

AUDIT COMMITTEE Agenda

Date Tuesday 2 November 2021

Time 6.00 pm

Venue Crompton Suite, Civic Centre, Oldham, 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 Constitutional Services in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Constitutional Services Tel. 0161 770 5151 or email constitutional.services@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, 28 October 2021.

4. FILMING - The Council, members of the public and the press may record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:
Councillors Ahmad, Alyas, Briggs, Dean, C. Gloster, Islam (Vice-Chair), Lancaster, Salamat and Surjan

Item No

1 Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

- 3 Declarations of Interest

 To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.
- 4 Public Question Time

 To receive Questions from the Public, in accordance with the Council's Constitution.
- 5 Minutes of Previous Meeting (Pages 1 - 6)

 The Minutes of the meeting of the Audit Committee held on 9th September 2021 are attached for approval.
- 6 Project Governance Process - Alexandra Park Eco Centre (Pages 7 - 14)
- 7 2020/21 Annual Statement of Accounts (Pages 15 - 36)
- 8 Oldham MBC - External Audit Progress Report October 2021 (Pages 37 - 46)
- 9 Mazars LLP External Audit Recommendations (Pages 47 - 106)
- 10 Update on External Audit Matters (Pages 107 - 112)
- 11 Treasury Management Mid-Year Review Report 2021/21 (Pages 113 - 138)
- 12 Revision to the Reserves Policy for 2020/2021 to 2021/22 (Pages 139 - 142)
- 13 2021/22 Audit and Counter Fraud Progress Report (Pages 143 - 154)
- 14 Proposed Audit Committee Work Programme for 2021/22 and early 2022/23 (Pages 155 - 162)
- 15 Exclusion of the Press and Public

 That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.
- 16 Update on the Annual Governance Statement for 2020/21 and New Issues (Pages 163 - 180)
- 17 Partnership Risk Dashboard (Pages 181 - 192)



AUDIT COMMITTEE
09/09/2021 at 6.00 pm

Present: Councillor Islam (Vice-Chair)
Councillors Alyas, Dean, C. Gloster, Islam (Vice-Chair),
Salamat, Surjan and Arnott (Substitute)

Also in Attendance:

Anne Ryans – Director of Finance
Mark Stenson – Assistant Director of Finance for Corporate
Governance and Strategic Financial Management
Lee Walsh – Finance Manager – Capital and Treasury
Christine Wood – Constitutional Services

Karen Murray – Mazars LLP – External Auditor

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Ahmad, Briggs and Lancaster. Councillor Arnott substituted for Councillor Lancaster.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

No questions had been received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the meeting held on 29th July 2021 be approved as a correct record.

6 **AUDIT FINDINGS REPORT 2020/21 AND STATEMENT OF ACCOUNTS 2020/21**

The Committee agreed that items 6 (Audit Findings Report 2020/21) and 7 (Statement of Accounts 2020/21) would be presented together.

The Committee was reminded that the final Audit Completion Report had not yet been received and that there was still some outstanding internal work in relation to IT controls. The Committee was also advised that information had been requested in the previous few days and that finalisation of the queries have been prioritised. The External Auditor advised that the Greater Manchester Pension Fund Audit report was not yet complete. The Oldham audit cannot be finalised unless this is completed.

Although it had been anticipated that it would be possible to sign off the Statement of Accounts 2021 at the meeting, this was clearly not the case. The Committee was reminded that it had previously been agreed that the Vice-Chair of the Committee could sign off the relevant documentation on behalf of the Committee, when in a position to do so. This will be progressed as quickly as possible with a formal update at the next Audit Committee meeting.

The Committee was advised that VFM opinion would not be provided until later in the financial year.

RESOLVED – That the updates in relation to the Audit Findings Report 2020/21 and Statement of Accounts 2020/21 be noted.

7 **STATEMENT OF ACCOUNTS 2020/21**

As above

8 **UPDATE ON FINANCIAL ADMINISTRATION IN LOCAL AUTHORITIES**

Consideration was given to a report to advise the Committee of the recent Section 114 notices and associated reports issued by the Chief Finance Officers (Section 151 Officers) at two Local Authorities (the London Borough of Croydon and Slough Borough Council) and provide information on the recent capitalisation directions issued by the Ministry of Housing, Communities and Local Government to support the financial position of several Local Authorities during 2020/21 and 2021/22. Attached to the report at Appendix 1 was information explaining what a Section 114 notice is and what happens when such a notice is issued.

The report was presented to assist the Audit Committee to:

- a) Discharge its future Scrutiny function in ensuring there is consideration that the Council effectively manages its budget and oversees partnerships; and
- b) Appropriately consider the work programme included elsewhere on the Agenda.

The Committee was advised that the detailed information that had been published in the public domain for the London Borough of Croydon had identified that the Scrutiny Committee should have better held the Executive of the Council to account in ensuring operational services spent within their agreed budget allocation. The Scrutiny Committee should also have had a better oversight of Council's partnerships.

The Committee was reminded that the Performance Overview Scrutiny Committee within the Council had responsibility for scrutinising the deliverability of the Council's agreed budget and providing oversight of key partnerships and that the Scrutiny

Committee had considered an update report on the Financial Administration in Local Government at its meeting on 26th August 2021.



The Committee was advised that the issuing of the Section 114 notice at the London Borough of Croydon had been subject to review by a Select Committee of the Ministry of Housing, Communities and Local Government (MHCLG). This review had identified the importance of effective Scrutiny to ensure that services were delivered within their agreed budget envelope. The view expressed to the MHCLG Select Committee was that if Croydon had brought under control the budget in the overspending areas of Children's and Adults' Social Care, the Council would not have needed to engage in high-risk commercial investments to generate extra income to balance its budget.

