

## Report to Audit Committee

# Self-Assessment of the work undertaken by the Audit Committee during 2022/23 compared to the Constitution

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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

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**20 July 2023**

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### Reason for Decision

The first stage of producing the Audit Committee's Annual Report to Council is to undertake a review of the work undertaken during 2022/23 and assess how it aligns to the Committee's Terms of Reference as set out in the Council's Constitution. The requirement to produce a Annual Report is set out in updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Audit Committees 2022. This was highlighted as good practice to Members of the Committee in the recent training that they received on the role and responsibilities of the Audit Committee.

This report therefore sets out:

- a) A summary of the guidance (for Members Information) setting out the key documents which will influence how this Audit Committee should operate to follow best practice going forward. A further report is planned for consideration by the Committee on 5 September 2023.
- b) How the Committee's work during 2022/23 aligned to the agreed Terms of Reference as set out in the Council's Constitution. This is the first stage in producing the Annual Report.

**The Council's Constitution under Responsibility for Functions sets out the Terms of Reference to the Audit Committee detailing its agreed responsibilities.**

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## **Executive Summary**

During the Calendar Year 2022 CIPFA issued a suite of updated guidance documents intended to inform and support the future work of Audit Committees in organisations across the public sector, including Local Authorities. The guidance assists both Members of the Audit Committee (Elected and Independent) and those Officers who support the work of the Committee.

The documents for this Committee to consider are:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
- The Audit Committee Member in a Local Authority 2022 edition.
- Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
- Appendix E - Self-assessment of good practice.
- Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022 requires that Audit Committees:

“report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.”

This report summarises how Oldham Council's Audit Committee will meet this annual reporting requirement with the first stage being the assessment of how the actual work reported compared to the agreed Terms of Reference.

## **Recommendation**

That the Members of the Audit Committee endorse the self-assessment against the agreed Terms of Reference as set out in this report.

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**Self-Assessment of the work undertaken by the Audit Committee during 2022/23 compared to the Constitution**

**1. Background**

- 1.1 During the calendar year 2022, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a suite of updated guidance documents intended to inform and support the work of Audit Committees in organisations across the public sector, including Local Authorities. The guidance assists both Members (Elected and Independent) of the Audit Committee and those Officers who support the work of the Committee.
- 1.2 This report then summarises how the work of the Audit Committee during 2022/23 will support the production of its annual report by assessing how the work undertaken compared to the Terms of Reference as set out in the Council's Constitution.
- 1.3 The updated documents, their purpose and a summary of their contents is discussed briefly in paragraphs 2.1 to 2.6.

**2. CIPFA Audit Committee Supporting Documents 2022 editions**

2.1 The documents which will support Oldham Council's Audit Committee are:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
- The Audit Committee Member in a Local Authority 2022 edition.
- Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
- Interactive Appendix E - Self-assessment of good practice.
- Interactive Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

Members of the Committee have been provided with copies of these documents and each is discussed in more detail below.

**2.2 CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.**

- 2.2.1 The statement sets out the purpose, model, core functions and membership of the Audit Committee. The statement represents CIPFA's guidance on Audit Committee best practice and the principles that Local Government bodies in the UK should adopt. It has been prepared in consultation with sector representatives and the Department for Levelling Up, Housing and Communities (Local Authority Accountable Body) and the Home Office (Police Accountable Body), all of whom support this guidance.
- 2.2.2 CIPFA expects that all Local Government bodies use their best efforts to adopt these principles, aiming for effective Audit Committee arrangements as an aid to meeting a Councils' statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

**2.3 The Audit Committee Member in a Local Authority 2022 edition.**

- 2.3.1 This section of CIPFA's guidance is for Members of Audit Committees in Local Authorities. It is intended to support both elected Members and co-opted independent Members (also known as Lay Members) to understand the purpose of the Committee, its functions and their responsibilities as Members of the Committee. The guidance also addresses areas
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such as independence and accountability, and membership and effectiveness of the Committee.

## **2.4 Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.**

2.4.1 Guiding the Audit Committee is a supplement to the Member guide. It is aimed at those Officers who support the Committee, helping them to ensure that the Committee acts in accordance with relevant legislation and good practice. Audit Committee Members may also wish to access this supplement.

## **2.5 Appendix E - Self-assessment of good practice.**

2.5.1 This document provides a high-level review tool that incorporates the key principles set out in CIPFA's Position Statement.

2.5.2 Where an Audit Committee has a high degree of performance against the good practice principles contained in Appendix E, it is an indicator that the Committee is soundly based and has in place a knowledgeable membership. These are important factors in developing an effective Audit Committee.

2.5.3 CIPFA recommends a regular self-assessment should be used to support the planning of the Audit Committee work programme and training plans. This report echoes and supports this recommendation and proposes that the Committee includes and undertakes a regular good practice self-assessment exercise as part of its planned work for the year.

