



**Oldham**  
Council

## Report to Audit Committee

# Update on General Matters

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

**Officer Contact:** Anne Ryans - Director of Finance

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

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**5 September 2023**

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### Reason for Decision

It is considered appropriate to bring to Member's attention the following:

- a) An update on financial issues at other Local Authorities including Thurrock, Woking, Liverpool and Northumberland Councils, and several individual Councils who have highlighted the risk of issuing notices under Section 114(3) of the Local Government Finance Act 1988 (Section 114 Notices) following the latest reports in the public domain indicating their finances are under severe pressure following the initial reporting of their projected outturn for 2023/24.
  - b) An update on the work currently being undertaken by the Department of Levelling Up, Housing and Communities Select Committee with regard to a review of Financial Reporting and audit in Local Authorities.
  - c) The report submitted to the Governance, Scrutiny and Resources Board on the Assurance Process for Grant Funded programmes, specifically the Future High Streets Fund, the Town Deals Fund and the Levelling Up Fund. The report also presents a proposed way forward for improving liaison between the Scrutiny Function and the Audit Committee with regard to ensuring the appropriate oversight of these capital grant programmes.
  - d) A suggestion that the Audit Committee set aside a specific date outside of its normal meeting cycle and undertake a Self-Assessment against the checklist of good practice as detailed in the Chartered Institute of Public Finance publication produced on the effective operation of Audit Committees in Local Government.
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- e) An update on the issuing by the Councils External Auditor (on 7 August 2023) of the 2020/21 Audit Certificate for the Oldham Statement of Accounts following the publication of the Whole of Government Accounts for 2020/21 on 27 July 2023. No further External Audit work was required on these accounts. The report also provides an update on the progress of the audit of the 2021/22 and 2022/23 accounts.

## **Executive Summary**

This report sets out five key matters which have the potential to impact on the future work of this Committee in undertaking its governance role within the Council. These are covered in detail at Section 2 of the report.

## **Recommendation**

That Members:

- i) Agree to undertake a specific workshop to assess compliance with recommended practice on the operation of an Audit Committee
  - ii) Note the issue of the 2020/21 Audit Certificate
  - iii) Consider and comment on the matters other detailed in this report.
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**Update on General Matters**

**1 Background**

- 1.1 There are five items detailed in this report which need to be brought to the attention of the Audit Committee. These are:
- a) An update on matters affecting certain other Local Authorities including Thurrock, Woking and Northumberland Councils, and several individual Councils who have highlighted the risk of issuing notices under Section 114(3) of the Local Government Finance Act 1988 (Section 114 Notices) following the latest reports in the public domain indicating their finances are under severe pressure following the initial reporting of their projected outturn for 2023/24.
  - b) An update on the work currently being undertaken by the Department of Levelling Up, Housing and Communities (DLUHC) Select Committee with regard to a review of Financial Reporting and Audit in Local Authorities.
  - c) The report submitted to the Governance, Scrutiny and Resources Board on the Assurance Process for Grant Funded programmes, specifically the Future High Streets Fund, Town Deals Fund and the Levelling Up Fund. The report also presents a proposed way forward for improving liaison between the Scrutiny Function and the Audit Committee with regard to ensuring the appropriate oversight of these capital grant programmes
  - d) A suggestion that the Audit Committee set aside a specific date outside of its normal meeting cycle and undertake a Self-Assessment against the checklist of good practice as detailed in the Chartered Institute of Public Finance publication produced on the effective operation of Audit Committees in Local Government.
  - e) An update on the issuing by the Councils External Auditor (on 7 August 2023) of the 2020/21 Audit Certificate for the Oldham Statement of Accounts following the publication of the Whole of Government Accounts for 2020/21 on 27 July 2023. No further external audit work was required on these accounts. The report also provides an update on the audit of the 2021/22 and 2022/23 accounts.
- 1.2 The first item relates to financial administration and / or financial resilience in several Local Authorities which have been widely reported in the public domain. One theme which is beginning to emerge is that several Local Authorities are now reporting significant in year financial pressures in 2023/24 and if these are not reduced in year, there is a risk general reserves will be exhausted in the next 12 months. This has resulted in the Section 151 Officer at these Authorities highlighting there is a risk they will be required to issue a Section 114 Notice in the future. Increasingly the pressures are resulting from general service demand rather than losses from commercial investments.
- 1.3 The second item is an update to that previously provided to the Committee on 8 June 2023 on the current enquiry being undertaken by the DLUHC Select Committee on Financial Reporting and Audit in Local Authorities. The Committee has had further evidence sessions and has now completed its information gathering. In advance of the report, informal information is emerging on the likely timescale by which audit opinions will be given.
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- 1.4 The third item is to highlight to the Committee the report submitted to the Governance, Strategy and Resources Scrutiny Board outlining the expected Assurance Framework, including appropriate scrutiny, of key DLUHC grant funded programmes. It also provides information on the developing liaison between the Audit Committee and the Chairs of the Scrutiny Boards so that programmes of work can be aligned where appropriate.
  - 1.5 One task the Audit Committee should undertake is a self-assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA) publication which sets out the best practice for a Local Authority Audit Committee. This report sets out a suggestion that the Committee set aside a date outside the normal meeting cycle to undertake this task.
  - 1.6 On 27 July the National Audit Office published the Whole of Government Accounts for the financial year 2020/21. This has enabled the Council's External Auditor to finally issue the audit certificate for 2020/21 (on 7 August 2023). The report also provides an update on the progress of the audit of both the 2021/22 and 2022/23 accounts.