The Committee was also advised that events had also identified a lack of oversight of partnerships in several Authorities resulting in historic losses materialising in the 2020/21 accounts. This had contributed to the issuing of the Section 114 notices at both Slough and Croydon. It had also led to certain Authorities such as Nottingham City Council having to obtain a capitalisation direction from the MHCLG to set a balanced budget for 2021/22. Details of all authorities having been required to obtain a capitalisation direction from the MHCLG were outlined within the report.

Background information relating to issuing of the Section 114 notices to the London Borough of Croydon and Slough Borough Council were outlined within the report.

It was reported that whilst the circumstances of each Authority requesting a capitalisation direction were linked into their own unique circumstances, some common themes were emerging as to why such a direction was required. These were detailed as:

- A failure to set aside sufficient Minimum Revenue Provision (MRP) to cover the cost of borrowing undertaken; and
- Setting a budget with a very low level of general balances (as such the ability of the Authority to absorb a financial shock is minimal); and
- Poor partnership governance of wholly owned companies.

It was suggested, that within reviewing its work programme, that the Committee liaise with the Performance Overview and Scrutiny Committee to ensure adequate oversight of these areas within the Council. The impact on the Future Work Programmes of the Performance Overview and Scrutiny Committees and Audit Committee was outlined within the report.

Members were advised of the entitlement of the Committee to challenge any issue to ensure that there was an oversight of risks associated with partnerships.

The Committee was requested to note the report and utilise the information provided when considering the work programme as detailed in Item 9 of the agenda.

A discussion took place around the issues in which it was agreed that there was a requirement for a formal process and system to scrutinize that the appropriate issues were considered prior to the approval of capital projects. The requirement to seek specialist advice prior to entering contracts/partnerships was also recognised.

The Committee was advised that Oldham Council adhered to the Prudential Code guidance. It was acknowledged that some Authorities did not apply the guidance as it was not currently compulsory. The Government and CIPFA were moving toward applying regulations in relation to this issue.

It was also suggested that case study be presented to the Committee of a robust business case and gateway review to enable the Committee to ensure the appropriateness of the process. There was also the suggestion of a Task Force to flag up and rectify issues.

RESOLVED – That the report be noted.

9 **WORK PROGRAMME FOR PERFORMANCE OVERVIEW AND SCRUTINY COMMITTEE 2021-2022**

The Committee received a copy of the current Performance Overview and Scrutiny Committee Work Programme for 2021/22. It was suggested that more scrutiny of the capital programme should be included.

RESOLVED – That the Performance Overview and Scrutiny Work Programme 2021/22 be noted.

10 **PROPOSED AUDIT COMMITTEE WORK PROGRAMME FOR 2021/22 AND EARLY 2022/23**

A copy of the proposed Audit Committee Work Programme for 2021/22 and early 2022/23 was presented to the Committee for consideration. The Committee was reminded that the Work Programme had been introduced to the Committee the previous year but had been affected due to the Covid situation.

The Committee was also advised that a report would be presented later in the year regarding the new payroll system.

RESOLVED – That the proposed Audit Committee Work Programme for 2021/22 and early 2022/23 be approved.

11 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraphs

3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

12

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2020/21 AND NEW ISSUES

Consideration was given to a report to:

- a) Update the Audit Committee on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as areas requiring improvement in internal control within the Annual Governance Statement for 2020/21; and
- b) Identify new risks which are considered appropriate for potential inclusion in the Annual Governance Statement when it is produced for the financial year 2021/22.

The Committee was reminded that the Council, as part of its Statement of Final Accounts produced an Annual Governance Statement which identified the significant governance issues that the Council needed to consider at the financial year-end to reduce its risk. The report provided an update on such matters.

RESOLVED – That the Committee note the progress made on the issues identified in the Annual Governance Statement and the new issues which have emerged since its production.

13

BUSINESS GRANTS SCHEME ASSURANCE

Consideration was given to a report providing information on the reporting of assurance data by the Council to the Department for Business, Energy and Industrial Strategy (BEIS) on the administration of the Small Business Grant Fund (SBGF) and Retail, Hospitality, Leisure Grant Fund (RHLGF) and the Local Authority Discretionary Grant Fund (LADGF) regimes.

The grant funds allowed payments to be made to eligible businesses of £25,000, £10,000 or any amount under £25,000 and were introduced by Government to provide emergency support due to the COVID-19 pandemic. As the Government no longer requires returns to be submitted, the report provided an update to provide further assurance to the Audit Committee.

The Committee was advised that the Council continued to work with the National Anti-Fraud Network and the National Investigation Service on all alleged fraud and error cases and that the Committee could have confidence in the Council's administration of the grant regimes.

The Committee congratulated officers on the excellent work carried out in the setting up of processes and implementing in relation to allocating the grants in such a short period of time.

RESOLVED – That the Audit Committee note the current position in relation to monitoring the Business Grant Schemes

and the Assurance Report prepared in line with that submitted to BEIS.

14

UPDATE ON THE CORPORATE RISK REGISTER 2021-2022

RESOLVED – That the Audit Committee not the updated Corporate Risk Register.



