual Governance Statement as previously regularly reported to this Committee is bank mandate fraud. It has been reported that Luton Borough Council in undertaking their role of administering the local enterprise partnership had suffered a fraud totalling £1.1m whereby an e-mail purporting to be legitimately from a third party, resulted in the Council changing the bank details of one of it’s suppliers. This led to the successful fraud. Arising from this development there is an exercise ongoing within Oldham to review systems and processes.

Lancashire County Council / Liverpool City Council

- 3.3 A long term criminal investigation (code name Operation Sheridan) was launched in 2013 into alleged irregularities in the provision of goods and services by Liverpool Direct Limited and One Connect Lancashire Limited which are both Joint Venture companies set up by Liverpool City Council and Lancashire County Council respectively with British Telecom. On 23 August 2022, a former Council leader and three former senior Council officers were charged with a number of offenses and are due to appear before Magistrates Court on 12 October 2022.

4 Value for Money

- 4.1 The Government intervention at a few Authorities such as Liverpool and Nottingham are linked into a failure of those Authorities to discharge their Best Value duty in securing value for money for their Council taxpayers. The risk of a poor routine value for money opinion is highlighted by Sandwell Metropolitan Borough Council as detailed in the paragraph below.

Sandwell Metropolitan Borough Council

- 4.2 Following the production of a critical value for money review by the External Auditor for the financial year 2020/21 a decision was made by the Secretary of State to appoint Inspectors which included the interim Chief Executive. The Value for Money review identified several projects (Regeneration and ICT) which had been poorly implemented. As such the Council has lost an element of direct control.

5 Options/Alternatives

- 5.1 The Audit Committee considers this report which details issues impacting on certain Local Authorities linked into financial administration.

6 Preferred Option

- 6.1 The preferred option is that the Audit Committee reviews this report in accordance with the recommendation made.

7 Consultation

- 7.1 N/A.

8 Financial Implications

- 8.1 There is no direct financial impact to the Council from the matters detailed in this report as the instances highlighted relate to decisions taken within other Local Authorities. It is important that Members of the Audit Committee understand that some organisations have had a higher appetite for risk than others and that on occasions this can lead to significant financial implications impacting on future financial resilience if matters do not go to plan. The role of the Audit Committee is to provide appropriate challenge on proposals to ensure risks taken are proportionate. (Anne Ryans)

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 In undertaking its role of governance/ scrutiny on behalf of the Council it is important that Members of this Committee are aware of the issues which have arisen at other Local Authorities. As more detailed investigation has been undertaken into where the governance was less than robust at Local Authorities there has been criticism that the oversight of Regulatory Committees such as the Audit Committee has been less than satisfactory. It is therefore important that individual Members are aware of the risks and provide challenge that such instances could not occur in Oldham. (Mark Stenson).
- 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: None – the report has utilised public documents from Government and respective Councils' websites

Officer Name: Mark Stenson

Contact: mark.stenson@oldham.gov.uk

22 **Appendices**

- 22.1 Appendix 1 – Letter from Secretary of State for the Department of Levelling Up, Housing and Communities



Department for Levelling Up,
Housing & Communities

The Rt Hon Greg Clark MP
*Secretary of State for Levelling up
Housing & Communities*

***Department for Levelling Up,
Housing and Communities***
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

To: Firms offering councils commercial advice

www.gov.uk/dluhc

19 August 2022

Dear Sir or Madam,

FLEXIBLE USE OF CAPITAL RECEIPTS FOR TRANSFORMATION PROJECTS

I am writing to you as I have concerns that some local authorities are engaging in risky commercial practices, which are putting taxpayers' money at risk. I know that many local authorities engage with consultants and advisors to bring in the necessary expertise and support for a range of reasons, including asset management, financial and accounting advice and to support operational improvements. I recognise the need for local government to draw on expertise and specialist advice, and that this is both necessary and can have significant benefits.