## **2.6 Appendix F - Evaluating the impact and effectiveness of the Audit Committee.**

2.6.1 CIPFA believes, and this report concurs, that an Audit Committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the Authority's business.

2.6.2 Since the Audit Committee is primarily an advisory body, it can be difficult to identify how it has made a direct and/or measurable difference to the Council's aims and objectives. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

2.6.3 Appendix F is intended for use as an improvement tool to support a review of the Audit Committee's effectiveness. It identifies the broad areas where an effective Audit Committee will have impact.

2.6.4 This report recommends and proposes that the Committee includes and undertakes a regular evaluation of the impact and effectiveness of the Audit Committee as part of its planned work for the year.

## **2.7 Annual Reporting arrangements of the Audit Committee**

2.7.1 The 2022 suite of guidance includes a requirement for the Audit Committee to report annually to full Council on both its work for the year, and in respect of a self-assessment of the Committee's own performance, as follows

### **CIPFA Position Statement 2022:**

"... report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public."

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## **Audit committees: practical guidance for local authorities and police**

- To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To publish an annual report on the work of the Committee, including a conclusion on the compliance with the CIPFA Position Statement

## **Audit committees: practical guidance for local authorities and police**

### **Key Questions**

**Q** Does the Audit Committee report directly to the governing body (PCC and Chief Constable/full Council/full Fire Authority, etc)?

**Q** Does the governing body hold the Audit Committee to account for its performance at least annually?

**Q** Does the Committee publish an annual report in accordance with the 2022 guidance, including:

- compliance with the CIPFA Position Statement 2022
- results of the annual evaluation, development work undertaken and planned improvements
- how it has fulfilled its terms of reference and the key issues escalated in the year

2.7.2 This report focusses on reporting on the work of the Audit Committee in the year 2022/23 and how this aligns with, and demonstrates that, the Committee has discharged its responsibilities in relation to the Committee's Terms of Reference. This is set out as Appendix 1 to this report. Overall, the Committee has discharged its role in respect of the Terms of Reference with minor modifications planned for 2023/24 including the formal consultation on Finance and Contract Procedure Rules before they are agreed at full Council.

2.7.3 A separate report examining the effectiveness of the Committee in comparison to the guidance issued by CIPFA during 2022 will be prepared for the Committee as part of the Annual Report. This will be presented for consideration at the next meeting of the Committee.

### **3 Options/Alternatives**

3.1 The Audit Committee can either:

- a) choose to accept and endorse the proposed draft report to full Council on the work of the Audit Committee during 2022/23 aligned to the Committee's Terms of Reference; or,
- b) decline to accept and endorse the proposed draft report to full Council on the work of the Audit Committee during 2022/23 aligned to the Committee's Terms of Reference and suggest an alternative approach.

### **4 Preferred Option**

4.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit Committee.

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- 5 **Consultation**
  - 5.1 N/A.
  - 6 **Financial Implications**
  - 6.1 N/A.
  - 7 **Legal Services Comments**
  - 7.1 N/A.
  - 8 **Co-operative Agenda**
  - 8.1 N/A.
  - 9 **Human Resources Comments**
  - 9.1 N/A.
  - 10 **Risk Assessments**
  - 10.1 Failure to agree an approach to discharge its annual reporting requirements will not allow the Committee to meet the requirements of CIPFA's in terms of best practice (Mark Stenson)
  - 11 **IT Implications**
  - 11.1 N/A.
  - 12 **Property Implications**
  - 12.1 N/A.
  - 13 **Procurement Implications**
  - 13.1 N/A.
  - 14 **Environmental and Health & Safety Implications**
  - 14.1 N/A.
  - 15 **Equity, Community Cohesion and Crime Implication**
  - 15.1 N/A.
  - 16 **Equality Impact Assessment Completed**
  - 16.1 No.
  - 17 **Forward Plan Reference**
  - 17.1 N/A.
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## 18 **Key Decision**

18.1 No.

## 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: Background papers are included as Appendix 1  
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## 20 **Appendices**

20.1 The following Appendix is available to support this Report:

- **Appendix 1:** Self-Assessment of the work of the Audit Committee during 2022/23 compared to the Committee's Terms of Reference

**Self-Assessment of the work of the Audit Committee during the Municipal Year 2022/23 compared to the Committee's Terms of Reference**

**Introduction**

The first stage for the Audit Committee in producing an Annual Report to Council following best practice is for it to undertake a self-assessment on how it has discharged its duties under the agreed Terms of Reference. In advance of preparing the draft Annual Report this report presents an opinion as to whether it has discharged its Terms of Reference.

