



Oldham
Council

Report to Audit Committee

Update on General Matters

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

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31 October 2023

Reason for Decision

It is considered appropriate to bring to Member's attention an update on issues which have previously been reported to the Audit Committee, including financial challenges being experienced at other Local Authorities and the current position in relation to the audit of the Councils accounts for 2021/22 and 2022/23.

Executive Summary

This report sets out six 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) Note the receipt from the External Auditor of a letter advising of a delay to the audit of the 2022/23 Statement of Accounts.
 - ii) Consider and comment on the other matters detailed in this report.
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Update on General Matters**1 Background**

- 1.1 Members will recall that at previous Audit Committee meetings there have been reports which have advised on a number of financial issues impacting on the whole Local Government sector and specific matters relating to Oldham Council. This report provides some follow up information in relation to issues previously raised.

2 Key Matters for the Committee to consider**The Financial Position being Reported by Other Local Authorities**

- 2.1 Past meetings of the Committee have received information about the matters which have resulted in the S151 Officers of several Local Authorities issuing a Notice under the powers of S114(3) of the Local Government Finance Act 1988 (a Section 114 Notice) that the expenditure of the Authority would exceed the resources available to finance it. These Authorities include the London Borough of Croydon, Slough Borough Council, Woking Borough Council and Thurrock Council.
- 2.2 Each of these Councils is still facing a substantial challenge to stabilise its financial position and it will take many years to address the consequences of the issuing of the 114 Notices.
- 2.3 Nottingham City Council and Northumberland County Council have also been subject to the issuing of S114 Notices, but these were issued under the powers of S114(2) of the Local Government Finance Act 1988 which applies when someone acting on the Councils behalf (other than the Cabinet) has or is about to incur unlawful expenditure. There have also been significant financial implications for Nottingham City Council arising from its S114 Notice.
- 2.4 On the day of the last Audit Committee (5 September 2023), the S151 Officer of Birmingham City Council issued a S114 Notice under the powers of S114(3) of the Local Government Finance Act 1988. This action was required given the well-publicised financial challenges that the Council was facing. The issuing of the S114 Notice was part of the plan to meet the Council's financial liabilities relating to Equal Pay claims and an in-year financial gap within its budget which at the time stood in the region of £87m. The Council must fund the Equal Pay liability that has accrued (in the region of £650m to £760m). The Council has insufficient resources to do so.
- 2.5 Commissioners have now been appointed to run the Council and to determine a strategy to manage the financial position. Given the size of the Authority and the extent of the financial challenge, the Authority has announced it is looking to agree its approach to Equal Pay with Trades Unions and move to reduce its staffing complement as well as consider the future provision of services. The extent of the challenge that Birmingham is facing has brought even more focus to the financial position of the whole Local Government sector.
- 2.6 Some recent announcements via the media have also highlighted financial challenges in a number of Local Authorities some examples of which are as follows:
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a) Hastings Borough Council

Hastings Borough Council has again 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. The Council has announced that about one quarter of all its expenditure is now on temporary accommodation.

b) Stoke City Council

A recent financial monitoring report for the quarter one period of 2023/24 has advised Members of Stoke City Council of overspending of a net £8.5m with pressures in Children's Services and Adult Social Care (£9.1m and £5.2m) offset by cuts and underspends in other departments. It also advised that if the ongoing pressures from personalised services cannot be addressed, the City Council will be at significant risk of not being able to set a balanced budget for 2024/25 which, if this were to happen, would require the issuing of a S114 Notice.

c) Coventry City Council

It has been reported in the Local Government press that rising care demand without additional Government funding could put Coventry City Council at risk of a Section 114 notice next year although the financial position is such that this is not an immediate threat. There is a forecast £12.1m net overspend in 2023/24 and in order to address this, the Council has already ceased all non-essential spending, implemented recruitment controls and improved monitoring on services. It will also review services in the hope of delivering long-term savings.

d) London Borough of Havering

Havering Council has forecast a £23.1m budget gap this year, mainly due to overspends in Children's Social Care (£9.0m) and Adult Social Care (£7.8m) services. A report to a recent Cabinet meeting advised that the Council has forecast a £31.2m budget gap next year, rising to £77.1m by 2027/28 and that the Authority only has £8.2m in its general reserves, and another £39.7m in earmarked reserves (as of the end of 2022/23). The Council is working to avoid a Section 114 Notice but advises that this may only be between 6 to 12 months away, even if the Council can set a balanced budget. The Council has been in discussion with the Department for Levelling Up, Housing and Communities on options, including a capitalisation direction, which would allow the use of capital receipts to finance revenue spending.

An Update on Financial Reporting and Audit in Local Authorities

2.7 Members have previously been advised of evidence gathering sessions by the DLUHC Select Committee as part of its ongoing review into Financial Reporting and Audit in Local Authorities. Since the last report to the Audit Committee, there have been no more evidence gathering sessions and the report of the findings of the Select Committee can be expected in the next Parliamentary session. Several recommendations are likely when the report is produced and the implications for Oldham will be reported to this Committee.