The meeting started at 6pm and ended at 7.50pm



Report to Audit Committee

Project Governance Process – Alexandra Park Eco Centre

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: Brian Enright – Principal Regeneration Officer
Ext. 4298

2 November 2021

Reason for Decision

As requested at the last Audit Committee meeting, this report has been prepared to inform the Committee about the Gateway review process for major capital projects. It provides a specific example of the Council's governance processes– in this case the Alexandra Park Eco Centre.

Executive Summary

The Council has set in place a robust governance process for each of the projects within the Creating a Better Place Programme as well as other major capital schemes. Following a request from the Audit Committee, this report sets out how a major project (the Alexandra Park Eco Centre project) has complied with the governance process. In particular, it presents how the project has and is managed on a daily/weekly basis, and importantly, the approvals it has had to obtain as it evolved to the point where a main contractor is about to be appointed.

Recommendations

Audit Committee is requested to note the governance process that a large capital project, such as the Alexandra Park Eco Centre, is required to adhere to.

1. Background

- 1.1 It is important that a large capital project such as the Alexandra Park Eco Centre is subject to a rigorous governance process given the large sums of public money that such a project expends. Set out below is a brief description of this process.

2. Establishment of a Project Board

- 2.1 The establishment of a Project Board for a capital project is crucially important. Project Boards are the primary governance group that oversee a project during its lifecycle. They ensure a project meets its objectives and takes action if it goes off plan. The Alexandra Park Eco Centre Project Board meets monthly and is chaired by the designated Senior Responsible Officer – in the case of the Eco Centre project, it is the Head of Regeneration and Development. Other members of the Board include the client-side Project Manager and representatives from the Council's Finance, Legal, Procurement and Environmental Services departments.

3. Day to Day/Weekly Management

- 3.1 A major project needs to maintain its momentum between Project Board meetings. To this end, the Eco Centre Project established an officer working group that meets on a weekly basis. At these meetings, issues that have arisen over the previous week are discussed and solutions agreed. If necessary, decisions/issues are referred to the next Project Board meeting.

4. Council Approvals

- 4.1 Ultimately, projects cannot progress without Council approval. Given the complexity of the Eco Centre project, at various stages approval has had to be sought from a range of sources including the Head of Regeneration and Development, the Director of Economy (both within their delegated authority levels) and Cabinet. In the run up to Cabinet approval, reports have been considered by various officer groups, the Corporate Property Board, and the Capital Investment Programme Board.
- 4.2 The attached Appendix sets out the list of Council approvals that the Eco Centre project has obtained since 2018. During this period, the project has been considered three times by Cabinet – the last time being on 20 September 2021 when approval was given to appoint the preferred main contractor for the project.

5. Gateway Reviews – Strategic Outline and Full Business Cases

- 5.1 In order for a project such as the Eco Centre to progress, both a Strategic Outline and Full Business Case needs to be approved. Each of these detailed business cases is considered by Gateway Panels comprising of senior officers and other staff members who have not had a direct input into the given project. This is to allow the opportunity for an independent review and challenge and has proved effective.

5.2 *Alexandra Park Eco Centre – Strategic Outline Case*

5.2.1 The Strategic Outline Case provides a relatively high-level justification for a capital project. It also provides Gateway Panel members with several options regarding the project, ranging from do-nothing through to the preferred/recommended way forward. Gateway Panel members are given the opportunity to ask project staff members questions about the project. The Eco Centre project's Strategic Outline Case was presented to the project Gateway Panel on 3 June 2020. Following this, a further panel reconvened on 23 June. At this panel, project staff members provided further clarification on issues raised by panel members at the previous meeting. Following this, the project was approved to proceed to its next design stages, prior to being put out to tender. It should be noted that due to the need to reduce the level of capital expenditure committed to the Creating a Better Place Capital Programme during the summer of 2020, the project scope and budget was reduced. This led to an element of redesign which culminated with Cabinet (25 January 2020) giving approval for the reduced scope project being issued for tender in May 2020.

5.3 *Alexandra Park Eco Centre – Full Business Case*

5.3.1 Following the receipt of tenders in July 2021, a detailed Full Business Case was issued to a second Gateway Panel on 12 August 2021. Essentially, a Full Business Case builds on the Strategic Outline Case but provides more focus on the preferred option. In terms of the Eco Centre project, the Full Business Case provided a justification for the Council proceeding with the project. In particular, it provided panel members with a more robust budget estimate that, importantly, included the preferred contractor's price. Following the panel meeting, panel members issued the staff project team with a detailed list of questions and requests for clarification. Once these were addressed, a further report was submitted to Cabinet on 20 September, recommending approval of the Full Business Case and the appointment of the preferred contractor.

6 **Alexandra Park Eco Centre – other approvals**

6.1 As described above, a project such as the Eco Centre project is subjected to a robust process of Gateway and Cabinet approvals. However, interspersed with these approvals, projects are also subject to other approval and scrutiny processes that include delegated reports (for example, the appointment of a consultant) and presentations to the Overview and Scrutiny Committee.

7 **Creating a Better Place Programme Governance**

7.1 The Eco Centre Project is one of a suite of capital projects that falls within the Council's Creating a Better Place programme. It is important, therefore, that there is effective co-ordination throughout the programme. As such, monthly progress meetings take place for all six themes within the Creating a Better Place Programme. The Eco Centre project falls within the Economy Theme meeting which is chaired by the Head of Regeneration and Development. At these meetings, project leads present PowerPoint slides on each of their projects. This allows for constructive scrutiny and an opportunity to discuss issues that may impact on the wider Creating a Better Place programme. Following the Economy Theme meeting, projects are then

presented to the Creating a Better Place Operation Board at which senior officers are informed of progress and relevant issues.