This self-assessment details how during the financial year 2022/23 the Audit Committee reviewed the seven key tasks defined in its Terms of Reference. These were:

- 1) Approval and oversight of the Financial Statement of Accounts
- 2) Oversight of the Council's Internal Audit Arrangements
- 3) Oversight of the Council's Relationship with the External Auditor
- 4) Review of Finance and Contract Procedure Rules
- 5) Oversight of Corporate Governance
- 6) Oversight of Treasury Management
- 7) Oversight of Risk Management
- 8) Oversight of Information Governance

Detailed below is the Self-Assessment prepared by Officers which details whether the Committee effectively discharged its responsibilities as set out in the Terms of Reference.

**1 Approval and Oversight of the Council's Financial Statement of Accounts**

**Audit Committee - 21 June 2022**

The Committee received and endorsed reports from the Council's Director of Finance (S151 Officer) on the Draft Financial Statement of Accounts for 2021/22, the Draft Annual Governance Statement and the Council Reserves Policy for the period 2021/22 and 2022/23.

**Audit Committee - 21 July 2022.**

This meeting received an update report on the current position regarding the audit and approval of the 2021/22 Financial Statement of Accounts. The report confirmed the revised audit deadline for the receipt of an external audit opinion as 30<sup>th</sup> November 2022. This report also provided an update on the CIFPA Consultation on Infrastructure Assets which at this stage was the issue which required resolving before an audit opinion could be given.

Authorities are required to publish notice on their websites to advise when the public inspection period of the Statement of Accounts commences. The Council public inspection period ran from 1<sup>st</sup> June 2022 to 14<sup>th</sup> July 2022. No questions or challenges were received during this inspection period.

The Committee was also informed that the audit process could not 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 yet be undertaken and was programmed for later in the year.

This was due to a delay by HM Treasury in issuing the WGA Toolkit setting out the format it required for 2020/21 information. This meant the WGA submission could not be prepared, and

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the External Auditor therefore could not complete the audit for the financial year 2020/21. Until there was clarity on what was required for WGA, the 2020/21 audit could not be finalised.

### **Audit Committee - 8 September 2022**

This meeting considered a report updating on the Council's Statement of Accounts for the financial year 2021/22. The report highlighted the current progress of the audit of the 2021/22 accounts. It also advised of the latest position regarding the preparation and review of the WGA for both 2020/21 and 2021/22 and provided an update on the CIPFA consultation on resolving the national matter of accounting for Infrastructure Assets.

### **Audit Committee – 1 November 2022**

This meeting considered a further update on the Council's Statement of Accounts for the financial year 2021/22. The audit which commenced on 6 June 2022 and was moving to a conclusion. It was anticipated at this stage that the Committee would have been able to consider the audited accounts at its next meeting on 29 November 2022, albeit without the finalisation of the issue related to the valuation of infrastructure assets which was still subject to consultation.

### **Audit Committee - 29 November 2022**

This meeting considered a report on progress of the audit of the 2021/22 accounts. It also advised of the developments about the preparation and review of the WGA for both 2020/21 and 2021/22 and provided an update on the consultation on Infrastructure Assets.

### **Audit Committee - 28 March 2023**

This meeting considered a report highlighting this Committee was the body that was charged with scrutiny and approval of the Council's Statement of Accounts. The report presented an update on the current position regarding the audit and approval of the 2021/22 Statement of Accounts.

This report also advised on developments regarding the preparation and review of the WGA for both 2020/21 and 2021/22 and an update on Infrastructure Assets. The Director of Finance also highlighted the low priority recommendation included in the Council's Draft Audit Completion Report (ACR) produced by the External Auditor which was also reported at this meeting.

The Committee also received the Draft Audit Completion Report of the Council's External Auditor, Mazars LLP, for the year ending 31 March 2022 which included a summary of the work and findings of the External Auditor in relation to the Council's arrangements to secure Value for Money.

In relation to the Council's Financial Sustainability, Governance and Improving Economy, Efficiency and Effectiveness, the External Auditor found no areas of actual significant weakness in the Council's arrangements, and no areas of risk of significant weakness in the Council's arrangements.

This meeting also considered a report advising Members that in line with best practice principles, approval was sought for the significant accounting policies and the critical judgements to be adopted in the preparation of the Council's 2022/23 Statement of Accounts.

The Director of Finance explained that the Council's accounting policies were the specific principles, conventions, rules and practices that were applied in the production and presentation of the annual Statement of Accounts. These policies are statutorily required to be disclosed within the notes supporting the annual accounts.

