

***AUDIT COMMITTEE
Regulatory Committee
Agenda***

- Date Tuesday 29th November 2022
- Time 6.00 pm
- Venue Crompton Suite, Civic Centre, West Street, Oldham, OL1 1NL
- Notes
1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Peter Thompson in advance of the meeting.
 2. CONTACT OFFICER for this Agenda is Peter Thompson Tel. 0161 770 5151 or email peter.thompson@oldham.gov.uk
 3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Thursday, 24 November 2022.

Please also note the Public attendance Protocol on the Council's Website

https://www.oldham.gov.uk/homepage/1449/attending_council_meetings

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:
Councillors Ahmad, Alyas, C. Gloster, Islam, Salamat, Arnott, Ball, Hulme and Iqbal

Item No

- 6 External Audit Update Report (Pages 1 - 32)
Report to follow
- 7 Annual Statement of Accounts 2021/2022 (Pages 33 - 38)
Report to follow

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Oldham
Council

Report to Audit Committee

External Audit – Draft Audit Completion Report

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

Officer Contact: Anne Ryans, Director of Finance/ MAZARS LLP

Report Author: Lee Walsh – Finance Manager (Capital and Treasury)/MAZARS LLP

Email: lee.walsh@oldham.gov.uk

29 November 2022

Reason for Decision

To present to the Audit Committee, the draft Audit Completion Report (attached at Appendix One) produced by the Council's External Auditor, Mazars LLP.

Executive Summary

The report presents to the Audit Committee the draft Audit Completion Report for the Council's Statement of Accounts for 2021/22. This report is linked to the Council's report on the 2021/22 Annual Statement of Accounts Update considered elsewhere on the agenda.

Recommendation

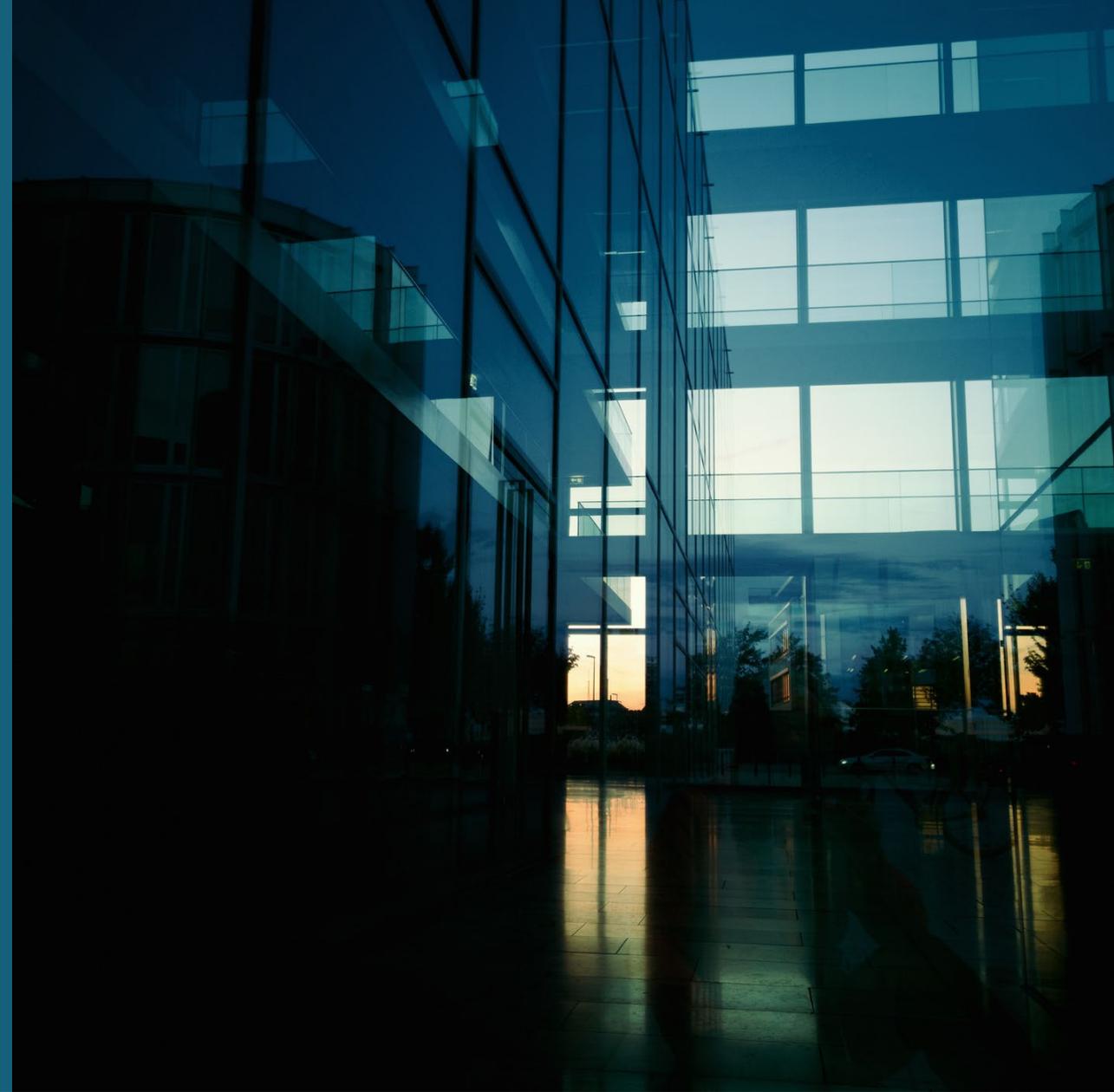
It is recommended that the Audit Committee notes the draft Audit Completion Report produced by Mazars LLP.