2.8 It is important to note that Public Sector Audit Appointments (PSAA) has advised that only 5 of 467 Local Government Bodies had audit opinions on their 2022/23 accounts published by the 30 September deadline. PSAA has also found that the incomplete

opinions from 2022/23 has more than doubled the number of outstanding accounts to 918.

- 2.9 There have been no further developments in confirming the approach to addressing the audit backlog, although the Government has been working with bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA) and the National Audit Office to develop a solution. It is essential that work progresses enabling details of the planned solution to be announced and implemented as soon as possible.

Self-Assessment by the Audit Committee against Best Practice

- 2.10 As agreed at the last meeting of the Committee, a date for the workshop to undertake an assessment of the Audit Committee against the self-assessment checklist produced by CIPFA has been set. This workshop will take place on 6 March 2023.

Update on the Progress of the Audit of the Council's 2021/22 Accounts

- 2.11 Members will recall that the delay to the audit of the Council's 2021/22 accounts has been reported at previous meetings of the Committee and the challenges in relation to the valuation of infrastructure assets and the valuation of the Greater Manchester Pension Fund (GMPF) have been discussed. Since the last meeting of the Committee, the GMPF issue has now been resolved, and the Statement of Accounts has been adjusted to reflect the impact of changes to both these technical valuations. It has also been amended to reflect any revisions to the document caused by the passage of time since 30 May 2022 when the Statement of Accounts was initially prepared. However, a most recent development is the emergence of reinforced autoclaved aerated concrete (RAAC) and the External Auditor has requested information about the state of the corporate and schools property estate and any financial liabilities. Work has been undertaken over recent weeks to provide the necessary information.
- 2.12 Given that at the meeting of the Committee on 28 March 2023, the External Auditor presented a draft Audit Completion Report, Members will recall that there is a delegation in place to allow the Chair of the Audit Committee in consultation with the Director of Finance to approve the accounts if the only required changes relate to the technical accounting entries on pensions. It is hoped that the conclusion of the 2021/22 is close.

Update on the Progress of the Audit of the Council's 2022/23 Accounts

- 2.13 The statutory deadline for completion of the audit for the financial year 2022/23 was 30 September 2023. On 29 September, Mazars LLP issued a letter to the Authority advising that the audit would not be completed by the due date. The letter attached at Appendix 1 advises that as a result of the delays in the completion of the 2021/22 audit, the work on the 2022/23 audit has not yet been completed, therefore the Auditor's Annual Report will not be issued by 30 September 2023. It is anticipated that this will be issued no more than three months after the date of the opinion on the financial statements.
- 2.14 It is understood that much of the audit work has been completed but matters outstanding include the technical valuations of pensions and investment properties, the RAAC concrete matter and the Value for Money assessment.

Consultation on the Audit Scale Fee for 2023/24 Audits

- 2.15 The 2023/24 audits are the first in the second five-year appointing period for External Auditors. Public Sector Audit Appointments has recently concluded a consultation of
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the scale fees for 2023/24 and will publish the final 2023/24 fee scale and its consultation response by Thursday 30 November 2023. As proposals to address the audit backlog are still under consideration it may have an impact on fee levels. Members will be advised of the fee once notified. The 2023/24 Council budget included additional resources to address the likely fee increase.

3 Options/Alternatives

3.1 Members can either:

- a) accept all the recommendations of this report
- b) accept one but not the other recommendation in this report
- c) suggest an alternative approach to reporting.

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 in the preparation of this report.

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.

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.

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- 14 **Environmental and Health & Safety Implications**
- 14.1 N/A.
- 15 **Community cohesion disorder implications in accordance with Section 17 of the Crime and Disorder Act 1998**
- 15.1 N/A.
- 16 **Oldham Impact Assessment Completed (Including impact on Children and Young People)**
- 16.1 N/A.
- 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: Background papers are included at Appendix 1
Officer Name: Anne Ryans
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- 20 **Appendices**
- 20.1 Appendix 1 – Letter from Mazars LLP - Audit letter – Delay in issuing the Auditor’s Annual Report
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Date: 29 September 2023

Dear Mr Page,

Audit letter – Delay in issuing the Auditor's Annual Report

The 2020 Code of Audit Practice requires us to issue our Auditor's Annual Report, which includes our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (our VFM commentary) within 3 months of issuing our opinion on the financial statements, and before 30th September.

As a result of the pandemic, the National Audit Office updated its guidance to auditors in April 2021. This allowed auditors to delay the completion of their work on VFM arrangements so that they could focus on the audits of financial statements. The revised guidance requires auditors to complete their work and issue their Auditor's Annual Report no more than three months after the date of the opinion on the financial statements. The latest update to the guidance, issued in January 2023, continues this approach.

Where this is not possible, we are required to write to you setting out the reasons for the delay in an 'audit letter'. For the purposes of compliance with the Code of Audit Practice, this letter constitutes the 'audit letter'.

In line with the National Audit Office guidance, we have not yet issued our Auditor's Annual Report including our VFM commentary. As a result of the delays in the completion of our 2021/22 audit we have not yet concluded our work on the 2022/23 audit, therefore our Auditor's Annual Report will not be issued by 30 September 2023. We anticipate issuing this no more than three months after the date of the opinion on the financial statements.

Yours sincerely,



Daniel Watson

For and on behalf of Mazars LLP