

**AUDIT COMMITTEE**  
**21/07/2020 at 6.00 pm**



**Present:** Councillor Haque (Vice-Chair, in the Chair)  
Councillors Ahmad, C. Gloster, Sheldon, Hobin, Iqbal and Taylor

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Karen Murray	Mazars External Auditors
Sabed Ali	Assistant Manager - Internal Audit
Andy Cooper	Capital & Treasury
Liz Drogan	Head of Democratic Services
Lori Hughes	Constitutional Services
Lee Walsh	Finance Manager - Capital and Treasury
Amelia Payton	External Auditor

**1            APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Dean and Councillor 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 received.

**5            MINUTES OF PREVIOUS MEETING**

**RESOLVED** that the minutes of the Audit Committee held on 23<sup>rd</sup> June 2020 be approved as a correct record.

**6            TREASURY MANAGEMENT REVIEW 2019/20**

Consideration was given to a report of the Director of Finance on the Treasury Management Review for 2019/20.

The Council was required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. The report met the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (approved 27 February 2019)
- A mid-year (minimum) treasury update report (approved 8 January 2020)

- An annual review following the end of the year describing the activity compared to the strategy (this report).

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

The Council confirmed it had complied with the requirements under the Code to give prior scrutiny to the treasury strategy and the mid-year update. The Audit Committee was charged with the scrutiny of treasury management activities in Oldham and was, therefore requested to review the content of this annual report prior to consideration by Cabinet and Council (to ensure full compliance with the Code for 2019/20).

During 2019/20, the Council had complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators, which detailed the impact of capital expenditure activities during the year, with comparators were detailed in the report. Actual capital expenditure was less than the revised budget estimate for 2019/20 presented within the 2020/21 Treasury Management Strategy report which was considered at the Council meeting of 26 February 2020. The outturn position was significantly less than the £84.332m original capital budget for 2019/20 as approved at Budget Council on 27 February 2019.

During the course of the year, the Capital Programme had seen substantial rephasing. A number of major schemes including a number of schools' schemes in the Children's Services Directorate had been rephased. The Asset Management (Education) Essential Condition Works provision was realigned into future years to align with other works being undertaken at schools. Housing Revenue Account (HRA) schemes were rephased into 2020/21 to align with the latest HRA Strategy. In addition, the 'Creating a Better Place' Strategy required a number of existing regeneration projects to be reviewed and rephased to align to the long-term vision of the strategy. Also, during the year, the IT Capital Strategy, the Strategic Roadmap, had been reviewed. The outcome was a rephasing of resources which ensured that the Council's future IT offer took account of new innovations in IT and created efficiencies that would complement future ways of working.

Borrowing of £20m was undertaken during the year. Member training on treasury management issues was undertaken on 1 October 2019 in order to support Members and senior members of staff in their scrutiny role.

The report also detailed other prudential and treasury indicators. The report summarised the following:

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

The Director of Finance confirmed that the statutory borrowing limit (the authorised limit) had not been breached.

The challenging investment environment of previous years, namely low investment returns, continued in the 2019/20 financial year.

Members congratulated the Finance Team on the hard work in the completion of the accounts.

Members sought and received clarification on the capital expenditure. Members were informed that capital receipts were constantly reviewed. The level of capital receipts was linked to disposals. There was some slippage which could be related to maximising potential return for the Council and for due process to be followed. There was no particular challenge around the non-delivery in terms of receipts, however the 2020/21 position would be different due to the pandemic as activity around disposal had significantly reduced. Members were provided information on the use of the capital grant.

Members sought and received clarification on the loans and leases. The members were also provided with an update on the reprofiling of the capital programme which included the Creating a Better Place programme, rephasing into future years and the IT strategy.

**RESOLVED that:**

1. The actual 2019/20 prudential and treasury indicators presented in the report be approved.
2. The Annual Treasury Management Report for 2019/20 be approved.
3. The Treasury Management Review 2019/20 report be commended to Cabinet.

**RESERVES POLICY FOR 2019/20 TO 2020/21**

Consideration was given to a report of the Director of Finance which presented the proposed Reserves Policy for the financial years 2019/20 to 2020/21 and incorporated any view into the final policy.

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

There had been several reports issued on Local Government Resilience over the last couple of years with the Chartered Institute of Public Finance and Accountancy (CIPFA) releasing its Financial Resilience Index in December 2019. This index placed an increased focus on the level of reserves held by Local Authorities and therefore, its ability to be financially resilient. Furthermore, the global pandemic had had a significant impact on Local Government and the financial challenges faced by the Council meant a greater reliance would be placed on reserves.

The Audit Commission in 2012 produced a report into research on the level of reserves held by Councils. One conclusion was that Councils needed to consider their present decision making around reserves in a number of areas which included:

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

The Council operates in a way that ensures that these six issues were given due consideration and action was taken to ensure compliance as appropriate.