Appendix 1

Audit Completion Report - Draft

Oldham Metropolitan Borough Council –
Year ended 31 March 2022

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November 2022



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Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Audit Committee
Oldham Metropolitan Borough Council
Civic Centre
West Street
Oldham
OL1 1UT

23 November 2022

Dear Committee Members

Draft Audit Completion Report – Year ended 31 March 2022

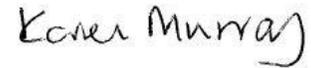
We are pleased to present our draft Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 16 March 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721 234 043.

Yours faithfully



Karen Murray

Mazars LLP

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

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Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include the:

- Valuation of Land & Buildings
- Valuation of Investment Property
- Valuation of the Defined Benefit Pension Liability

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out the identified audit misstatements.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022.

At the time of preparing this report, matters remaining outstanding as outlined in section 2. Once the audit of these items are completed, we will provide an updated final Completion Report to you.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

Based on the work completed we would anticipate issuing an unqualified opinion, without modification, on the financial statements. However we report in section 2, that there is an outstanding national issue in respect of the accounting for infrastructure assets. The solution to this issue is not yet known and the Council may have to carry out additional work, impacting on its 2021/22 infrastructure asset valuations. We will update the Committee further as more information is available.



Value for Money

We have not yet completed our value for money arrangements work and will report our findings in our Auditor's Annual Report later in the year. On the basis of the work completed to date we do not anticipate having significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our value for money arrangements work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

For 2021/22, the threshold for completing detailed audit work on the Council's WGA return has increased. The Council is below the revised threshold, however we expect the National Audit Office to select a sample of Councils where auditors will undertake detailed procedures. We are unable to commence our work in this area until we receive the list of sampled Councils.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any new questions during 2021/22.