## **2 Key Matters for the Committee to consider**

### **Thurrock Council**

- 2.1 The situation at Thurrock Council and the implications of the investment strategy it embarked upon including the findings of the Best Value Review have been reported to previous meetings of the Audit Committee. The impact of the investment strategy was the subject of a national television broadcast on 31 July 2023. The report highlighted that the risks of Thurrock's investments in Solar Farms was not fully understood by the Council. The programme highlighted the impact of an Authority having to issue a Section 114 Notice with Council Tax having to be increased by 10% for 2023/24 and expenditure being curtailed, such as the reductions in small value grant support to community groups.

### **Woking Borough Council**

- 2.2 The impacts of the Council undertaking its borrowing strategy are becoming clearer following the issue of the Section 114 Notice. The Authority has published an Improvement and Recovery Plan with a target of becoming one of the most improved Council's in the country. This is to be achieved by reducing Council costs by 25% and selling some Council assets. Staff have also been consulted upon about a restructure which will focus on statutory and critical services. A gateway process at the Council has identified potential staff savings of £4m and a further £4m of service savings.

### **Liverpool City Council**

- 2.3 The latest report to highlight weaknesses in the procurement processes at Liverpool City Council has been produced by the Internal Audit Service. This report highlighted a few areas whereby contract management was assessed as poor. One key theme which resulted in the appointment of the Best Value Inspectors at this Authority was weaknesses in procurement and contract management processes. The report advised that implementing change at the City Council was progressing more slowly than anticipated and thus the Council would require the continuation of oversight by Inspectors.
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## **Northumberland County Council**

- 2.4 Following the Section 151 Officer issuing a Section 114 Notice in May 2022, an independent review undertaken by an experienced former Chief Executive was commissioned. The findings of this review were reported to the Council's Audit Committee on 26 July 2023. It made 23 recommendations for future implementation. Interestingly there are some similarities in the recommendations made by the Best Value Inspectors appointed at Thurrock regarding better scrutiny and liaison amongst the key Statutory Officers (it is anticipated that these recommendations will be incorporated in the future amendment of Accounts and Audit Regulations). It is planned that a review of the 23 recommendations will be undertaken by the Director of Finance to assess whether any Oldham processes need improving.
- 2.5 The Section 151 Officer at Northumberland County Council is following up on their Section 114 notice and has undertaken a review of 8 historic severance payments made to staff since 2017. This has found that 6 of the payments were not in accordance with due process. This has been reported to the Council's Audit Committee.