8 Conclusion

8.1 A major capital project such as the Eco Centre project requires effective governance. This report, and the attached Appendix, illustrates the detailed scrutiny to which a project such as this is quite properly subjected to.

9 Consultation

9.1 Consultation has taken place with Senior Officers and Members throughout the project's life from inception to full approval.

10 Financial Implications

10.1 There are no financial implications included within this report.

11 Legal Services Comments

11.1 There are no Legal implications.

12 Co-operative Agenda

12.1 Following a robust governance process and showing transparency on the decision-making process, ensure the Citizens of Oldham that the Council operating within a cooperative ethos.

13 Human Resources Comments

13.1 There are no Human Resource implications.

14 Risk Assessments

14.1 There are no Risk implications.

15 IT Implications

15.1 There are no IT implications.

16 Property Implications

16.1 There are no Property implications.

17 Procurement Implications

17.1 There are no Procurement implications.

18 **Environmental and Health & Safety Implications**

18.1 There are no Environmental and Health & Safety implications as a result of this report.

19 **Equality, community cohesion and crime implications**

19.1 There is no equality, community cohesion and crime implications.

20 **Equality Impact Assessment Completed?**

20.1 Not Applicable

21 **Key Decision**

21.1 No

22 **Key Decision Reference**

22.1 Not Applicable.

23 **Background Papers**

23.1 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 contained with Appendix 1
Officer Name: Brian Enright
Contact No: 0161 770 4298

24 **Appendices**

24.1 Appendix 1 – Alexandra Park Eco Centre – Governance Reporting

Appendix 1

Alexandra Park Eco Centre – Governance Reporting

	Report/Presentation	Date
1	Delegated report seeking approval for entering a lease for a new substation	28 September 2021
2	Cabinet report seeking appointment of contractor and approval of the Final Business Case (FBC) and revised resource allocation	20 September 2021
3	Submission to the Capital Investment Programme Board (CIPB) of the draft Cabinet report for review and recommendation to Cabinet	16 September 2021
4	Gateway 3 - Full Business Case consideration	12 August 2021
5	Delegated report seeking approval for exemption from contract procedure rules for the purchase of a transformer for the new substation	25 June 2021
6	Delegated report seeking approval to purchase a transformer for the new substation	25 June 2021
7	Cabinet report seeking approval of a revised resource allocation	25 January 2021
8	Submission to the Corporate Property Board (CPB) of a draft Cabinet report seeking approval of a revised resource allocation.	17 December 2020
9	CPB report depot options report	24 September 2020
10	CPB Briefing Note on the Eco Centre procurement route	16 July 2020
11	Gateway 2 Panel – Outline Business Case (second meeting)	23 June 2020
12	Gateway 2 Panel – Outline Business Case (first meeting)	3 June 2020
13	Delegated report for appointment of project manager	18 March 2020
14	Peer Review meeting with Cabinet Member for Finance	22 January 2020
15	Overview and Scrutiny Board presentation	21 January 2020
16	Delegated report for the appointment of the M&E engineer	14 August 2019
17	Delegated report for the appointment of multi-disciplinary design team	7 August 2019

18	Cabinet considers report and approves an initial allocation of capital resources	28 January 2019
19	Submission to CIPB of a report recommending to Cabinet the approved resource allocation	10 December 2018
20	Monthly Board meetings	Ongoing
21	Monthly Economy Theme Meetings	Ongoing
22	Monthly Operation Board Meeting	Ongoing

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Oldham
Council

Report to Audit Committee

2020/21 Annual Statement of Accounts

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

Officer Contact: Anne Ryans – Director of Finance

Report Author: Lee Walsh – Finance Manager (Capital and Treasury)
Ext. 6608

2 November 2021

Reason for Decision

The Audit Committee is charged with scrutiny and approval of the Statement of Accounts. This report presents an update the current position regarding the audit and approval of the 2020/21 Statement of Accounts and an update on the outstanding audit issues presented previously to the Committee.

Executive Summary

The report presents an update on the Council's Statement of Accounts for the financial year 2020/21.

Members will recall that at the meeting of the Audit Committee on 29 July 2021, the Statement of Accounts was presented to the Committee for approval. However, there was still work outstanding on the Council's group accounts and the IT audit. The External Auditors also needed to have assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). As such, the final approval of the accounts was delegated to the Vice Chair of the Audit Committee after consultation with the Director of Finance and on receipt of advice from the External Auditor.

The audit has now been concluded and the accounts were signed off on the 30 September 2021 in line with the statutory deadline. It must be noted that the Statement of Accounts had not significantly changed since the presentation to the Committee on 29 July 2021.

As part of the letter issued by Mazars LLP, "Conclusion of Pending Matters - Audit Completion Report", the External Auditors made 3 additional recommendations. Two recommendations are from the conclusion of the work on the IT audit with one recommendation in relation to group accounts.

Recommendations

Audit Committee members are recommended to note the content of the report and the letter from Mazars LLP "Conclusion of Pending Matters - Audit Completion Report".