In terms of 'Critical Judgements' the Director of Finance explained to the Committee that, in line with International Financial Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Council was required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

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## **Conclusion**

**The reports to the Audit Committee comply with the Terms of Reference as set out in the Council's Constitution. The number of reports considered throughout 2022/23 reflect the national challenges that individual Local Authorities are encountering in obtaining External Audit certification of their accounts.**

## **2) Oversight of the Council's Internal Audit Arrangements**

### **Audit Committee - 9 June 2022**

A Report on the Internal Audit Charter was endorsed. A further report was provided on the work undertaken by the Internal Audit and Counter Fraud Service for the year 2021/22 in advance of the Annual Opinion.

### **Audit Committee - 21 June 2022**

This meeting endorsed the Head of Audit and Counter Fraud's Annual Report and Opinion for 2021/22 included the review of performance. The Annual Opinion report of the Head of Audit and Counter Fraud concluded that the Council's overall system of internal control for the year 2021/22 was adequate.

The Committee also considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management on 21 June 2022 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.

### **Audit Committee - 21 July 2022**

This meeting considered a report that updated Members regarding the 2021/22 internal assessment of the system for Internal Audit within the Council. The financial year had challenges for the system of Internal Audit 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 approach concluded that the overall service was good.

### **Audit Committee - 8 September 2022**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management, the purpose of which was to update Members on key matters both nationally and locally impacting on Audit and Governance.

The key matters covered in this report were 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 and Together Energy. The report also advised of 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.

The Committee were advised that there were some Council investments, made by the authorities, detailed in the report, where there had been losses that have either become apparent or where there was 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

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Brick” and the Slough Borough Council investment in partnerships had previously been reported to this Committee so were not repeated in this report.

The Committee requested that arrangements be made by the Council to formalise investments to ensure that the actions of the Director of Finance/Section 151 Officer are safeguarded from any unnecessary risks.

#### **Audit Committee – 8 September 2022**

A report was included on the agenda for the meeting to provide Members with a high-level progress report on the work of the Internal Audit and Counter Fraud team for the period from 1 April 2022 to 31 August 2022. Whilst Members had received the report, the meeting had to be adjourned before the item could be considered (due to the announcement of the death of HM Queen Elizabeth II).

#### **Audit Committee - 1 November 2022**

The Committee received an update on the work and findings of the Internal Audit and Counter Fraud Service during 2022/23.

#### **Audit Committee - 29 November 2022**

The Committee received and endorsed the Council’s suite of Anti-Fraud and Corruption policies, procedures, and response plans on as follows:

- Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan
- Council Tax and Council Tax Reduction Scheme Sanction Policy
- Covid Business Grants Prosecution Policy
- Anti-Money Laundering Policy
- CIPFA Fighting Fraud and Corruption Locally Checklist
- Fraud and Loss Risk Assessment

The Committee resolved that the contents of the report be noted and subject to any final amendments to the wording of paragraphs 13.4 and 16.3 of the Counter Fraud and Anti Bribery Strategy and Counter Fraud Response Plan the updated Policies and Planning documents be endorsed.

The wording at paragraphs 13.4 and 16.3 of the Counter Fraud and Anti Bribery Strategy and Counter Fraud Response Plan were updated in line with Member comments and will be re-presented to the Committee later in the 2023/24 municipal year.

#### **Audit Committee - 16 January 2023**

The Committee received an update on the work and findings of the Internal Audit and Counter Fraud Service during 2022/23.

#### **Audit Committee - 28 March 2023**

The Committee endorsed the Internal Audit Charter 2023/24.

The Committee endorsed the Annual Internal Audit Plan for 2023/24.

**Conclusion; The reports to the Audit Committee comply with the Terms of Reference in relation to the oversight of internal audit**

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### **3) Oversight of the Council's relationship with the External Auditor**

#### **Audit Committee - 9 June 2022**

The Committee received a report of the Assistant Director of Corporate Governance and Strategic Financial Management which detailed the outcome of an external audit (by KPMG LLP) of the Housing Benefit Subsidy claim form for the financial year 2020/21. Overall, the report was positive and did not detail any findings which impacted on the subsidy claim.

#### **Audit Committee - 21 July 2023**

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 for the financial year 2022/23.

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, Mazars LLP 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 there would be consideration of 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 10 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 31 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 8 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 8 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.

#### **Audit Committee – 8 September 2022**

The Committee considered a report of the Council's external auditors, Mazars LLP, which detailed the progress that had been made on the external audit of the draft Statement of Final Accounts for 2021/22 and other matters that the External Auditor felt appropriate to highlight.

The Auditor advised that the audit of the 2021/22 accounts could not be completed as the matter on the valuation of infrastructure assets had not yet been resolved.

#### **Audit Committee - 1 November 2022**

The Committee considered a report of the Assistant Director of Governance and Strategic Financial Management which presented to the Audit Committee the proposed appointment of the

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External Auditor via the Public Services Audit Appointments procurement for five financial years between 2023/24 and 2027/28.