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Section 02:

Status of the audit

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2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Financial instruments – fair value disclosures		We are currently considering the Council's response to our challenge with regards to the Fair Value of the loans to Manchester Airport following the receipt of information from the Council's expert.
Investment Properties		We are completing our work on the review of the valuation of the Council's share of land at Manchester Airport.
Property, Plant and Equipment		We are awaiting resolution of a sector-wide issue relating to how the Council accounts for infrastructure assets
Pensions		We have requested confirmation from the Pension Fund auditor on areas relating to their audit of the Greater Manchester Pension Fund. The Pension Fund audit is not yet complete and the confirmations will be received when that audit is completed.
Group financial statements		We have received the Council's updated financial statements and working papers for its consolidation of its group accounts. We have not yet completed the audit work relating to those group financial statements.
Provisions		We are completing the final elements of our work on the Council's recognition and valuation of provisions, including obtaining and considering the final responses to our audit queries.
Financial statements, Annual Governance Statement and letter of representation		We will complete our final review of the financial statements upon receipt of the signed version of the accounts and letter of representation.



Likely to result in material adjustment or significant change to disclosures within the financial statements.



Potential to result in material adjustment or significant change to disclosures within the financial statements.



Not considered likely to result in material adjustment or change to disclosures within the financial statements.

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Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to Audit Committee in March 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £13.6m for the Group financial statements and £13.5m for the Council single-entity statements using a benchmark of 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £14.4m for the Group financial statements and £14.3m for the Council single-entity statements using the same benchmark.

Service organisations

We set out in our Audit Strategy Memorandum our approach to auditing the Council's service organisations. We confirm there have been no changes to those arrangements during the audit.

Items of account	Service organisation	Audit approach
Payroll, non-pay expenditure and other transactional items of account	The Unity Partnership Ltd	<p>We obtained assurance by understanding the controls that the Council has in place to assure itself that transactions are processed materially correctly.</p> <p>Our testing included sample testing of transactions based on evidence available from the Council rather than the service organisation.</p>

Use of experts

We set out in our Audit Strategy Memorandum our planned use of experts to assist in our audit procedures. There were no changes to our planned approach.

Item of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Hyman Robertson actuaries	PwC – NAO's consulting actuary
Property, Plant and Equipment and Investment Property valuation	Unity Partnership Ltd	We used available third party information to challenge the key valuation assumptions
Valuation of Manchester Airport land	Jacobs Ltd	Mazars in-house valuation team
Valuation of shareholding in Manchester Airport Holding Limited	BDO LLP	Mazars in-house valuation team
Valuation of Financial Instruments	Link Asset Services	We reviewed Link's methodology for providing the fair value disclosures. We engaged our valuation experts to consider the methodology for the fair value valuation of loans to the airport.



3. Audit approach

Group audit approach

The Council's consolidated group structure for 2021/22 includes two wholly owned subsidiary companies, Miocare Group Community Interest Company Ltd and The Unity Partnership Ltd. In auditing the accounts of the Council's Group financial statements we obtained assurance over the transactions in the Group relating to the Council's subsidiary companies.

Our approach reflected the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements. Our approach is outlined below and we confirm there are no changes to the planned approach set out in our Audit Strategy Memorandum.

Group component	Approach adopted	Key points or other matters to report
Oram MBC		The Mazars audit team undertook the full audit of the Council
Miocare CIC Ltd		The Mazars audit team undertook testing of Miocare's defined benefit pension liability and payroll expenditure, and carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £4.8m.
Unity Partnerships Ltd		The Mazars audit team undertook testing of Unity Partnership's defined benefit pension liability and payroll expenditure, and carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £4.8m.

-  **Full audit**
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality
-  **Audit of balances and/or disclosures**
Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality
-  **Specific audit procedures**
Performance of specific audit procedures on the component's financial information
-  **Review procedures**
Review of the component's financial information prepared for group reporting purposes using the component materiality assigned



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Section 04: **Significant findings**

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 17 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

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4. Significant findings

Key Audit Matters

Valuation of property, plant and equipment (Council)

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in government guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.

How we addressed this risk

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer.
- Obtaining an understanding of the basis of valuation applied by the valuer in the year.
- Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2021/22 are materially fairly stated.
- Obtaining an understanding of the Council's approach to ensure that assets revalued through 2021/22 are materially fairly stated at the year end.
- Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.
- Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2022.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements

Audit conclusion

The Council is awaiting the resolution of the sector-wide issue of accounting for infrastructure assets. We are expecting a resolution to this later in the Autumn.