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 practices. 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 6 June 2021 which was a little later than expected due to the impact of the pandemic. In order to facilitate the audit process, the Council made working papers available to the auditors prior to the handover of the Statement of Accounts. The public inspection period began on 17 June and concluded on 28 July 2021.
- 1.3 Following review by Mazars LLP the audited Statement of Accounts was considered at Audit Committee on 29 July 2021. This gave Members the opportunity to consider the key issues, understand any movements from the draft accounts and ask officers and the External Auditor any relevant questions. Members also considered the draft Audit Completion Report (ACR) prepared by the External Auditor.
- 1.4 However, at the meeting on the 29 July 2021, there was some outstanding items that needed to be completed. The outstanding items from the Council's perspective were:
- a) Work on the consolidation of the Council's Group Accounts
 - b) The completion of work on the IT audit

However, before Mazars can finalise the audit of the Council's pension fund liability they must have assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). This item was beyond the influence of the Council.

- 1.5 Members were, however, content to accept the amended set of financial statements and delegated the approval of the Accounts to the Vice Chair of the Audit Committee after consultation with the Director of Finance on receipt of advice from the External Auditors.

2 Current Position

- 2.1 The letter from the Auditors, Mazars LLP at Appendix 1 details the conclusion of the matters which were still outstanding in the Audit Completion Report presented on 29 July 2021. Following the completion of the final element of audit work on the Council's Group Accounts, the External Auditors have made one recommendation on the consolidation of the Group's Debtors and Creditors. The impact on the 2020/21 Statement of Accounts was not considered to be material therefore the accounts were not adjusted. However, the Council will incorporate the recommendation into the 2021/22 close down process. The IT audit was completed with two low priority recommendations for improvement identified.
- 2.2 Following the completion of the outstanding work, and in line with the authority delegated by Audit Committee, the Vice Chair of the Audit Committee approved and signed the Statement of Accounts on 30 September 2021 after consultation with the Director of Finance and after advice from the External Auditors. This was in line with the statutory deadline and enabled the Council to be one of only 9% of Local Authorities to have its accounts approved by the deadline.
- 2.3 Mazars LLP is yet to complete work on the Value for Money (VFM) opinion in respect of the Council's arrangements for the year ended 31 March 2021. This work is still

ongoing and at the time of preparing this report, the auditors have not identified any significant weaknesses in arrangements that require them to make a recommendation, however they will continue to undertake work on the Council's arrangements and update the Audit Committee.

2.4 It is important to note that the audit process cannot be fully finalised until all the VFM work is finalised and the Whole of Government Accounts (WGA) audit is completed. The WGA audit cannot be undertaken yet and is programmed for later in the year.

2.5 Following the conclusion of the VFM and WGA audit work the Council will advertise the completion of the 2020/21 audit process on its website and update Members of the Audit Committee.

3 Options/Alternatives

3.1 The Audit Committee members can either choose to note the content of the report and the Auditors letter 'Conclusion of Pending Matters – Audit Completion Report' or not.

4 Preferred Option

4.1 The preferred option is that Audit Committee notes the content of the report and the Auditors letter "Conclusion of Pending Matters – Audit Completion Report".

5 Consultation

5.1 Consultation has taken place with the Council's External Auditors, Mazars LLP, in addition members of the public have the opportunity to inspect the Council's Statement of Accounts and supporting documents. The 30-day public inspection concluded on 28 July 2021.

5.2 The draft Statement of Accounts for the financial year 2020/21 was presented to the Audit Committee meeting of 29 June 2021 which was a key element of the consultation process. Formal presentation of the accounts to Members of the Audit Committee at the meeting on 29 July 2021 allowed the opportunity for a further review and scrutiny prior to the approval of the accounts. All questions and issues raised by Members were answered to the satisfaction of the Audit Committee.

5.3 In line with the Council's Financial Procedure Rules, the Accounts will also be presented for noting to Cabinet and Council.

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 cooperative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource implications.

10 Risk Assessments

10.1 There are no risk implications as a result of this report.

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: Background Papers are provided at Appendix 1.
Officer Name: Lee Walsh
Contact No: 0161 770 6608

20 Appendices

20.1 Appendix 1 – Letter from Mazars LLP “Conclusion of Pending Matters – Audit Completion Report”

Members of the Audit Committee
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 West Street
 Oldham
 OL1 1UH

Direct +44 (0) 161 234 9248
 line

Email Karen.murray@mazars.co.uk

30 September 2021

Dear Members

Conclusion of pending matters– Audit completion report

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 27 July 2021.

The outstanding matters and the conclusions reached are detailed below:

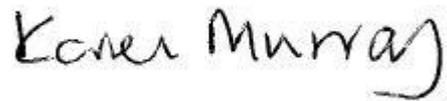
Matter	Conclusion reached
Income and Expenditure testing	We have completed our income and expenditure testing. There are no matters arising to report to the Committee.
Valuation of Property, Plant & Equipment and Investment Properties	We have completed our work on the Council's valuations of property, plant and equipment and investment property. There are no matters arising to report to the Committee.
Pension liability	We have completed our work on the Council's pension liabilities. In addition to the audit procedures listed in our Audit Completion Report we also confirmed that the Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. There are no matters arising to report to the Committee.
PFI	We have completed our work on the Council's PFI disclosures. There are no matters arising to report to the Committee.