I am concerned, however, that some authorities look for strategies that push at the bounds of what is permitted, and sometimes seek external advice and support to implement novel and risky strategies. I recently closed a loophole in the powers afforded to councils for the flexible use of capital receipts; it concerns me that this was necessary. I would like to be able to trust councils to follow the spirit as well as the letter of the law, and to act prudently with public money. I am, however, concerned that some councils are spending taxpayers' money on external advice to engage in practices that may put public money and service delivery at risk.

I am writing to all councils and those companies who I know work with the sector, to ensure a wide-reaching and consistent message and to ask your support in safeguarding the financial framework. To be clear, I recognise that many councils and advisors will be engaged in sensible, prudent activity. However, I hope that you will agree with me that companies should not seek to gain by helping councils pursue strategies that engage in risky financial practice. This includes where local authorities are taking excessive risks with novel strategies or looking for ways to circumvent the

statutory bounds that are designed to constrain risk. Council officers and Members must also take seriously their responsibilities, and not waste money by pursuing strategies that the government then must intervene to prevent.

I welcome any engagement on this matter and hope that the sector, its advisors, and the government can work cooperatively to make sure public money is used appropriately.

Yours ever,

A handwritten signature in black ink that reads "Greg Clark". The signature is written in a cursive style with a large, sweeping "G" and a distinct "C" at the end.

RT HON GREG CLARK
Secretary of State for Levelling Up, Housing and Communities

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Report to Audit Committee

2022/23 Internal Audit and Counter Fraud Progress Report

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

Officer Contact: John Miller – Head of Audit & Counter Fraud

Report Author: John Miller – Head of Audit & Counter Fraud

8 September 2022

Reason for Decision

To provide Members with a high-level progress report on the work of the Internal Audit and Counter Fraud team for the 2022/23 financial year.

Executive Summary

The report summarises the work carried out by the team from 1 April 2022 to 31 August 2022.

In the first 5 months of the year the team prioritised finalising work on the Fundamental Financial Systems (FFS) reviews to support the 2021/22 audit of the financial accounts, and draft final reports have been issued.

In addition, other Audit and Counter Fraud Team activity includes:

- Continued support in respect of COVID-19 grant funding regimes, including responding to Central Government requests for supporting information in respect of grants paid.
- Continued support in providing assurance in respect of other Central Government Grant regimes.
- Compilation of the Annual Audit Report and Opinion and other reports for this Committee.
- Commencement of audit reviews in connection with regeneration projects, MioCare FFS, and the Council's Let Estate.

- The Counter Fraud and Direct Payments Audit Teams (Children and Adults) have continued to deliver significant recovery outcomes which have generated £1,168,579 and £39,564 (respectively) for the period 1 April to 31 July 2022.

Recommendation

Members are requested to note the 2022/23 Audit and Counter Fraud Progress Report.

2022/23 Internal Audit and Counter Fraud Progress Report**1. Background**

- 1.1 This report summarises the work of the Audit and Counter Fraud Team between 1 April and 31 August 2022.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2022/23 Audit and Counter Fraud Plan: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2. 2022/23 Audit and Counter Fraud Plan: Progress Update

- 2.1 Priorities for the 2022/23 Audit and Counter Fraud Plan are:
- Fundamental Financial Systems (FFS) reviews to provide assurance in support of the Authority's annual financial statements.
 - Audits which are classed as "high priority" in the Annual Audit Needs Assessment.
 - Counter Fraud work to identify fraud risks within the corporate systems.
 - Specific fraud investigations on Council Tax Reduction and Corporate Fraud.
 - Delivery of the financial audits of Direct Payments in line with service plans and targets.
 - Support and provide assurance in connection with postal votes for local, regional, and parliamentary elections.

Progress against these priorities is summarised below:

Completion of 2021/22 Fundamental Financial Systems (FFS) reports

- 2.2 Work commenced on these reviews in October 2021. Interim FFS reports were issued by the 31st March 2022 and final reports during Quarters 1 and 2 of 2022/23. Members have received reports on the findings and opinions of the 2021/22 FFS reports throughout 2021/22, and as part of the Audit and Counter Fraud Team's reporting for the year as a whole. There are no further significant updates to report upon at this time in respect of our FFS work for 2021/22. Further details can be found at Appendix 1.