Based on the work carried out on the other elements of the Council's property, plant and equipment valuation to date there are no matters to bring to the Committee's attention.

4. Significant findings

Valuation of investment properties (Council)

Description of the risk

The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.

How we addressed this risk

Our audit procedures will include:

- Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer.
- Obtaining an understanding of the basis of valuation applied by the valuer in the year.
- Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer.
- Comparing the valuation to our external valuation expert's estimate of the valuation.
- Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.

Audit conclusion

As set out in section 2, we are finalising our review of the valuation of the Council's share of land at Manchester Airport. Based on the work completed to date there are no matters to report to the Audit Committee.

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4. Significant findings

Valuation of Council's and the Group's defined benefit pension liability (Council and Group)

Description of the risk

The net pension liability represents a material element of the Council and the Group balance sheet. The Council and its consolidated subsidiaries are admitted bodies of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's and the subsidiaries' overall valuations. There are financial assumptions and demographic assumptions used in the calculation of the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's and the subsidiaries' employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council's or the subsidiaries' circumstances. This could have a material impact to the Council and Group net pension liability in 2021/22.

How we addressed this risk

Our procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary.
- Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This includes the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate.
- Evaluating and challenging the work performed by the Pension Fund auditor on the Pension Fund investment assets, and considering whether the outcomes would materially impact our consideration of the Council's share of Pension Fund assets.
- Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information.
- Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.
- Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit conclusion

As set out in section 2, we are awaiting responses from the Pension Fund auditor from their audit work. During the course of the audit the Council received a revised valuation of its pension fund liability, which takes account of actual rather than estimated returns on assets at the year end. The impact of this revised valuation is a reduction in the Council's net pension liability of £15.5m to £280.7m. As this represents more up-to-date information, the Council has revised its accounts to include the updated valuations. The Council did not obtain updated reports for the two subsidiaries as the impact would have been immaterial. We have included our assessment of this in section 6.

4. Significant findings

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

We completed our procedures as planned. There are no matters to bring to the Committee’s attention in respect of our work on management override of controls.

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4. Significant findings

Key areas of management judgement

Valuation of shareholding in Manchester Airport (Council)

Description of the management judgement

The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2022. The valuation is determined according to a methodology and applying assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.

How our audit addressed this area of management judgement

Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team.

The Mazars in-house valuation team reviewed the methodology and key assumptions used by management’s expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.

Audit conclusion

As a result of audit questions, the Council’s external valuation expert revised their valuation methodology and provided the Council with a revised valuation report for 2021/22. The revised report reduced the valuation of the Council’s airport shareholding by £14.8m to £23.3m. This error in methodology applied to previous years as well as 2021/22 and the reduction in the valuation at 31 March 2021 was £14.3m. The Council has revised its draft financial statements and included disclosure of a prior period adjustment, reflecting the material value of the adjustment.

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4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May 2022 in line with agreed timescales. The accounts were of a good quality. Supporting working papers have been made available to support the audit process and these have assisted our audit progress. Council finance officers have responded to our detailed audit queries through the audit. We acknowledge the increased pressures the Council finance team have experienced through the year, as they continue to support the Council respond to the post-Covid-19 challenges with reduced resources. In addition, as highlighted through this report, the Council has faced a number of new complex accounting challenges in 2021/22, and this has further stretched the finance team's resources. The finance team have continued to work collaboratively with us, and we are grateful for the continued high priority the Council's team place on supporting the audit of the financial statements and completing the audit in as timely manner as possible.