Matter	Conclusion reached
Financial instruments	We have completed our work on the Council's Financial Instrument disclosures. There are no matters arising to report to the Committee.
IT general controls testing	We have completed our testing of the Council's IT general controls. While there are no material issues identified we have raised two low priority recommendations for the Council to address. These are included in Appendix A to this letter.
Group consolidation	<p>We have completed our work on the Council's consolidation of group accounts.</p> <p>This completion work concluded that the Council has not correctly identified the debtor and creditor intra-group consolidation adjustments for its two consolidated subsidiaries, Miocare and Unity Partnerships. In producing its group accounts the Council should remove the transactions and balances that it has with these entities and which they have with the Council. Our analysis indicates that the group debtors balance appears to be overstated and is likely to include amounts that Miocare and Unity are owed from the Council which should be removed on consolidation. The Council has been unable to identify the precise value of the overstatement but we are satisfied the error could not be material since the total amount of debtors for these two entities is itself not remotely material. We have reported the total amount of the debtors for Miocare and Unity (£2.3m) as an unadjusted audit difference in Appendix A.</p> <p>We have also included a low priority recommendation in Appendix A to this letter for the Council to address in its closedown arrangements for 2021/22.</p>
Related party transactions	We have completed our work on the Council's related party transaction disclosures. There are no matters arising to report to the Committee.
Financial statements, Annual Governance Statement and letter of representation	We have received the final signed statements and the signed letter of representation. There are no matters arising to report to the Committee.

30 September 2021

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Karen Murray". The signature is written in a cursive, slightly slanted style.

Karen Murray

Partner

Appendix A – Updated Audit Findings

Unadjusted audit difference

As reported above the audit work on the group consolidation has identified that the consolidation adjustments for the debtors has led to an error. The precise quantification of the error is not possible without significant additional work. The total value of debtors which may be affected is those relating to Unity Partnership and Miocare that have been consolidated, and these total £2.3m in the final financial statements. We are reporting that the total unadjusted difference is this value – which is not material – although it is likely that the actual audit difference is lower than that level. The impact of the error is that both Group debtors and creditors are overstated by the same amount, and there is no impact on the Group Comprehensive Income & Expenditure Statement or the overall Group Net Assets.

	CIES		Balance Sheet	
	Dr	Cr	Dr	Cr
Dr Group Creditors	-	-	£2.3m	-
Cr Group Debtors	-	-	-	£2.3m

Recommendation 1

Description of deficiency

The Council's closedown arrangements for the consolidation of its group entities includes a process to identify transactions and balances within the group entities. This involves interrogating the Council records to identify transactions and balances, however it does not include interrogation of the Miocare and Unity Partnership accounts and records or agreeing the entries between the three organisations.

Potential effects

The closedown arrangements may not identify all the transactions and balances within the group that should be removed on consolidation of the group accounts. This appears to be the case in 2020/21 from our analysis which shows that the Miocare and Unity Partnership debtors consolidated into the balance sheet are a greater value than the total amount of income consolidated into the CIES.

Recommendation

The Council should review its closedown processes for the group consolidation to incorporate liaison with the Miocare and Unity Partnership finance officers to identify all transactions and balances that are within the group and remove these on consolidation.

Recommendation 2

Description of deficiency

Our testing of Council's IT general controls identified that users with access to Agresso are normally configured to use a single sign on (SSO). However this is not configured for all users, and users Agresso passwords do not expire if they are not using a SSO.

Potential effects

Regular password changes is a best practice element of good password controls and not requiring them to be changed regularly weakens the password control environment.

Recommendation

The Council should ensure consistency in the password control requirements for all Agresso users regardless of whether they use single sign on or not.

Recommendation 3

Description of deficiency

Our review of the Council's IT Service Continuity Plan confirmed that it outlined the planned response to various scenarios in the case of not being able to access services. However the plan does not incorporate a specific IT disaster recovery strategy and indicates an assumption that the servers and broader network infrastructure is unaffected.

Potential effects

The reliance on IT network and server capacity and performance means that these are critical elements of the Council's control framework and should be subject to disaster recovery procedures. Not clearly articulating those procedures increases the risk that IT failures are not promptly and accurately resolved.

Recommendation

The Council should ensure that it clearly articulates its IT disaster recovery strategy and approach and should regularly test the disaster recovery approach.

Appendix B – Proposed Audit Report

See following pages

Independent auditor's report to the members of Oldham Metropolitan Borough Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Oldham Metropolitan Borough Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement in the Housing Revenue Account, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Note 34 (1.1) of the financial statements explains how the Director of Finance formed their judgement that it is appropriate to adopt the going concern basis of preparation for the Council and the Group.

In accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, our review of management's assessment of going concern was focused on the extent to which there are any indications that the functions of the Council and Group will not continue in operational existence for the foreseeable future.

Our audit procedures to evaluate the Director of Finance's assessment of the Council's and the Group's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council's and the Group's ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining an understanding of the relevant controls relating to the Director of Finance's going concern assessment;
- making enquiries of the Director of Finance to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Council's and the Group's continuation of service;
- obtaining and reviewing the Director of Finance's written going concern assessment; and
- considering whether the Director of Finance's assessment is proportionate to the risks associated with going concern for the local government sector.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures. These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter	How our scope addressed this matter
<p>Valuation of Council Property, Plant and Equipment <i>Note 17 to the financial statements discloses information on the Council's holding of property, plant and equipment (PP&E) which includes £77.1m of Council Dwellings and £500.4m of Other Land & Buildings held at current value at 31 March 2021.</i></p> <p>The CIPFA Code of Practice 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</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • 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 2020/21 are materially fairly stated.

Key audit matter	How our scope addressed this matter
<p>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.</p> <p>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 MHCLG 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.</p>	<ul style="list-style-type: none"> • Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 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 2021. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of land & buildings included in the financial statements is reasonable.</p>
<p>Valuation of Investment Property</p> <p><i>The Council's Balance Sheet discloses their Investment Properties to be valued at £18.8m at 31 March 2021.</i></p> <p>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.</p> <p>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.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • 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.