2022/23 Fundamental Financial Systems (FFS) reports

- 2.3 Work in connection with the current year FFS reviews will commence later in 2022.

Non-FFS related work

- 2.4 In addition to the 2021/22 FFS related reports the team has also issued a School Audit Report to St Joseph's Primary School, and both a briefing note and report on Postal Voting during the last election.

Grant Assurance Reviews

- 2.5 Further ongoing work was also undertaken in connection with grant funding schemes in response to the COVID-19 pandemic, primarily responding to Central Government requests for supporting information and/or assurance statements to ensure grant funding has been utilised as intended.

- 2.6 Requests for this type of work have been both frequent and received at relatively short notice. The team has completed 10 pieces of work since April, with 4 further pieces of work currently underway and an expectation that further requests for this type of assurance work may be received. Each piece of assurance work requires verification of significant expenditure and, as such, each represents a small, targeted audit in itself.

Other work undertaken

- 2.7 In addition to our annual FFS work on Adult Social Services in connection with Direct Payments and Residential Care we continue to contribute to Adult Social Care Service working groups to address the concerns raised in the FFS audit reports in these areas.
- 2.8 Other work currently underway includes a review of the Alexandra Park Eco project, the Miocare FFS review, and a review of the Council's Let Estate Function. The findings from these reviews will be reported upon in due course.
- 2.9 Preparatory work is also underway in respect of a number of other reviews due to progress to fieldwork stages. The team has also supported both the Director of Finance and other colleagues within the Finance Service, and in other service areas, with ad hoc requests for support and assistance throughout the period.

3. Corporate Counter Fraud

- 3.1 The Corporate Counter Fraud Team continues to perform well. Appendix 2 sets out the key outcomes from the work conducted.
- 3.2 Highlights include the identification of:
- 14 cases of ineligible claims for Council Tax Reduction (CTR).
 - £15k of ineligible claims for Council Tax Reduction (CTR)
 - £33k of Housing Benefit ineligibility and overpayments (identified as part of the CTR investigations).
 - 64 positive cases of non-CTR fraud/misuse of funds including Business Support Grants, Council Tax Single Person Discount fraud (SPD), Blue Badge misuse and Direct Payment misuse.
 - £124k of non-CTR fraud/misuse
- 3.3 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:
- collaborate with the Internal Audit Team; and
 - ensure the delivery of the Internal Audit and Counter Fraud Plan 2022/23.

4. Audit of Direct Payments

- 4.1 The Direct Payments Audit team has a dual role, as a compensating control, of:
- ensuring client spending is in line with their agreed Support Plan; and
 - identifying overpayments made / or client contributions outstanding for recovery.
- 4.2 Appendix 3 shows the monthly Direct Payments Audit volumes and financial outcomes arising for both Adults and Children's Services, which are £1,168,579 and £39,564 (respectively). In summary, the team carried out 501 Adults and Children's Direct Payment Audits.

5 Options/Alternatives

5.1 The Audit Committee can either:

- a) choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team; or
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach.

6 Preferred Option

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

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 The 2022/23 Audit and Counter Fraud Plan is prepared, reviewed, and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)

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 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

18 **Equality Impact Assessment Completed**

18.1 No.

19 **Forward Plan Reference**

19.1 N/A.

20 **Key Decision**

20.1 No.

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: Background papers are included as Appendices 1, 2 & 3
Officer Name: John Miller

22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Audit Reports/Outcomes – 1 April to 31 August 2022
- **Appendix 2:** Counter Fraud Results – 1 April to 31 July 2022
- **Appendix 2:** Direct Payments Audit Results – 1 April to 31 July 2022

Audit and Counter Fraud 2022/23 - Summary of Audit Reports/Outcomes - 1 April 2022 to 31 August 2022