## **Other Local Authorities**

- 2.6 On 3 August 2023, Bournemouth, Christchurch, and Poole Council was issued a Best Value Notice by the Department for Levelling Up, Housing and Communities (DLUHC). In June 2022, the Secretary of State for DLUHC intervened and was not supportive of the Council's proposal to create a Special Purpose Vehicle to which it was planning to sell Council owned Beach Huts for £54m. This intervention was informed by challenge from the External Auditor (now seen as good practice in consultations on developing the future of Local Audit). On 2 September 2022 it was then agreed that DLUHC would in principle assist the Council with up to £20m of financial support (a borrowing approval), provided the Council produced a full financial plan for 2023/24 and agreed a non-statutory External Audit assurance report on governance and finance. In response to the issues identified in the review required by DLUHC, a non-statutory Best Value Notice has been issued.
- 2.7 There have been two reports in the public domain relating to Birmingham City Council. The first relates to the implementation of a new financial ledger which has gone off track. According to the reports in the public domain, it could cost the City Council £100m to implement the new system. The second relates to further costs in relation to implementing Equal Pay settlements. The City Council is estimating it will incur significant additional costs which will impact on its future financial resilience.
- 2.8 Hastings Borough Council has reported in the public domain that it is at risk of issuing a Section 114 Notice due to the financial pressures arising from providing temporary accommodation for asylum seekers. Should Hastings issue a Section 114 Notice, it will differ from those already issued in that it will not be linked into poor investment decisions or technical accounting matters.
- 2.9 In addition, in the last month, Kent, Kirklees, Medway, Bradford and Middlesbrough Councils have all reported on the estimated outturn for the financial year 2023/24 and estimated a significant overspend, which if not addressed, places them at risk of having to issue a future Section 114 Notice, as their general reserves and balances cannot absorb the actual level of overspend
- 2.10 The impact on Authorities who have made either commercial investment and / or set up wholly owned companies without understanding the implications of financial commitments/ parental guarantees but have not issued a Section 114 notice to-date, has now been reported in the public domain. A recent example is Mid Devon District
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Council who set up a wholly owned housing company (3 Rivers Developments Limited) in 2017. The company's aim was to build more affordable and social housing in addition to generating additional income to offset reductions in Central Government funding. The Council has now agreed to what it describes as a "soft closure" which will close the company and liquidate the company assets once developments underway are completed. Overall, the company has undertaken 5 projects and the Council had advanced the company £21.3m in loans. To finance the "soft closure", the Council has provided £5.3m to cover losses in its accounts for the 2021/22 and 2022/23 financial years.

### **An Update on Financial Reporting and Audit in Local Authorities**

- 2.11 There have been a further three separate evidence gathering sessions by the DLUHC Select Committee as part of its ongoing review into Financial Reporting and Audit in Local Authorities. These were on 5 June 2023, 26 June 2023, and 17 July 2023 and involved a selection of key regulators including the National Audit Office, those responsible for setting the standards applicable to the preparation of the Local Authority Accounts, experienced Section 151 Officers, experienced Members, and the Minister within DLUHC responsible for Local Government. The key development is that the Government has accepted the need to clear the backlog of outstanding audit opinions and have a reset. Further guidance on this is expected to be issued.
- 2.12 The Select Committee is not planning any further evidence gathering sessions so the report of its findings can be expected in the next Parliamentary session. Several recommendations are likely and when the report is produced its findings and the implications for Oldham will be reported to this Committee.

### **Place, Economic Growth and Environment Scrutiny Board**

- 2.13 At the Audit Committee meeting on the 20 July 2023, Members received a report detailing the Assurance Framework issued by DLUHC for Regeneration Capital Grants (Future High Streets Fund, Towns Deals Fund and Levelling Up Fund) making the Director of Finance the first line of defence to ensure due process is followed in the administration of these grants. The Framework also set out the expectation that the grant programmes of Future High Streets Fund, Town Deals Fund and Levelling Up Fund would be scrutinised twice in a financial year. A report has been prepared for the Place, Economic Growth and Environment Scrutiny Board setting out the Framework with the expectation that a detailed review will be undertaken twice a year to ensure compliance with the requirements of the Assurance Framework. This assures the Audit Committee that the Scrutiny Board will undertake the required Assurance work expected under the Framework within its current work plan (the report is included as Appendix 1).