Key audit matter	How our scope addressed this matter
<p>Valuation of the Council's and the Group's Defined Benefit Net Pension Liability</p> <p><i>The Council's balance sheet discloses the Council pension liability to be valued at £444.2m at 31 March 2021 and comprises assets of £1,094.3m and liabilities of £1,538.5m.</i></p> <p><i>The Group Balance Sheet discloses the group pension liability to be valued at £467.9m at 31 March 2021 and comprises assets of £1,225.9m and liabilities of £1,654.0m.</i></p> <p>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.</p> <p>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 2020/21.</p>	<ul style="list-style-type: none"> • Sample testing the completeness and accuracy of underlying data used by the valuer as part of their valuations. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of investment properties included in the financial statements is reasonable.</p> <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council. • 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 included 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. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. • 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 included comparing

Key audit matter	How our scope addressed this matter
	<p>them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office.</p> <ul style="list-style-type: none"> • 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 and Group's financial statements. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Council	Group
Overall materiality	£13.6m	£13.61m
Basis for determining materiality	Materiality has been determined as approximately 2% of gross expenditure at the surplus/deficit on provision of services level	
Rationale for benchmark applied	Gross expenditure at the surplus/deficit on provision of services level was chosen as the appropriate benchmark as this is a key measure of financial performance for the Council/Group and for users of the financial statements	
Performance materiality	£10.88m	£10.888m
Reporting threshold	£408,000	£408,000

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Director of Finance made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Council and

Group, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our approach to auditing the Group was based on our understanding of the group structure and an assessment of the significance of individual components to the group financial statements. In summary:

- Full scope audit procedures were carried out on the Council which represents (99.2%) of the Group's total assets, (97.0%) of the Group's total liabilities, (99.8%) of the Group's income and (93.9%) of the Group's expenditure.
- Specific audit procedures were carried on the Defined Benefit Pension Liability of The Unity Partnership Limited and Miocare Group Community Interest Company which represents 2.4% of the Group's total liabilities.
- Analytical procedures were performed on the remaining entries in The Unity Partnership Limited and Miocare Group Community Interest Company which were included in the Group financial statements.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.. The

Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing, reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

We are also required to conclude on whether the Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view 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 not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is three years covering the audit of the financial years ending 31 March 2019 to 31 March 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council or Group and we remain independent of the Council and Group in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

This report is made solely to the members of Oldham Metropolitan Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and

30 September 2021

- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Karen Murray, Key Audit Partner
For and on behalf of Mazars LLP
One St Peter's Square
Manchester
M2 3DE
30 September 2021

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Audit Progress Report

Oldham Metropolitan Borough Council

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October 2021



1. Audit Progress

2. National Publications

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01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

We completed our audit of the financial statements and signed our unqualified audit opinion on 30 September 2021. This was in line with the deadline for 2020/21. Our final audit completion letter issued at the conclusion of the audit updated the Audit Committee on the items listed as outstanding in our Audit Completion Report presented to the previous Audit Committee meeting. It also highlighted one additional uncorrected audit adjustment relating to the group consolidation and three additional recommendations arising from the completion of our IT audit work.

We are still to complete the final two elements of our 2020/21 audit: the work we are required to complete on the Council's value for money arrangements; and the work that we are required to complete on the Council's Whole of Government Accounts (WGA) submission.

We are progressing our value for money work, and are planning to complete this work before the end of December 2021. There are no matters to bring to the Committee's attention based on the work completed to date.

The Council's WGA submission is dependent on the government department providing their guidance and submission arrangements. The Council have yet to receive this information and consequently cannot yet submit its WGA return. Our audit work on the return will be completed once the Council has submitted this information. Our work is based on specific requirements communicated by the National Audit Office – these specific requirements have not yet been communicated. We will keep the Audit Committee updated on progress through subsequent update reports.

02

Section 02: **National Publications**

National Publications

	Publication/update	Key points	Page
National Audit Office			
1	Financial sustainability of local authorities visualisation: update	Updated summary comparative analysis	7
CIPFA			
2	Code of Practice on Local Authority Accounting in the United Kingdom 2021/22	New code for 2021/22	8

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NATIONAL PUBLICATIONS

National Audit Office

1. Financial sustainability of local authorities visualisation: update, July 2021

The data visualisation describes changes in English local authorities' financial circumstances over the last decade.

It updates a number of pieces of analysis originally set out in the NAOs 2018 report Financial sustainability of local authorities 2018 and its accompanying data visualisation (2018). It also draws on and updates analysis and findings from their 2016 report Financial sustainability of local authorities: capital expenditure and resourcing and its data visualisation (2016), and the 2020 report Local authority investment in commercial property.

Key themes explored in the data visualisation include:

- Reductions in revenue funding
- Growth in some new and alternative income streams
- Changing patterns of service spending
- New capital investment strategies and associated risks
- Changing patterns of financial sustainability

<https://www.nao.org.uk/other/financial-sustainability-of-local-authorities-visualisation-update/>

NATIONAL PUBLICATIONS

CIPFA

2. Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, June 2021

Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2021/22 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2021.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority. The Code applies to local government organisations across the UK including local authorities, police bodies, fire services and other local public service bodies.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements. Changes include:

- Reframing the Code requirements in terms of UK-adopted standards rather than EU adopted standards, reflecting the United Kingdom's withdrawal from the European Union.
- Confirmation of the accounting arrangements for the Dedicated Schools Grant to reflect changes to the statutory requirements.
- Amendments to confirm the existing adaptation in the Code for standards issued but not yet adopted.
- Augmentations to the reporting of estimation uncertainty.
- Confirmation of the reporting requirements for interest rate benchmark reform.