Report Ref	Directorate	Audit Review/Counter Fraud Report	Report/Briefing Note	Quarter	Opinion
1	Chief Executive	2021/22 Draft Final Report – Council Tax	Report	Q1	Inadequate
2	Chief Executive	2021/22 Draft Final Report – Business Rates (NDR)	Report	Q1	Adequate
3	Chief Executive	2021/22 Draft Final Report – Treasury Management	Report	Q1	Good
4	Chief Executive	2021/22 Draft Final Report – Bank Reconciliations	Report	Q1	Good
5	Chief Executive	2021/22 Draft Final Report – Payroll	Report	Q1	Adequate
6	Chief Executive	2021/22 Draft Final Report – Housing Benefit	Report	Q1	Adequate
7	Chief Executive	2021/22 Draft Final Report – Council Tax Reduction	Report	Q1	Adequate
8	Chief Executive	2021/22 Draft Final Report – Accounts Payable	Report	Q1	Adequate
9	Chief Executive	2021/22 Draft Final Report – Accounts Receivable	Report	Q1	Adequate
10	Chief Executive	2021/22 Draft Final Report – Direct Payments	Report	Q1	Inadequate
11	Chief Executive	2021/22 Draft Final Report – Residential Care	Report	Q1	Inadequate
12	Chief Executive	2021/22 Draft Final Report – Fixed Assets	Report	Q1	Adequate
13	Place & Economic Growth	2021/22 Draft Final Report – Cash Income (Building Control)	Report	Q2	Adequate
14	Place & Economic Growth	2021/22 Draft Final Report – Cash Income (Fleet Management)	Report	Q2	Adequate
15	Children & Young People	St Joseph's Primary	Report	Q2	Inadequate
16	Chief Executive	Contain Outbreak Management Fund	Grant Assurance	Q2	Assurance
17	Chief Executive	Prevention and Promotion for Better Mental Health	Grant Assurance	Q1	Assurance
18	Chief Executive	Test and Trace Support Payments	Grant Assurance	Q2	Assurance
19	Chief Executive	Universal Drug Treatment Grant	Grant Assurance	Q1	Assurance
20	Chief Executive	Public Sector Decarbonisation Grant (AGMA) – Low Voltage Lighting	Grant Assurance	Q1	Assurance

21	Chief Executive	Public Sector Decarbonisation Grant (OMBC) – Alexandra Park	Grant Assurance	Q1	Assurance
22	Chief Executive	RED WoLF - Rethink Electricity Distribution Without Load Following	Grant Assurance	Q1	Assurance
23	Chief Executive	Omicron Hospitality and Leisure Grant Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q1	Assurance
24	Chief Executive	Additional Restrictions Grant Pre & Post Payment Assurance (PPAS)	Grant Assurance	Q1	Assurance
25	Chief Executive	COVID-19 Business Grants Fraud and Error Assurance	Grant Assurance	Q1	Assurance
26	Chief Executive	Local/Mayoral Election - Post Votes Review	Report	Q1	Advisory
27	Chief Executive	Local Elections Postal Vote Checks	Briefing note	Q1	Advisory

Key:

Opinion	Description
Advisory	The work in this area is either not audit work in nature and/or is undertaken on behalf of third parties.
Assurance	The work in this area has been undertaken in order to provide assurance that funding has been spent as intended.
Poor	Action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Inadequate	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited.
Adequate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance and/or scope for improvement were identified which could put at risk the achievement of objectives in the area audited.
Good	A sound system of governance, risk management and/or control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Opinion withheld	Opinion has been withheld at interim stage pending further fieldwork required at final report stage in order to arrive at an opinion on the systems and controls in place.
TBC	Opinion awaiting confirmation following further discussion with management.