### **Self-Assessment by the Audit Committee against Best Practice**

- 2.14 CIPFA has produced a publication on Audit Committees which includes a checklist setting out the suggested areas an Audit Committee should review and how it needs to operate. Now that the Committee has met on a few occasions throughout this municipal year, the suggested way forward is for the Committee to undertake a specific workshop facilitated by key officers from the Finance Service at a convenient future date and this will facilitate and assess of current practice against Best Practice as set out in the Audit Committee Publication.
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## **2020/21 Audit Certificate and Update on the Progress of the Audit of the 2021/22 and 2022/23 accounts**

- 2.15 On 27 September 2023, His Majesty's Treasury issued the Whole of Government Accounts for the financial year 2020/21. Therefore, there has been no requirement for the External Auditor to undertake any further work on the Council's 2020/21 accounts. On 7 August 2023, the final Audit Certificate was issued (attached as Appendix 2). Interestingly the Scale Fee set by Public Sector Audit Appointments included an allowance for further audit work to be undertaken and no additional work was required. As such, this needs to be borne in mind when the fees to be paid for the 2020/21 external audit are finalised.
- 2.16 The audit of the matters pertaining to the Greater Manchester Pension Fund which is the one issue outstanding relating to the audit of the 2021/22 Statement of Accounts has still not been concluded. As such these accounts cannot be finalised before this meeting of the Audit Committee.
- 2.17 The audit of the 2022/23 Statement of Accounts is ongoing. The statutory deadline for completion of the audit is 30 September 2023 and whether this deadline will be met will be dependent on the completion of the audit of the 2021/22 accounts.

### **3 Options/Alternatives**

#### **3.1 Members can either:**

- a) accept all the recommendations of this report
- b) accept some of the recommendations in this report
- c) suggest an alternative approach to undertaking the Audit Committee self-assessment of best practice.

### **4 Preferred Option**

- 4.1 The preferred option is set out at 3.1 (a) that Members accept all the recommendations in the report.

### **5 Consultation**

- 5.1 There has been consultation within the Finance Directorate.

### **6 Financial Implications**

- 6.1 N/A.

### **7 Legal Services Comments**

- 7.1 N/A.

### **8 Cooperative Agenda**

- 8.1 N/A.

### **9 Human Resources Comments**

- 9.1 N/A.
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10 **Risk Assessments**

10.1 N/A.

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 **Equality, community cohesion and crime implications**

15.1 N/A.

16 **Equality Impact Assessment Completed?**

16.1 None.

17 **Key Decision**

17.1 N/A.

18 **Forward Plan Reference**

18.1 N/A.

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: Report to the Place, Economic Growth and Environment  
Scrutiny Board  
2020/21 Audit Certificate

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20    **Appendices**

20.1    Appendix 1 - Report to the Place, Economic Growth and Environment Scrutiny Board  
          – Assurance Framework on Grant Funded Programmes

          Appendix 2 - Audit Completion Certificate issued to the Members of Oldham  
          Metropolitan Borough Council for the year ended 31 March 2021



**Report to the Place, Economic Growth and Environment Scrutiny Board.**

## **Assurance Framework on Grant Funded Programmes**

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

**Officer Contact:** Anne Ryans - Director of Finance

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**31 August 2023**

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### **Reason for Report**

The Council has been successful in obtaining capital grant funding from three sources administered by the Department of Levelling Up, Housing and Communities (DLUHC). These grant funding streams are detailed below:

- Future High Street Funds; expected grant related expenditure to be completed by 31 March 2024;
- Town Deals Fund; expected grant related expenditure to be completed by 31 March 2025 (the Future High Streets Fund and Town Deals Fund are collectively known as the Towns Fund); and
- Levelling Up Fund; expected grant related expenditure to be completed by 31 March 2025.

In addition, it is expected that there will be a further opportunity to bid for a further programme of Levelling Up Funding which has the potential to attract a further £20m in capital grant funding to the Council

This report outlines the review expected from the scrutiny function in respect of the guidance issued by DLUHC on overseeing these grant programmes.

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## Executive Summary

The Permanent Secretary at DLUHC is the Accountable Officer for any grant spend on the Future High Streets Fund, Town Deals Fund and Levelling Up Fund. It has been reported in the Local Government financial press that the oversight of grant funds including those linked into Levelling Up were subject to enhanced scrutiny by His Majesty's Treasury.

On 16 June 2023 DLUHC issued guidance (Levelling Up Funds Local Authority Assurance Framework) which clarified the oversight that DLUHC expects regarding the grant schemes. It sets out a common approach as to how DLUHC will assure the use of the funds in scope (from an Oldham perspective these are as detailed above, the Levelling Up Fund, Town Deal Funds and Future High Street Funds (the latter two are collectively known as Towns Fund)).