### **Audit Committee - 29 November 2022**

The Committee considered a report of the Head of Internal Audit and Counter Fraud presenting the latest position paper on the Financial Reporting Council's (FRC) transition to the Audit, Reporting and Governance Authority (ARGA) setting out how trust will be restored in local public external audit, and the FRC's report concerning the quality of Local Authority and National Health Service (NHS) audits across the UK Public Sector, both issued during 2022.

During 2022 the FRC issued two documents relevant to external audit in the UK public sector, including Local Authorities, as follows:

- FRC Position Paper – “Restoring Trust in Audit and Corporate Governance”, published in July 2022.
- FRC Major Local Audits – “Audit Inspection Report” published in October 2022.

The FRC Position Paper set out how the Financial Reporting Council (FRC) would support the Government's reforms as the FRC transitions into ARGA.

This FRC Audit Inspection Report set out the principal findings arising from a review of both the 2020/21 and 2021/22 accounts and Value for Money opinions at all six audit firms completing major local audits in England for both Local Authorities and the NHS (the firms), and how the firms should respond to the FRC findings. It also incorporated the findings of the Quality Assurance Division of the Chartered Institute of Chartered Accountants for England and Wales who reviewed a selection of the firms undertaking public audit.

The positive finding from this independent review is that for both Mazars LLP (who audit the Council's Statement of Final Accounts) and KPMG LLP (who provide direct grant audit for both Housing Benefit Subsidy and Teachers Pension Agency contributions) the audit quality was found to be good on the audits reviewed.

### **Audit Committee - 16 January 2023**

The Committee considered a report of the Director of Finance which advised Members on the Public Sector Audit Appointments consultation on the proposed appointment of Mazars LLP as the External Auditor for Oldham Council for the period 2023/24 to 2027/28. The PSAA had now confirmed the appointment of Mazars LLP as the Council's External Auditor for that period. This appointment was made under Regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and had been approved by the PSAA Board at its meeting on 16 December 2022.

The Committee also considered a report of the Director of Finance which advised that Teachers' Pension Contributions paid over to the Teachers' Pension Agency were subject to a specific external audit review, which resulted in an annual certification. The submitted report detailed the outcome for the financial year 2021/22. There were findings from the review in respect of Test 3 and 7 which were undertaken. This compared to reported findings on Test 3, 4 and 9 for the 2020/21 certificate. The value of errors for 2021/22 was much higher than that recorded for 2020/21. On 30 November 2022 the Teachers' Pension Agency confirmed its agreement to the contributions paid over to them by the Council for the financial year 2021/22.

### **Audit Committee - 28 March 2023**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management concerning two recent developments. Firstly, it was advised that there was to be a change in the External Audit Team overseeing the Oldham Council audit function for the financial year 2022/23 and for the new Public Sector Audit Appointments (PSAA) contract period from 2023/24 to 2027/28. Secondly the report provided an update on the current review being undertaken by the Public Accounts Select Committee on the timeliness of Local Public Audit Reporting. Executive Summary.

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The Committee's Members were informed that there was a process whereby the appointed External Auditor, as part of good professional practice change their external audit personnel on a regular basis (by custom and practice this tended to be every 7 years). In line with good practice Oldham's current Audit Partner was to change, with Karen Murray being replaced by a new Partner, Daniel Watson. Mr Watson will lead the audit process for the 2022/23 accounts and then for the new PSAA contract period running for the financial years 2023/24 to 2027/28.

The Committee was also informed that the Parliamentary Public Accounts Committee was carrying out a review into the timeliness of auditors undertaking their work and reporting their findings thereon. This has resulted in evidence being provided, on 16 March 2023 by: Grant Thornton LLP (detailed at Appendix 1 to the report); The Local Government Association (detailed at Appendix 2 to the report); and a Local Authority Section 151 Officer representing the sector (detailed at Appendix 3 to the report). The issues highlighted in this evidence detailed clearly the challenges facing the production and subsequent external audit of accounts.

The Committee also received the Draft Audit Completion Report of the Council's External Auditor, Mazars LLP, for the year ending 31 March 2022 on 28 March 2023. The contents of the ACR were positive and gave Members an assurance regarding the financial processes and practices that had been adopted by the Council. However, this report had to remain draft as there was one outstanding item preventing the full sign off of the accounts.

The contents of the ACR were positive and gave Members an assurance regarding the financial processes and practices that had been adopted by the Council.

The report presented the Council's response to the single recommendation highlighted in the 2021/22 draft ACR. The audit work had identified a minor matter which had resulted in one low priority recommendation. The recommendation related to the Council's insurance provision. In this regard, the Council obtained a report from an external expert to manage its self-insurance position. This report was used to determine the value of the insurance provision recognised in the accounts. However, the report was not produced for accounting and reporting purposes. The recommendation was that the Council's finance team should be further involved in the self-insurance valuation process and ensure the insurance provision elements met the definition of a provision.