Audit and Counter Fraud 2022/23

Counter Fraud Results - 1 April 2022 to 31 July 2022

Counter Fraud Team Performance Monitoring 2022/23	Quarter 1 (Month 1-3)	Month 4	Total
Corporate Cases - Positive Results	58	6	64
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£70,487.46	£53,591.92	£124,079.38
CTR cases amended as a result of an investigation	12	2	14
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£32,179.15	£1,001.64	£33,180.79
CTR Fraud and Error Overpayments identified (£)	£10,462.14	£4,807.20	£15,269.34
Financial Outcomes	£113,128.75	£59,400.76	£172,529.51

Audit and Counter Fraud 2022/23

Direct Payments Results - 1 April 2022 to 31 July 2022

Adults Social Care

Financial Year 2022/23	Number of Audits Reviewed	Total Direct Payment and Financial Contribution for Recovery
April	129	£372,125.60
May	83	£188,483.36
June	91	£237,602.47
July	144	£370,368.05
Total	447	£1,168,579.48

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Children and Young People

Financial Year 2022/23	Number of Audits Reviewed	Total Direct Payment for Recovery
April	20	£10,846.10
May	10	£8,805.31
June	7	£10,707.09
July	17	£9,205.66
Total	54	£39,564.16



Report to Audit Committee

Proposed Audit Committee Work Programme for 2022/23

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

Officer Contact: Anne Ryans, Director of Finance

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

Ext. 07825 788491

8 September 2022

Reason for Decision

The workplan below sets out the proposed updated schedule of Audit Committee meetings for the remainder of the Municipal Year 2022/23, including meeting dates and venue, agenda items and a brief summary of the report subject.

Executive Summary

The workplan is updated and reviewed on a regular basis and the updated proposed schedule is attached. The work programmes for the June and July meetings are included for information (shaded grey). The plan is shaped by the Council's formal reporting structures and the timings of the meetings and agenda items are scheduled to reflect this. Any urgent or new developments will be added to the workplan accordingly.

Recommendations

That Members of the Audit Committee are asked to note the updated workplan and comment where necessary.

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 9 June 2022 at 6.00 pm	SIRO Annual Report 2021/22	This is the Annual Report of Senior Information Responsible Officer to the Audit Committee.
	Audit of Housing Benefit Subsidy 2020/21	This is the reported outcome of the audit of the Housing Benefit Subsidy Grant undertaken by KPMG in relation to the 2020/21 financial year.
	Director of Finance – Charged with Governance, Management Processes and Arrangements	The draft response of the Director of Finance to provide key assurances to support the Audit Process which are then discussed by the Committee.
	Audit Committee Chair – Charged with Governance, Management Processes and Arrangements	The draft response of the Audit Committee Chair to provided key assurances to support the Audit Process which are then discussed by the Committee.
Page 48	Local Code of Corporate Governance	This is an update to the previously agreed Local Code of Corporate Governance.
	Internal Audit Charter 2022/23	This is the annual update to the Internal Audit Charter for discussion at the Audit Committee.
	Internal Audit and Counter Fraud Progress Report	An update report on the progress made by the Internal Audit Service.
Tuesday 21 June 2022 at 6.00 pm	2021/22 Annual Report to Audit Committee	This is the Annual Report of the Chief Internal Auditor on the overall Internal Control Environment of the Council for the financial year 2021/22.
	Draft 2021/22 Annual Statement of Accounts	This is the report to the Audit Committee on the draft Statement of Accounts which also details the provisional out-turn for the financial year 2021/22.
	Reserves Policy for 2021/22 to 2022/23	This is the annual update to the Reserves Policy considering the provisional out-turn for the financial year 2021/22.
	Treasury Management Review 2021/22	The annual review of Treasury Management for 2021/22 by the Audit Committee.
	Annual Governance Statement for 2021/22	The detailed review of the Annual Governance Statement by the Audit Committee.