The Framework sets standards in line with the principles of Managing Public Money (MPM) with regard to regularity, propriety and securing value for money. It provides DLUHC, His Majesty's Government (HMG) and more widely stakeholders and the public with the necessary assurances that grant recipients have the policies and procedures in place to ensure the robust stewardship of public money.

The key points from the guidance in relation to Oldham are:

- In accordance with the Cabinet Office Government Functional Standards, the Assurance Framework provides for 3 separate and defined levels of assurance referred to as the three lines of defence;
- The first line of defence should be delivered at an operational management level. This is specified as the Chief Finance Officer. In Oldham this is the Director of Finance. This officer has the responsibility for the delivery of HMG investment, through the agreed projects, with propriety, regularity and value for money;
- When signing the assurance letter and statement of grant usage the Chief Finance Officer will be required to provide written confirmation that they have actively undertaken all necessary checks to ensure proper administration regarding the funding programme, particularly with regard to financial administration and transparency of governance;
- The second line of defence will be independent of the first line of defence and will be undertaken by DLUHC. It will require Local Authorities to engage with and provide supporting information in response to further assurance activity undertaken by DLUHC and other Government departments;
- The third line of defence will be undertaken by an independent audit or an independent body to secure an "objective opinion on the effectiveness of governance, risk management and internal controls".

The guidance implies that these grant funded projects are reviewed in line with the Council's arrangements for scrutiny. Should the Council be selected for a more detailed

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review as set out in the second/ third line of defence then the level of scrutiny undertaken will be reviewed.

For the financial year 2023/24 it is suggested that two reports be submitted by Officers to this Scrutiny Board. This report setting out the Assurance Framework and a further report to the meeting on 19 March 2024 setting out progress in relation to each of the funding streams/capital expenditure programmes in line with the basis upon which the funding has been approved, i.e based on forecast outcomes, milestones and financial profiles.

For the municipal year 2024/25 it is recommended that a further 2 reports outlining the progress on the oversight of these grant programmes are included in the workplan of this Committee.

### **Recommendation**

That the Place, Economic Growth and Environment Scrutiny Board:

- 1) Notes their responsibility to undertake scrutiny on the detailed grant programmes
- 2) Considers the incorporation of a review on progress on the Future High Streets Fund, Town Deals Fund and Levelling Up Fund twice in a municipal year.

**1 Grant Programmes Assurance Framework**

- 1.1 On 16 June 2023 DLUHC issued guidance (Levelling Up Funds Local Authority Assurance Framework) which clarified the oversight DLUHC expects regarding the grant schemes falling within the remit of Levelling Up. It sets out a common approach to how DLUHC will assure the use of the funds in scope (from an Oldham perspective these are the Levelling Up Fund, Town Deals Fund and Future High Street Fund).
- 1.2 The Framework sets standards in line with the principles of Managing Public Money (MPM) with regard to regularity, propriety and securing value for money. It provides DLUHC, His Majesty's Government (HMG) and more widely stakeholders and the public with the necessary assurances that grant recipients have the policies and procedures in place to ensure the robust stewardship of public money.
- 1.3 This guidance expands the previous assurance regime implemented by DLUHC whereby the Chief Financial Officer was required to certify a statement of estimated grant usage twice per annum. It follows a reported challenge to DLUHC from HM Treasury about its processes on the administration of capital grants for which it has departmental responsibility.
- 1.4 As advised above, there are three capital grant programmes for which this Scrutiny Board may be expected to provide oversight under this Assurance Framework. These are:
- Future High Street Funds (FHSF); expected grant related expenditure to be completed by 31 March 2024;
  - Town Deals Fund (TDF); expected grant related expenditure to be completed by 31 March 2025 (the FHSF and the TDF are collectively known as the Towns Fund); and
  - Levelling Up Fund; expected grant related expenditure to be completed by 31 March 2025.

In addition, it is expected that there will be a further opportunity to bid for a further programme of Levelling Up Funding which has the potential to attract a further £20m in capital grant funding to the Council. As Oldham Council is a priority 1 area in terms of bidding it will have a reasonable chance of securing funding subject to it identifying appropriate schemes.