Significant matters discussed with management

During the audit we maintained a regular dialogue with management. Among the matters discussed through these conversations were:

Accounting for infrastructure assets

The Council holds a material value of Infrastructure Assets within its Property, Plant and Equipment balance on the balance sheet. During 2021/22 a national technical issue arose in respect of accounting for infrastructure assets. Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

Work is ongoing to provide a sector-wide resolution to the issue. As the balance is material to the Council, we are unable to conclude our audit until a resolution is in place. We will update the Audit Committee on the outcome as part of our follow-up letter.

Meridian Ltd

The Council owns shares in Meridian Ltd. During 2021/22 the company purchased back the shares from the other shareholders, leaving the Council as the sole shareholder. The company is therefore now a wholly owned Council subsidiary. The Council consolidated Meridian Ltd into its draft group financial statements. Following audit queries and as a result of discussions with the Council finance team, the team obtained a fair value valuation of the company's assets in order to comply with the requirements of the CIPFA Code. This fair value valuation resulted in the Council concluding that the company was immaterial to its group, and as a result the draft accounts were updated to remove Meridian Ltd from the consolidated group financial statements. We have reviewed the Council's assessment and conclusions and have no issues to report. The adjustments to remove Meridian from the group accounts are highlighted in section 6.

Saddleworth School

During 2021/22 the Council was donated the newly built Saddleworth School from the Department for Education. We discussed the Council's accounting treatment of the transaction with the finance team and subjected this to detailed audit procedures. We are satisfied that there are no issues arising from the Council's accounting treatment of the transaction. However, the formal documentation the Council had obtained from DfE did not explicitly confirm there were no conditions applied to the transfer of the school. Follow up queries the Council made with DfE provided that confirmation.

Impact of the War in Ukraine

The ongoing situation in Ukraine has far-reaching consequences for public sector organisations. As part of our audit we have discussed with management the impact of the war on the Council's operations, and whether any disclosures are required in the financial statements. We are satisfied there are no issues arising which would require specific disclosures in the financial statements.

Covid-19

We continue to discuss the impact of the Covid-19 pandemic on the Council's operations and financial statements. In particular we focussed on the accounting treatment of grant income, and whether the Council accounts for these grants as a principal or agency relationship. We are satisfied there are no issues arising from the Council's treatment of Covid related grants.

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4. Significant findings

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any new questions in 2021/22 and we have not received any objections.



05

Section 05: **Internal control recommendations**

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

06

Section 06:

Summary of misstatements

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6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £429,000 (group threshold £432,000).

Adjusted misstatements – Council

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net Pension Liability			15,471	
	Cr: Pension Reserve				15,471
	The actuarial valuation was initially based on estimated final quarter return on pension fund assets. Our analysis indicated this could be materially inaccurate so the Council obtained an updated report from their actuary. Based on the full year actual returns on assets the Pension Assets increased by £15.5m with a corresponding reduction in the negative pension reserve. This amendment also impacts on the Other Comprehensive Income in the CIES and the Group Balance Sheet.				
	Dr: Financial Instrument Revaluation Reserve			14,799	
	Cr: Long Term Investments				14,799
	The Council's valuation expert revised their value of the Council's shareholding in Manchester Airport Holdings Limited, reducing the value of the investment by £14.8m. This amendment also impacts on the reported 2020/21 valuation, reducing it by £14.3m, along with impacts on the Other Comprehensive Income in the CIES and disclosure notes. The corresponding adjustment reduces the unusable reserves.				
Total adjusted misstatements		0	0	30,270	30,270

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Adjusted misstatements – Group

As reported in section 4 of this report the Council has adjusted its group financial statements to remove its wholly owned subsidiary Meridian Ltd on the grounds of immateriality. The impact on the group financial statements is:

- Group CIES Deficit on Provision of Services increased by £56k
- Group CIES Total Comprehensive Expenditure increased by £0.3m
- Group Long Term Assets reduced by £4.1m
- Group Current Assets reduced by £0.7m
- Group Current Liabilities reduced by £0.3m
- Group Net Assets reduced by £4.5m.