Having regard to the issue identified, the Council had already addressed the issue in its work in preparation for the completion of the Statement of Accounts 2022/23. The Council had requested a more detailed valuation from the external expert and in addition had already, during the 2022/23 financial year, conducted a detailed review of the provisions held to ensure that there was a clearer working paper for the 2022/23 Statement of Accounts.

There was also discussion about the one outstanding audit item that was preventing the full sign off of the accounts. This related to the Greater Manchester Pension Fund (GMPF) audit and timing differences between the data the actuary has used in valuation reports and the pension fund valuation position GMPF has used for its accounts (as referred to in Item 7 of the agenda). It was agreed that if a satisfactory resolution could be found and this was the only adjustment required, the accounts for 2021/22 could be approved the Chair of the Audit Committee in consultation with the Director of Finance. This would then be reported to the next available Audit Committee.

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management which presented the outcome of the external audit of the Housing Benefit Subsidy claim form (by KPMG LLP) for the financial year 2021/22. Overall, the report was considered to be reasonably positive but had highlighted some issues which have been reviewed in preparation for the 2022/23 audit process.

**Conclusion; The reports to the Audit Committee comply with the Terms of Reference in respect of providing oversight on external audit matters.**

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#### **4) Review of Financial Procedure Rules and Contract Procedure Rules.**

The Council agreed to an update to both the Contract and Finance Procedure Rules at its meeting on 13 July 2022. The Audit Committee was not consulted upon the changes which was not consistent with the agreed Terms of Reference.

At its meeting on 20 July 2023 the proposed revisions to Finance Procedure Rules were considered by the Audit Committee in advance of their future approval by full Council. There is also a report on the Agenda proposing some revisions to Contract Procedure Rules.

Full Council agreed on 12 July 2023 some revisions to Contract Procedure Rules. These changes have been reported to the Audit Committee retrospectively on 20 July 2023 with further minor revisions proposed by the Director of Finance.

#### **Conclusion**

**The lack of reports to the Audit Committee during 2022/23 did not fully comply with the Terms of Reference when the Contract and Finance Procedure Rules were updated. The reporting of changes is now in the process of following the Terms of Reference from 2023/24.**

#### **5) Oversight of Corporate Governance**

##### **Audit Committee - 9 June 2022**

The Committee considered a report of the Director of Finance that proposed a refreshed Local Code of Corporate Governance for Oldham Council.

The Council is required to produce a Local Code of Corporate Governance, which is subject to review every two years or when there had been changes to Governance Standards. Oldham Council's Local Code of Corporate Governance was previously reviewed on 20 January 2020.

The Committee was informed that for the Council's External Auditor, Mazars LLP, to be enabled to carry out their duties required under the Local Audit and Accountability Act 2014, both the Director of Finance and the Vice Chair (in separate responses) were required to provide the auditors with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

ISAs require that the auditor make inquiries of those charged with governance (TCWG) to determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity. The inquiries of the Vice Chair are made in part to corroborate the responses to the inquiries of management. Mazars LLP had sent the Director of Finance a questionnaire setting out their inquiries of TCWG. The questionnaire and the Director of Finance's proposed responses were considered by the Committee. Separately, the response of the Vice Chair to the questionnaire were also considered by the Committee.

##### **Audit Committee - 21 June 2022**

A report was provided detailing the draft Annual Governance Statement for the financial year 2021/22 which supported the draft Statement of Accounts which were considered at item 6 on the same Agenda.

Members noted that, at regular meetings of the Committee, update reports had been produced, highlighting the progress made on issues identified for improvement in the Annual Governance Statement produced for the financial year 2020/21 and identifying new issues that required consideration. This had informed the production of the Draft Annual Governance Statement for 2021/22.

The 2020/21 Annual Governance Statement previously reported to the Committee identified a total of ten issues for the Council to monitor in the financial year 2021/22 as to how the risk to the Council was being reduced. The issues highlighted included the need to strengthen internal

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control within both the Payroll Service and the financial administration of systems in Adult Social Care. Both matters have been long term issues for the Council to address.

The Committee was informed in respect of the Payroll Service, it had been confirmed the improvements in administration reported to the Committee on 10 March 2022 which in part were linked into the implementation of the new I-Trent system, were maintained. The overall opinion on the control environment for payroll on 31 March 2022 had now improved to adequate from inadequate.

### **Audit Committee - 21 July 2022**

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.

The Committee considered a report which 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, the Committee 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.

### **Audit Committee - 1 November 2022**

The Committee considered a report which updated the Annual Governance Statement previously considered on 21 June 2022. Other than some minor wording changes there were no fundamental changes to the draft Annual Governance Statement.