- 1.5 It is important to note that when grant funding has been awarded for the Future High Streets Fund and Levelling Up Fund, there is a requirement for a Local Authority to agree a Memorandum of Understanding (MOU) with DLUHC setting out what is expected of grant recipients with regard to issues such as:
- Eligible expenditure;
  - Reporting;
  - Accountability and assurance;
  - Monitoring and evaluation;
  - Branding and communication; and
  - Performance management.

The Council has signed such MOU's.

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1.6 Whilst the FHSF element of the Towns Fund is subject to a Memorandum of Understanding between DLUHC and the Council, the Town Deal is an agreement in principle between Government, the Accountable Body (the Council) and the Town Deal Board, confirmed in a Heads of Terms (HoT). The HoT is signed by the Chair of the Town Deal Board, the accountable body (the Council) and the Minister for Levelling UP. DLUHC therefore provides funding to Oldham through the Council to the Town Deal Board. As such the responsibility of the Council as Accountable Body is clear.

## **2 Assurance Framework**

### **Principles of the Assurance Framework**

2.1 A key element of the Central Government Assurance Framework is the role of the Accountable Officer. For DLUHC this is the Permanent Secretary who for each of the grant funding regimes is required to sign an Assurance Statement. To discharge this requirement “The Levelling Up Funds Local Authority Assurance Framework” (to which a link is provided as Appendix 1 to this report) has been developed. The guidance acknowledges the principles of the Framework.

2.2 The key points from the guidance in relation to Oldham are:

- In accordance with the Cabinet Office Government Functional Standards, the Assurance Framework provides for 3 separate and defined levels of assurance referred to as the 3 lines of defence;
- The first line of defence should be delivered at an operational management level. This is specified to be the Chief Finance Officer who for Oldham is the Director of Finance. This officer has the responsibility for His Majesty’s Government (HMG) investment, through the agreed projects, with propriety, regularity, and value for money, particularly with regard to financial administration and transparency of governance. When signing the assurance letter and statement of grant usage the Chief Finance Officer will be required to provide written confirmation, they have undertaken all necessary checks to ensure proper administration regarding the funding programme;
- The second line of defence will be independent of the first line of defence and will be undertaken by DLUHC. It will require Local Authorities to engage with and provide supporting information in response to further assurance activity undertaken by DLUHC and other Government departments;
- The third line of defence will be undertaken by an independent audit, or an independent body provided via Central Government to secure an “objective opinion on the effectiveness of governance, risk management and internal controls”.

2.3 The guidance implies that these grant funded projects are reviewed in line with the Council’s arrangements for scrutiny. Should the Council be selected for a more detailed review as set out in the second line of defence, then the level and effectiveness of scrutiny undertaken will be reviewed.

2.4 For the financial year 2023/24 it is suggested that two reports be submitted by Officers to this Scrutiny Board. This report setting out the responsibilities expected via the Assurance Framework with a further report to the meeting on 19 March 2024 setting out the progress on delivering the three funding streams/capital expenditure programmes in line with the basis upon which the funding has been approved, i.e. based on forecast outcomes, milestones and financial profiles.

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2.5 In respect of the municipal year 2024/25 it is recommended that a further 2 reports outlining the progress on the oversight of these grant programmes are included in the future workplan.

### **First Line of Defence**

2.6 The Chief Financial Officer is the first line of defence and DLUHC will expect this Officer via the completion of the assurance letter and statement of grant usage, to provide written confirmation that they have undertaken all the necessary checks to ensure proper administration of the financial affairs of the funding programme.

2.7 The statement of grant usage is to be completed on an annual basis and has the requirements detailed below:

- Details of the checks that the Chief Finance Officer (or deputy) has taken to assure themselves that the Local Authority has in place the processes that ensure proper administration of its financial affairs relating to these grant funds .
- Provision of responses to the required questions addressing the governance and transparency for grant management including procurement, conflict of interest, subsidy control/ state aid, counter fraud, and risk management.

2.8 The Chief Financial Officer will also complete an assurance letter which is addressed to the Permanent Secretary in their role as DLUHC Accounting Officer. In this letter the Chief Financial Officer must express an opinion on whether the individual grant programmes are being properly administered, and if not, provide information on their concerns with how the risks/ issues are to be resolved.