The Policy was presented to the Audit Committee for review and to provide assurance that the Council managed its reserves effectively. The Policy was appended to the report at Appendix 1 and presented the Council's strategic approach to the creation and maintenance of reserves. It highlighted the 15 major reserves which aligned to the information contained in Note 14 of the Statement of Accounts (as presented elsewhere on the agenda). Members were advised of the purpose of each of the reserves.

Members were referred to Section 5 of the report whereby the decision to utilise any reserve would only be made once the in-year and future impact of use on the overall financial position of the Council had been considered by the Director of Finance.

Members commented that it was good to have healthy reserves and asked if there were enough to deal with the impact of the pandemic. Members were informed that there were sufficient reserves in these unforeseen times. There were some reserves which were required to support the Medium Term Financial Strategy, specifically linked to the transformation programme. What would be required was careful management to minimise the call on reserves through the times of uncertainty and there should be a delay in the use of committed reserves where possible until there was greater certainty about the financial position.

Members sought and received clarification on the £10m COVID-19 reserve. Whilst £7.641m related to Government grant received in 2019/20 as a unringfenced resource to support the response to the pandemic, the balance of £2.359m. It would either be used to support initiatives to be introduced to alleviate the effect of the pandemic or bridge the gap between the government resources provided and the required level of Council spending. Members also asked about specific reserves related to the pandemic and were informed that the 15 major reserves as outlined in the report would be reviewed if resources were needed.

**RESOLVED** that the review of the Reserves Policy for 2019/20 to 2020/21 be noted and was suitable from a governance perspective.

## 8 **EXTERNAL AUDIT - AUDIT UPDATE REPORT**

The report was included in the Audit Completion Report at Item 9 on the agenda.

## 9 **EXTERNAL AUDIT - AUDIT COMPLETION REPORT**

The Committee gave consideration to a report which presented the Council's draft Audit Completion Report, as attached at Appendix 1, for the year ending 31 March 2020 as prepared by the External Auditor, Mazars LLP.

The Audit Completion Report at Appendix 1 to the report summarised the External Auditor's audit conclusion. The scope of working included the identification of significant audit risks, key audit matters and other areas of management judgement as outlined in the Audit Strategy Memorandum (ASM) that had been presented to the Audit Committee on 20 January 2020. Since the presentation of the ASM, the consideration of a significant risk was revised. The External Auditor had identified in their ASM that there was a significant audit risk, and key audit matter, related to the valuation of the Council's pension liability. It was subsequently identified that the significant audit risk and key audit matters applied to the Council's group level and not just the Council single-entity financial statements, resulting in the pension liabilities of the Council's two wholly owned consolidated subsidiary companies being considered significant risks.

Since the External Auditor had issued the Audit Strategy Memorandum the UK had been subject to the challenges and restrictions of COVID-19. Other than the matter highlighted above, the External Auditor had concluded that the original significant audit risks, key audit matters and other areas of management judgement remained appropriate.



One implication of COVID-19 for the Council was the deadlines for submission of the draft and audited financial statements had been pushed back to 31<sup>st</sup> August and 30<sup>th</sup> November respectively. Despite the revised deadlines, the difficulties encountered by the Finance team during accounts preparation and audit were acknowledged and the External Auditor expressed their sincere thanks for the assistance of the team during the audit.

The Audit of the accounts had been substantially completed. Several items required resolutions, as presented at page 4 of the report, and were in the main outside the control of the Council. The following update was provided.

The challenges of completing the accounts with the shift to home working were highlighted as well with dealing with different priorities. The Oldham accounts had been prepared to a really good standard and officers had supported the external auditors with their queries. Members were provided updates on issues since the publication of the report and were informed of work ongoing on valuation, work on the heritage assets had been completed, ongoing work related to the Manchester Airport shareholdings and issues related to Pensions which were outside the control of the authority. There were no control issues identified which was a positive position.

External auditors provided a detailed explanation on the findings. The Valuation of land and buildings was yet to be completed but it was not expected that there would be any issues of significant risk to be reported. Assurance was still awaited from the Pension Fund Auditor, information had been requested but not yet received. Section 5 set out the adjustments to the final accounts and the impact of Covid regarding the revised actuarial report. There were no issues to report on the override of controls.

It was confirmed that Council had implemented all the recommendations from last year.

Members were informed that the deadlines had been changed for Final Accounts given the impact of the pandemic. The External Auditors were confident that none of the outstanding matters would lead to a material amendment. Whilst the audit was not yet finished, the accounts were substantially completed and further on than the report may indicate. At this stage, the external auditors could give an unqualified opinion and would be surprised if there were any amendments.



Members expressed concern related to the number of issues and their ability to give agreement to the Final Accounts. This would be discussed at the next item.