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 21 July 2022, 6.00pm	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
	2021/22 Statement of Final Accounts	This report provides an update on the 2021/22 draft Statement of Accounts and associated issues arising from the fieldwork from the current external audit which is ongoing.
	The 2021/22 Review of the System of Internal Audit	Annual Review of the system of internal audit using the balanced scorecard.
Page 49	Proposed Audit Committee Work Programme for the Municipal Year 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; 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 2021/22 and new issues for 2022/23.	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.
Thursday 8 September 2022, 6.00 pm	Update on External Audit Matters	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	2021/22 Statement of Final Accounts	This report provides an update on the 2021/22 draft Statement of Accounts and associated issues arising from the external audit. It will detail the consultation outcome on Infrastructure Assets and the potential impact on the Council.

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Update on Financial Administration in Local Authorities	A report detailing challenges experienced in the financial administration at other Local Authorities including Section 114 Notices issued as reported in the public domain.
	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.
Page 50	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues for 2022/23	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.
	Private Report; Update on the Corporate Risk Register	This sets out the position as of 30 June 2022 in relation to matters included on the Corporate Risk Register.
	Private Report; Potential Risks to the Council arising from the setting up of Northern Roots (Oldham) Limited	This report sets out the analysis of risk to the Council from the Charitable Company Northern Roots (Oldham) Limited.
Tuesday 1 November 2022, 6.00pm	Audit Completion Certificate for the 2020/21 Accounts	The final audit certificate is anticipated to be issued following the implementation of the agreed accounting treatment for Infrastructure Assets and the conclusion of the Whole of Government Accounts audit.
	Audit Completion Report	The report details the findings (possibly excluding an opinion on Infrastructure Assets) of the external audit into the 2021/22 Statement of Final Accounts.

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	2021/22 Statement of Final Accounts	This report details the audited opinion for the 2021/22 Statement of Final Accounts.
	Oldham Council Value for Money Opinion for the Financial Year 2021/22	This report details the value for money opinion provided by the External Auditor under the revised Code of Practice for the financial year 2021/22.
	Update on External Audit Matters	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 before submission to Cabinet in November.
Page 51	Review of Corporate Fraud Policies	An annual review of the Counter Fraud Suite of policies to reflect the recent legislation.
Page 51	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.
	Updated Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues for 2022/23	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; Senior Information Risk Owner update: Update	This updates the Audit Committee on the key matters relating to data protection and information security breaches.
	Private Report; Potential Risks Associated with Council's setting up a Housing Company	This follows on from the 21 July 2022 report on Partnership Governance whereby the Committee requested a report on the

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
		perceived risks associated with setting up a Housing Company within Oldham.
Monday 16 January 2022, 6.00 pm	External Audit Annual Audit Letter 2021/22	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Treasury Management Strategy Statement 2023/24	This report sets out the Proposed Treasury Management Strategy for 2023/24 to support the Corporate Objectives of the Council.
Page 52	Compliance with the Chartered Institute of Finance and Accountancy (CIPFA) Code of Financial Management	This report details the assessment within Oldham Council on how it complies with the CIPFA Code of Financial Management with appropriate recommendations for improvement.
	Internal Control Matters for Adult Social Care	This is the report to Committee on Internal Control Matters within the Adult Social Care Service.
	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 the remainder of 2022/23 and the 2023/24 financial year	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2021/22 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.

Updated Audit Committee Work Programme for the 2022/23 Municipal Year

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 9 March 2023, 6.00pm	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under GDPR.
	Audit of Teachers' Pensions Agency Return 2021/22	This report considers the feedback following the external audit of the Teachers' Pension Agency return.
	Audit of Housing Benefit Subsidy claim 2021/22	This report considers the feedback on the audit of the Housing Benefit Subsidy Grant claim.
	External Audit Progress Report	An update produced by the external auditor of issues to be brought to the attention of the Committee.
Page 53	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 2023/24	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Senior Information Risk Owner (SIRO) Update	Annual report of the SIRO including an overview of reported data breaches.
	Private Report; Internal Audit Plan 2023/24	The proposed plan of work for the financial year 2023/24 to enable review by the Committee.
	Private Report; Update on the Annual Governance Statement for 2021/22 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.

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