### **Proposed Assurance to be applied by the Director of Finance**

2.9 To provide the assurance, it is proposed that the Director of Finance relies on the following for the financial year 2023/24 and future financial years:

- A report to the Place, Economic Growth and Environment Scrutiny Board on 19 March 2024 by the Executive Director for Place and Economic Growth on the progress made on the three grant programmes as outlined in this report. This will include the comments of the Director of Finance as the first line of defence. In future financial years it is envisaged this officer will produce two of these reports which will include the comments of the Director of Finance.
  - The integration of this guidance into the programme management arrangements overseen by the Place and Economic Growth Portfolio aligned to the operation of the Creating a Better Place Programme Board.
  - Appropriately published Electronic Decision Recording System Reports outlining the key decisions undertaken on project management to ensure they are taken in accordance with the Council's decision-making framework.
  - Finance and Contract Procedure Rules which are subject to regular updating and regular reviews to ensure that these are complied with;
  - An up to date suite of Counter Fraud Policies which are subject to appropriate review by the Audit Committee.
  - A targeted programme of internal audit work on the 3 grant funded programmes. The outcomes of any audit work will be reported to the Audit Committee as part of
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the routine reports. A summary of the findings will also be reported to this Committee on 19 March 2024 by the Executive Director for Place and Economic Growth and in the year-end report to this Scrutiny Committee for the municipal year 2024/25.

- A detailed analysis of the Subsidy Control implications for each project within the 3 capital grant programmes. This analysis should be completed by the project officers from the Place and Economic Growth Portfolio, Legal Services and the Procurement and Finance Teams.
- Regular reports to the Audit Committee including the regular updates provided on the issues either already identified or to be identified within the Annual Governance Statement. At present the potential risks to the capital programme and grant funding regime delivery have been identified as specific risks. This is due to increased costs and/ or the requirement to reprofile schemes and resulting in challenges to delivery within grant funding timelines;
- Oversight of this Scrutiny Board of the programme management arrangements in place for the Future High Streets Fund, Town Deals Fund and Levelling Up Fund capital grants regimes.

### **Second Line of Defence**

- 2.10 The second line of defence will be undertaken by the Assurance and Compliance Team within DLUHC. It is important to note that the DLUHC is quite heavily reliant on the first line of defence, i.e., the information provided by the Chief Finance Officer and hence the robustness of the operational and management arrangements of a Local Authority.
- 2.11 DLUHC will take a risk based approach to the second line of defence with deep dives being undertaken based on a suite of risk factors and random sampling. Sample based deep dives will be undertaken using a random selection tool and will be established on an annual basis.
- 2.12 In addition to random sampling the determination of a need for a deep dive will involve the consideration of a series of risk triggers as detailed below for each separate capital grant programme:
- Any concerns of Chief Financial Officer highlighted via the Assurance Letter and Statement of Grant Usage;
  - Evidence that financial performance is not in line with the previous performance returns (note returns have to be submitted on a 6 monthly basis);
  - Concern that delivery performance is at risk based on the deliverability review undertaken twice a year;
  - Area led intelligence based on local relationships with DLUHC officials;
  - The External Auditor's annual report which is based upon the Authority's last certified published accounts as published on the website;
  - Assurance intelligence based on the shared intelligence of the various DLUHC teams overseeing the capital funding programmes.
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2.13 One key measure in determining whether to take a more detailed review will be if financial performance. Where the spend is either 40% below or above the quarterly threshold submitted for two quarters in succession a more detailed review is likely from DLUHC.

2.14 A deep dive review will involve an examination of:

- Key documentation such as the Terms of Reference, Programme Management Arrangements including agendas, oversight by Scrutiny Boards/Committees and risk policy.
- Counter Fraud oversight including managing conflicts of interest;
- Compliance with the Authority's own decision making framework which will include procurement protocols;
- Compliance with State Aid and Subsidy Control requirements.

2.15 It will involve the Local Authority providing evidence as requested and key meetings involving officers which will include the Director of Finance.

### **Third Line of Defence**

2.16 The third line of defence is an independent review to secure an "objective opinion on the effectiveness of governance, risk management and internal controls". This will be undertaken by the Government Internal Audit Agency (GIAA) and will take the form of a review of the activity completed by DLUHC as the second line of defence. The GIAA will provide notice of their planned review and set out the scope and information required at the time.