Members were informed that when the Extraordinary Audit Committee meeting had been set the External Auditor had indicated that the work on the Final Accounts was nearly completed. The main outstanding issues were outside the control of the Council and linked to other parties. If the accounts had been completed in an office environment the issues would have been resolved quicker. It was included in the recommendation of the Final Accounts report that the Committee delegate authority to approve the accounts to the Vice Chair and the Director of Finance on the advice of the External Auditor. It was suggested that the recommendation be amended so that if any significant changes or concerns were raised, the report would be brought back to the attention of the Committee. The External Auditors did not anticipate significant amendments.

The External Auditor spoke on the Value for Money conclusion which was required on overall arrangements in the use of resources. Reference was made to the oversight and understanding of the financial position and robust governance.

**RESOLVED** the Audit Completion Report for the year ending 31 March 2020 be noted.

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## **2019/20 STATEMENT OF ACCOUNTS**

Consideration was given to a report of the Director of Finance which presented the Council's Statement of Accounts for the financial year 2019/20. The Audit Committee was charged with the scrutiny and approval of the Statement of Accounts.

The report highlighted:

- The overall revenue outturn position for 2019/20 was a surplus of £0.270m. This was an increase on the favourable variance of £0.065m projected at Month 9 that was reported to Cabinet on 23 March 2020.
- The year-end variances that were attributable to each Portfolio.
- Schools balances at 31 March 2020 were £5.487m but were offset by the deficit on the Dedicated Schools Grant (DSG) of £4.916m leaving a net balance of £0.571m held within Other Earmarked Reserves.
- The final Housing Revenue Account (HRA) balance was £21.796m.
- The balance on the Collection Fund was a surplus of £3.295m.
- The small reduction in revenue account earmarked reserves of £1.263m to a level of £79.360m, a decrease in other earmarked reserves of £4.431m to a level of £8.504m and an increase in the General Fund balance of £0.270m to £15.110m, reflective of the revenue outturn position.

- Expenditure on the Council's Capital Programme for 2019/20 was £54.383m which was an increase on the Month 9 forecast expenditure of £52.497m. The increase in expenditure required funding allocated to future years to be re-profiled to fully finance the Capital Programme in 2019/20.
- Capital Receipts in year totalled £9.914m, all of which were used to finance the Capital Programme in year.
- The significant items in each of the primary financial statements.
- The preparation of Group Accounts incorporating the Councils two wholly owned companies – the Unity Partnership Ltd. And MioCare Community Interest Company.
- The performance of the Finance Team in closing the accounts.

The presentation of the audited Statement of Accounts provided the Audit Committee members with the opportunity to review the Council's Statement of Accounts and any amendments made to date as a result of the audit process and following the conclusion of the period for public inspection. The public inspection period had closed on 10 July 2020 with no objections received by the Council or the External Auditors. The Accounts were presented at Appendix 1 to the report.

The Committee were advised that at the time of the Committee papers being issued, the audit, although substantially complete, required the resolution of an outstanding item related to the Council's investment in the Manchester Airport Holdings Limited. The External Auditors also had to have assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). The GMPF assurance work had not yet been concluded.

The Committee were advised that the Final Accounts had been prepared under challenging circumstances. The main outstanding issues were not under the control of the Council and would be resolved as soon as possible.

The changes to the Final Accounts was referenced at Appendix 2 to the report, which included the Pension Fund measurement, pension reserve statement linked to two subsidiaries and some transactions which had been incorrectly identified. A lease note had been added for this first time which aided improved transparency. Changes also included amendments to classifications on disclosure of financial interests, updated Clinical Commissioning Group outturn information and minor alterations to the narrative to the accounts.

It was noted that given the challenging position of the Council and local government that the Committee be provided with appropriate information and how the Council was dealing with the challenges. Use of reserves would be minimised and reports would be brought to the committee which outlined relevant matters.



Members asked about the £17m reduction in pension liability and were informed that the first report had contained draft estimates with valuation assumptions from January. A further revised based on the position at the end of March found that the actual figure was better than forecast and, even though there was only a slight percentage change in assumptions, given the size of the pension liability, the change had resulted in a revision to the valuation which required an adjustment to the accounts.

Members asked about the challenges in the preparation of the accounts and were informed that the collation of information had been harder with information held on laptops as well as paper documents held in offices. It has been more challenging to only work on laptops without the ability to print reports and working papers for checking.

Members sought a change to the recommendation in the report to include the accounts be approved subject to any major amendments or changes being brought to the attention of the Committee. Members moved and seconded the following amended recommendation which was agreed:

“The Audit Committee delegate the approval of the final accounts to the Vice Chair of the Audit Committee in conjunction with the Director of Finance aligned to the advice of the External Auditor and subject to a report to the September meeting of the Audit Committee detailing the updated audit position.”

**RESOLVED that:**

1. The Council’s Statement of Accounts for 2019/20 be noted.
2. The Management Letter of Representation be noted.
3. The approval of the Council’s Statement of Accounts be delegated to the Vice Chair of the Audit Committee in conjunction with the Director of Finance aligned to the advice of the External Auditor subject to a report to the September meeting of the Audit Committee detailing the updated audit position.

The meeting started at 6.00 pm and ended at 7.35 pm