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6. Summary of misstatements

Unadjusted misstatements – Group

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net Pension Liability			1,879	
	Cr: Group Reserves				1,879
<p>The actuarial valuation for Miocare CIC Ltd and Unity Partnerships Ltd was based on estimated final quarter return on pension fund assets. The Council's analysis indicated this would not be materially inaccurate so the Council did not obtain an updated report from their actuary. Based on our evaluation the possible impact on the Pension Assets of the two subsidiaries is £0.8m (Miocare) and £1.1m (Unity). This is above our audit adjustment threshold for the group and is reported here. This adjustment would reduce the Group Net Pension Liability with a corresponding reduction in the Group Reserves.</p>					
Total unadjusted misstatements		0	0	1,879	1,879

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Disclosure amendments

During our audit we identified a small number of adjustments to the disclosures in the accounts. These have been adjusted by management and include:

- Lease disclosures (Note 14)
- Related Party Disclosures (Note 13)
- Classification of Minimum Revenue Provision as voluntary (Notes 15 and 17c)

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Section 07: **Value for Money**

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7. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our commentary on the Council's arrangements will be provided in our Auditor's Annual Report later in the year.

Risks of significant weaknesses in arrangements

In our Audit Strategy Memorandum we reported that we had not identified any risks of significant weaknesses in arrangements as part of our planning procedures. Since issuing our Audit Strategy Memorandum we have recently received the Council's updated assessment of its arrangements for 2021/22 and we will complete our detailed review of the arrangements in place.

Identified significant weaknesses in arrangements and recommendations for improvement

Based on the work completed to date we have not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

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Appendices

A: Independence

B: Other communications

Appendix A: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Appendix B: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Finance that Oldham Metropolitan Borough Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

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Appendix B: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

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Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.



Report to Audit Committee

2021/22 Annual Statement of Accounts

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

Officer Contact: Anne Ryans – Director of Finance

Report Author: Lee Walsh – Finance Manager (Capital and Treasury)
Email: lee.walsh@oldham.gov.uk

29 November 2022

Reason for Decision

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

Executive Summary

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

The report highlights the current progress of the audit of the 2021/22 accounts by Mazars LLP. It also advises of the developments with regard to the preparation and review of the Whole of Government Accounts for both 2020/21 and 2021/22 and provides an update on the Department for Levelling Up, Housing & Communities (DLUHC) consultation on Infrastructure Assets.

Recommendations

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

1 Background

- 1.1 The Council is required to prepare a Statement of Accounts for each financial year in accordance with statutory timelines and accounting Codes of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts are subject to scrutiny and approval by the Council's Audit Committee.
- 1.2 The Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 31 May 2022. For 2021/22, and as in previous years, Authorities had to publish the dates of their public inspection period, providing a public notice on their websites when the public inspection period commences. The Council published such a notice and advised that the public inspection period ran from 1 June 2022 to 14 July 2022. No questions or challenges were received during this inspection period.
- 1.3 Members will recall that in line with good practice, the draft Statement of Accounts was issued to the Audit Committee and provided to Audit Committee Members with the opportunity to review the Council's year-end financial position before they are required to formally approve the accounts. The Statement of Accounts was presented, with a covering report outlining key issues, to the Audit Committee at its meeting of 21 June 2022. The Audit Committee had the opportunity to consider the key issues and ask officers and the External Auditor any relevant questions. All matters raised were addressed at the meeting to the satisfaction of the Committee. An update on the progress of the audit of the accounts and other related issues was presented to the Audit Committee on 21 July 2022, 8 September 2022 and 1 November 2022.
- 1.4 The legislation requires that following the conclusion of a 30-working day period of public inspection the Council is able, subject to audit, to submit the Statement of Accounts for consideration and approval to Committee or by Members meeting as a whole. For Oldham, the body designated to receive the accounts is the Audit Committee. As outlined in section 2, the audit is still in progress and an update is provided elsewhere on the agenda by the External Auditor.