The Committee considered a confidential report, the purpose of which was an Update on the Annual Governance Statement for 2021/22 and New Issues for 2022/23.

The Committee considered a report from the Assistant Director of Corporate Governance and Strategic Financial Management the purpose of which was to update Members of the Audit Committee as requested at a previous meeting, on the perceived risks to the Council associated with the future operation of Northern Roots (Oldham) Limited. A Member suggested that the Committee should receive a 6 monthly dashboard report which gives details of potential risks on all Council associated projects.

A report detailed the current assessment of risk to the Council from the operation of the Northern Roots Charitable Company. (The report on Northern Roots had been included on the agenda of the 8 September meeting that had had to be adjourned).

### **Audit Committee - 29 November 2022**

The Committee considered a report of Head of Audit and Counter Fraud which sets out the updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Audit Committees.

During 2022, CIPFA issued a suite of updated guidance documents intended to inform and support the work of Audit Committees in organisations across the public sector, including Local Authorities. The guidance is aimed both at Members of the Audit Committee and those Officers who support the work of the Committee. The documents relevant to the work of Oldham Council's Audit Committee are:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
  - The Audit Committee Member in a Local Authority 2022 edition.
  - Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
  - Appendix E - Self-assessment of good practice.
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- Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

The last two documents are intended for use by the Audit Committee in assessing how the work of the Committee compares with best practice guidance, and the overall effectiveness of the Committee in supporting the Council and its objectives.

The Committee noted the release by CIPFA of a suite of documents relevant to the work of the Committee and approved the use of the Interactive Appendices E and F of the report to assess the performance and effectiveness of the Committee in supporting the Council in the delivery of the objectives of both the Committee and the Council.

### **Audit Committee - 16 January 2023**

The Committee considered a confidential report of the Director of Finance which 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 2021/2022.

Members of the Committee were informed that a report updating the Annual Governance Statement, to support the final version of the 2021/22 Statement of Final Accounts, should be presented to a future meeting of the Committee following the formal resolution of an infrastructure accounting issue.

The Committee considered a confidential report of the Director of Finance which updated Members, as requested at a previous meeting, on the perceived risks to the Council associated with the potential establishment of an independent Housing Company.

The Committee considered a confidential report of the Director of Finance which was built upon previous reports that had been submitted to meetings of this Committee, during the last three financial years that had highlighted the potential risks to the Council from poor supervision of companies/partnerships of which it has ownership and how governance oversight (including that of the Audit Committee at several Councils), had failed to identify this risk resulting in significant financial loss.

### **Audit Committee - 28 March 2023**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management, which 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.

The Committee considered a confidential report of the Assistant Director of Corporate Governance and Strategic Financial Management that informed Members on information security breaches and risk issues/actions. The report was a provisional year-end report which highlighted Information Security Incidents and related matters that had occurred from 1<sup>st</sup> April 2022 to 19<sup>th</sup> March 2023.

### **Corporate Governance Matters Not Considered by the Audit Committee.**

The Council operated a Standards Committee during 2022/23. There were no matters which required direct liaison with the Committee. This will be more formally developed during 2023/24 in partnership with the Director of Legal Services

In addition to establishing liaison with Standards the Committee will look to co-operate with the Scrutiny Boards and their Chairs to ensure work programmes are aligned to ensure the time set aside for both important functions is as effective as possible. When the next detailed review of the Audit Terms of Reference is undertaken it will have become a requirement for this liaison to be established.

**Conclusion; The Committee has complied with the Terms of Reference on the oversight of Corporate Governance**

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## **6) Oversight of Treasury Management**

### **Audit Committee - 21 June 2022**

A report of the Director of Finance provided the Committee with the annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. The Committee noted 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). The report was commended to Cabinet and Council for approval.

### **Audit Committee - 1 November 2022**

The Committee considered a report of the Director of Finance which advised the Audit Committee of the performance of the Treasury Management function of the Council for the first half of 2022/23 and provided a comparison of performance against the 2022/23 Treasury Management Strategy and Prudential Indicators.

The Committee was presented with a Briefing Note which had been prepared to advise Members of the Audit Committee as to the key issues within the 2022/23 Treasury Management Half Year Review. The briefing note set out and expanded on the following 8 matters:

- (i) Compliance with Statutory and CIPFA requirement.
- (ii) Change in the Authorised Limit and Operational Boundary.
- (iii) The Council's Capital Expenditure and Financing during the first half of 2022/23.
- (iv) The Council's overall borrowing need.
- (v) Treasury Position at 30 September 2022.
- (vi) Borrowing Outturn.
- (vii) Investment Portfolio.
- (viii) Other Key Issues.

The Briefing Note referred to the repayment of £6.6 million of loan stock which had reached its maturity date at the end of September 2022 thus reducing the level of outstanding debt as the borrowing had not been replaced.