### **Assurance for Members**

2.17 The Council already has many of the requirements in place to provide assurance should it be requested by the second line of defence. The approach outlined in this report will give Members assurance about the robustness of the first line of defence. At Member level it will require appropriate liaison between the Audit Committee and Scrutiny Board to ensure the appropriate oversight of the capital grant programmes is undertaken.

## **3 Options/Alternatives**

3.1 The Place, Economic Growth and Environment Scrutiny Board can:

- a) Undertake Scrutiny of the Grant Programmes for the Future High Streets Fund, Towns Fund and Levelling Up Fund by considering two reports per annum. This requirement has been included in the proposed work programme detailed elsewhere on the agenda.
- b) Choose not to undertake scrutiny twice a year of the 3 capital grant funded regimes, preferring to rely on reporting by exception should there be a challenge with regard to compliance with the DLUHC Assurance Framework.

## **4 Preferred Option**

4.1 The preferred option is Option set out at 3.1(a) so that this Scrutiny Board to considers matters on the 3 capital grant programmes twice in a Municipal Year.

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## 5 **Consultation**

5.1 N/A.

## 6 **Financial Implications**

6.1 The choice of the External Auditor's annual report as one key feature of the second line of defence is interesting given the well reported backlogs in External Auditors completing Local Authority audits and hence providing an opinion on accounts. There is at least one Local Authority which does not have its accounts certified for 2015/16.

6.2 This report sets out how it is proposed to support the undertaking of the first line of defence which is a responsibility of the Director of Finance. It will involve regular reports to both the Scrutiny Board and the Audit Committee with appropriate regular reviews of key policies to ensure they remain up to date.

6.3 The approach set out in the DLUHC Assurance Framework seems sensible. It is important to note that it has been introduced retrospectively and there is therefore a need to ensure future decisions balance the need to implement the schemes (some of which are complex) in line with the guidance in an extremely challenging timescale.

6.4 The risk to the Council should any of the 3 capital grant funding regimes covered by the DLUHC Assurance Framework go off track, is a potential loss of grant and increased requirement for Council resources to complete the schemes. There is also a reputational risk. The discipline required by the regular reporting of the grant funding regimes and reporting in relation to the Assurance Framework should provide an early warning if there are any perceived risks.

(Anne Ryans Director of Finance)

## 7 **Legal Services Comments**

7.1 N/A.

## 8 **Cooperative Agenda**

8.1 N/A.

## 9 **Human Resources Comments**

9.1 N/A.

## 10 **Risk Assessments**

10.1 The Annual Governance Statement to support the 2022/23 Draft Statement of Accounts alludes to the perceived risks on these capital grant funding programmes relating to the ability of the Council to deliver the projects in the required timescale. It is important that this risk is managed to prevent any loss of grant or additional cost to the Council.

(Mark Stenson)

## 11 **IT Implications**

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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 **Equality, community cohesion and crime implications**

15.1 N/A.

16 **Equality Impact Assessment Completed?**

16.1 None.

17 **Key Decision**

17.1 N/A.

18 **Forward Plan Reference**

18.1 N/A.

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:	Levelling Up Funds Local Authority Assurance Framework published by DLUHC on 16 June 2023 (DLUHC website)
Officer Name:	Mark Stenson
Contact:	mark.stenson@oldham.gov.uk

20 **Appendices**

20.1 Appendix 1; Link to the Levelling Up Funds Local Authority Assurance Framework

<https://www.gov.uk/government/publications/levelling-up-funds-local-authority-assurance-framework>

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## **Audit Completion Certificate issued to the members of Oldham Metropolitan Borough Council for the year ended 31 March 2021**

In our auditor's report dated 30 September 2021, we explained that the audit could not be formally concluded until we had;

- completed our work the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This work has now been completed.

No matters have come to our attention since 30 September 2021 that would have a material impact on the financial statements on which we gave our unqualified opinion.

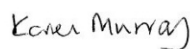
### **The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in this respect.

### **Certificate**

We certify that we have completed the audit of Oldham Metropolitan Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Karen Murray  
Key Audit Partner

For and on behalf of Mazars LLP

One St Peter's Square  
Manchester  
M3 3DE

7 August 2023