2 Current Position

- 2.1 As advised above, the Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 31 May 2022 which was within the statutory deadline and was the Council's internal deadline as agreed with the External Auditor. The public inspection period began on 1 June 2022 and concluded on 14 July 2022.
- 2.2 The audit of the accounts commenced on 6 June 2022 and is moving to a conclusion. In order to facilitate the audit process, the Council made working papers available to the auditors at an early stage and as part of the Council's interim audit during the financial year. All queries were dealt with as promptly as possible.
- 2.3 There are currently some outstanding audit items that needed to be completed by the External Auditor. The outstanding items are:
- a) Fair Value Financial Instrument disclosures
 - b) Work on the consolidation of the Council's Group Accounts
 - c) Pension Assurances
 - d) Infrastructure Assets
 - e) Investment Properties
 - f) Provisions

2.4 The progress/key issues in relation to these items is set out as follows:

- a) The External Auditors have requested further information on the Fair Value disclosure of the Council's loans to Manchester Airport. The Council's treasury advisors Link Asset Services have provided more detail, and this is under review by the External Auditors.
- b) The External Auditors work on the Council's Group Accounts is in the final stages following the removal of the Meridian Group from the Council's Group Accounts on the grounds of materiality and it is expected that the work will be completed shortly.
- c) With regards to the pension assurances, before Mazars can finalise the audit of the Council's pension fund liability they must have assurance with regards to the audit of the Greater Manchester Pension Fund (GMPF). This item is beyond the influence of the Council, but it is expected that the appropriate pension assurances on the GMPF accounts will be received shortly.
- d) Members will recall previous reports to this Committee which advised that, although there were no major changes to the 2021/22 CIPFA Code of Practice which governs the preparation of the accounts, in May 2022 there was an emergency consultation issued on the accounting practice for Infrastructure Assets. The Council responded to the consultation which concluded on 14 June 2022. A commentary on the outcome of the consultation exercise was reported to the Audit Committee on 8 September which advised that no acceptable recommendations for change to accounting practice had been agreed. On 27 October 2022, a further consultation was issued by the Department for Levelling Up, Housing & Communities (DLUHC). In the consultation, the Government proposed to introduce a statutory override, Regulation 30M to the Capital Finance and Accounting Regulations, which will allow Local Authorities in England to treat the value of any replacement component of infrastructure assets as nil, without the need for further evidence. The proposed override applies to all Local Authorities accounts in England for which an audit certificate has not been issued, and is time limited such that the last financial year it applies will be 2024/25.

The Consultation concluded on 7 November 2022 and the Council provided a response to the draft Statutory Instrument. At the time of preparing this report, no formal notification about the outcome of the latest consultation had been received. Therefore, at this present time the timeline for the finalisation of the 2021/22 accounts remains unclear. Members will be advised if and when there is an agreed approach.

- e) The External Auditors are completing their work on the review of the valuation of the Council's share of land at Manchester Airport. This item is beyond the influence of the Council, but it is expected that the appropriate assurances on the valuation will be received shortly.
- f) Work on the Council's Provisions is almost complete. The Council has provided further information on the recognition and valuation of the Provisions held in the Council's accounts. It is expected that this work will be finalised soon.

2.5 The Council has concluded the preparation of its self-assessment for the year ended 31 March 2022 in relation to its arrangements to deliver Value for Money (VFM). The VFM self-assessment is with the External Auditors and work on the VFM opinion will commence shortly.