The Director of Finance made particular reference to the volatility of interest rates which have a major bearing on whether current Lender Option Borrower Option (LOBO) loans are repaid at their call in date or whether it would be appropriate to accept the increased interest rate on those loans for a further period. Members were advised that it was a case watching the markets and keeping borrowing position under review.

### **Audit Committee - 16 January 2023**

The Committee considered a report of the Director of Finance that presented the Council's Treasury Management Statement for 2023/24.

The Committee was advised that the Council was required, through regulations supporting the Local Government Act 2003, to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council was also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council's policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2021 also required that the receipt by full Council of a Treasury Management Strategy Statement. The Strategy for 2023/24 covered two main areas:

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- Firstly, Capital Issues - the Capital expenditure plans and the associated Prudential Indicators and the Minimum Revenue Provision (MRP) Policy Statement; and
- Secondly, Treasury Management Issues - the Current Treasury Position, Treasury Indicators which limit the treasury risk and activities of the Council, Prospects for Interest Rates, The Borrowing Strategy, The Policy on Borrowing in Advance of Need, Debt Rescheduling, The Investment Strategy, The Creditworthiness Policy and The Policy regarding the use of external service providers.

The report outlined the implications and key factors in relation to each of the above Capital and Treasury Management issues and made recommendations accordingly regarding the Treasury Management Strategy for 2023/24. The report included the most recently available economic background commentary which reflected the position as at 22 December 2022.

The proposed Treasury Management Strategy was presented to the Audit Committee to enable scrutiny and challenge of the report before it's further consideration in the budget setting cycle. It was also due to be presented to the Policy Overview and Scrutiny Committee on 26 January 2023. Any comments from the Audit Committee or the Policy Overview and Scrutiny Committee would be incorporated into the report presented to Cabinet on 13 February 2023 and to Council on 1 March 2023.

**Conclusion; The Committee has complied with its Terms of Reference on the oversight of Treasury Management.**

## **7) Oversight of Risk Management**

### **Audit Committee 8 September 2022**

A report was included on the agenda to update Members of the Audit Committee on the Corporate Risk Register as at the end of June 2022. Whilst Members had received the report, the meeting had to be adjourned before the item could be considered (due to the announcement of the death of HM Queen Elizabeth II).

### **Audit Committee - 29 November 2022**

The Committee considered a report which updated Members of the Audit Committee on the Corporate Risk Register as at the end of September 2022. As the Committee charged with governance it is part of the role of the Audit Committee to scrutinise the Corporate Risk Register. The Committee was of the view that to allow the Committee to consider this item appropriately, the item be deferred to enable Appendix 1 to the report to recirculated to Members in a more readable format.

### **Audit Committee - 16 January 2023**

The Committee considered a confidential report that updated Members on the Corporate Risk Register, which was initially presented, but deferred, at the previous meeting of the Committee on 29 November 2022. The Audit Committee was charged with governance Members were asked to scrutinise the Corporate Risk Register.

The Council has an agreed Risk Management Strategy and Framework which had been refreshed. Most risks were linked to the business planning process and refreshed quarterly by services. Appendix 1 to the report detailed the Corporate Risk Register.

### **Audit Committee - 28 March 2023**

The Committee considered a confidential report of the Director of Finance that updated Members on the position of the Council's Corporate Risk Register as at the end of December 2022, although, given the timing of the meeting, this has been updated where possible to reflect matters in the last quarter of the financial year. As the Committee charged with governance it was a part of the role of the Audit Committee to scrutinise the Corporate Risk Register.

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It was reported that the Council has an agreed Risk Management Strategy and Framework which was refreshed and shared with senior Council officers at a meeting of the authority's Management Board in July 2022. Most risks, identified in the report, were linked to the business planning process and were refreshed quarterly by services. Appendix 1 of the report detailed the actual items in the Corporate Risk Register.

**Conclusion; The Committee has discharged its responsibilities on providing oversight of Risk Management.**

## **8) Oversight of Information Governance**

### **Audit Committee - 9 June 2022**

The Committee received and endorsed the Annual Report of the Senior Information Risk Owner (SIRO) for 2021/22.

### **Audit Committee - 29 November 2022**

The Committee considered a report which updated Members of the Audit Committee on information security breaches, risk issues / actions for the first 6 months of the financial year 2022/23. The Committee requested that the Information Risk Management Policy be circulated to Members for information.

### **Audit Committee - 28 March 2023**

The Committee considered a confidential report that informed Members on information security breaches and risk issues/actions. The report was a provisional year-end report which highlighted Information Security Incidents and related matters that had occurred from 1<sup>st</sup> April 2022 to 19<sup>th</sup> March 2023.

**Conclusion; The Committee has discharged its responsibilities on providing oversight of Information Governance**

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