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- 2.6 It is important to note that the audit process cannot be fully finalised until all the VFM and the Whole of Government Accounts (WGA) work is completed.
- 2.7 The Committee has previously been advised that the WGA for 2020/21 was submitted in accordance with the revised timelines.
- 2.8 The Council has been advised that the Government does not require any audit work on the 2020/21 WGA, however, as the National Audit Office audits the WGA, it has not yet advised if it requires any work on the Oldham WGA. Mazars LLP is still waiting for notification as to any action required.
- 2.9 Until the audit review of the WGA is completed, the 2020/21 audit remains open. Once the 2020/21 process is completed, the Council will advertise the conclusion of the 2020/21 audit process.
- 2.10 It is important to note that the infrastructure assets issue will need to be considered in the context of the 2020/21 accounts as the External Auditor must consider if there have been any developments which would have a material impact on the accounts and then take appropriate action. As noted in paragraph 2.4(c), the potential impact of the proposed Statutory Instrument may have an impact on the timeline for the conclusion of the 2021/22 audit which in turn, influences the finalisation of the 2020/21 audit.
- 2.11 Based on the work completed so far, the External Auditor would anticipate issuing an unqualified opinion on the Council's Statement of Accounts for 2021/22 without modification. Following the conclusion of the audit of the 2021/22 Statement of Accounts, the approval of the accounts, the production of the VFM opinion and conclusion of the 2021/22 WGA work, the Council will advertise the completion of the 2021/22 audit process on its website and update Members of the Audit Committee accordingly.
- 2.12 Given that the 2020/21 audit has not yet been completely finalised and that the accounting arrangements for the infrastructure assets issue are still uncertain, then the finalisation of the 2021/22 audit is still unknown.

3 Options/Alternatives

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

4 Preferred Option

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

5 Consultation

- 5.1 Consultation has taken place with the Council's External Auditors, Mazars LLP, in addition, members of the public have had the opportunity to inspect the Council's Statement of Accounts and supporting documents during the 30-working day public inspection period which concluded on 14 July 2022. No questions or challenges were received during this inspection period.
- 5.2 The draft Statement of Accounts for the financial year 2021/22 was presented to the Audit Committee meeting of 21 June 2022 which was a key element of the consultation process. All questions and issues raised by Members were answered to the satisfaction of the Audit Committee. A further update on the progress of the Audit was presented at the meetings on 21 July 2022, 8 September 2022 and 1 November 2022.

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- 5.3 The 2021/22 draft Statement of Accounts was an agenda item and therefore presented to and discussed at the meeting of the Performance Overview and Scrutiny Committee on 1 September 2022.
- 5.4 It is expected that the formal presentation of the accounts to Members of the Audit Committee will take place at a meeting of the Committee in early 2023 depending on the outcome of the Statutory Instrument to the amendment of Capital Finance and Accounting Regulations on the valuation of the infrastructure assets.
- 6 Financial Implications**
- 6.1 Dealt with in the body of the report.
- 7 Legal Services Comments**
- 7.1 There are no Legal implications.
- 8 Co-operative Agenda**
- 8.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the co-operative ethos of the Council.
- 9 Human Resources Comments**
- 9.1 There are no Human Resource implications.
- 10 Risk Assessments**
- 10.1 There are no direct risk implications as a result of this report. Until there is a resolution to the infrastructure assets matter there is a risk all Local Authority accounts in England and Wales will remain open for a significant period of time. (Mark Stenson)
- 11 IT Implications**
- 11.1 There are no IT implications as a result of this report.
- 12 Property Implications**
- 12.1 There are no Property implications.
- 13 Procurement Implications**
- 13.1 There are no Procurement implications.
- 14 Environmental and Health and Safety Implications**
- 14.1 There are no Environmental and Health & Safety implications as a result of this report.
- 15 Equality, Community Cohesion and Crime implications**
- 15.1 There are no Equality, community cohesion and crime implications.
- 16 Equality Impact Assessment Completed?**
- 16.1 Not Applicable.

17 Key Decision

17.1 No.

18 Key Decision Reference

18.1 Not Applicable.

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Audit Committee meeting papers – 21 June 2022
<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8596&Ver=4>

 Audit Committee meeting papers – 21 July 2022
<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8597&Ver=4>

 Audit Committee meeting papers – 8 September 2022
<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8598&Ver=4>

 Audit Committee meeting papers – 1 November 2022
<http://decisionrecording.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8599&Ver=4>

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20 Appendices

20.1 There are no Appendices.