Importantly, the Code includes an appendix on the future implementation of the IFRS 16 Leases standard, which has been deferred for a further year. The appendix sets out the anticipated provisions in the 2022/23 Code and it will allow local authority accounts preparers to make effective preparations for the implementation of the standard in the 2022/23 financial year. Note that early adoption of IFRS 16 is not permitted, with the exception of Transport for London.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202122-online>

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Report to Audit Committee

Mazars LLP External Audit Recommendations

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)
Ext. 6608

2 November 2021

Reason for Decision

Following the 2020/21 Statement of Accounts audit, the Council's external auditors, Mazars LLP, made recommendations in the draft Audit Completion Report (ACR) and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report. In line with best practice principles, the Council has implemented the recommendations for inclusion in the workplan for 2021/22 and as part of the preparation of the Council's 2021/22 Statement of Accounts.

Executive Summary

The report sets out the Council's response to the recommendations highlighted in the Mazars LLP draft Audit Completion report for 2020/21 and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report. There are 4 recommendations in total, one relating to the Housing Benefit reconciliation to the General Ledger, one on the consolidation of the Group Accounts and two recommendations are from the conclusion of the work on the IT audit.

Recommendations

It is recommended that the Audit Committee notes:

- a) the responses to the recommendations highlighted by the Council's external auditors, Mazars LLP, in the draft Audit Completion Report and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report.
- b) how the Council has implemented the recommendations.

1. Background

- 1.1 This report presents the Council's response to the recommendations highlighted in the 2020/21 draft Audit Completion Report and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report provided by the Council's external auditors, Mazars LLP, on completion of the 2020/21 Statement of Accounts audit.
- 1.2 The audit work identified some minor matters which resulted in four low priority recommendations. The four recommendations related to:
- Housing Benefit system to General Ledger reconciliations
 - The consolidation of the Council's group entities
 - IT general controls associated with access to Agresso
 - The IT Service Continuity Plan
- 1.3 The Council's response to these recommendations is set out in sections 2 to 5.

2. Housing Benefit System to General Ledger reconciliations

- 2.1 As part of the interim audit in August 2020, Mazars LLP, requested the Housing Benefit system to General Ledger reconciliations. When the reconciliations were received, they noted that the reconciliations for the period August 2020 to March 2021 were all completed in March 2021, in the case of August 2020, 7 months after the period end.
- 2.2 The potential impacts for the Council, are that imbalances are not identified in a timely manner and that there are unexplained items that do not have an adequate investigation. This could lead to difficulty in identifying and clearing any reconciling items and any discrepancies are not able to be rectified in a timely manner and any unusual activity is not identified. Mazars LLP recommended that the Housing Benefit system is reconciled to the General Ledger on a prompt monthly timetable within an agreed time frame from month end.
- 2.3 The Council has reviewed and updated the Housing Benefit reconciliation timeframe. The Council's officers and colleagues from The Unity Partnership Ltd have agreed an action plan to ensure that all reconciliations are undertaken in a timely manner.

3. The Consolidation of the Council's Group Entities

- 3.1 When completing the Group accounts audit work, Mazars LLP identified that the Council's closedown arrangements for the consolidation of its group entities includes a process to identify transactions and balances within the group entities. This involves interrogating the Council records to identify transactions and balances however, it does not include interrogation of the MioCare CIC and Unity Partnership Ltd accounts.
- 3.2 Mazars LLP recommended that the Council should review its closedown processes for the group consolidation to incorporate a liaison with the MioCare CIC and Unity Partnership Ltd finance officers to identify all transactions and balances. As part of the closedown process for 2021/22, the Council has included additional checks and reconciliations in its closedown timetable to ensure that all transactions and reconciling items are matched between the Council and its two subsidiary companies.

4. **IT General Control associated with Access to Agresso**

4.1 As part of the IT audit and the testing of the Council's IT general control, Mazars LLP identified that users with access to Agresso are normally configured to use a single sign on (SSO). However, this is not configured for all users, and for Agresso users who do not use SSO, their passwords do not expire. Regular password changes are best practice and an essential element of good password controls and not requiring them to be changed regularly weakens the password control environment. Therefore, the recommendation is that the Council should ensure consistency in the password control requirements for all Agresso users regardless of whether they use single sign on or not.

4.2 The Council is taking action to address the audit recommendation by:

- Reviewing the sign on arrangements for non-SSO users and migrating as many users as possible over to SSO.
- Tightening up password controls for non-SSO users so that passwords expire after 90 days.
- Reviewing Agresso functionality in relation to password security to determine whether enhanced controls can be mandated for non-SSO users.

5. **IT Service Continuity Plan**

5.1 Following discussions during the 2020/21 audit, Mazars LLP reviewed the Council's IT Service Continuity Plan and confirmed that it outlined the planned response to various scenarios in the case of not being able to access services. However, the plan does not incorporate a specific IT disaster recovery strategy and indicates an assumption that the servers and broader network infrastructure is unaffected. The reliance on IT network and server capacity and performance means that these are critical elements of the Council's control framework and should be subject to disaster recovery procedures. Not clearly articulating those procedures increases the risk that IT failures are not promptly and accurately resolved. Therefore, Mazars LLP has recommended that the Council should ensure it clearly articulates its IT disaster recovery strategy and approach and should regularly test the disaster recovery approach.

5.2 The Mazars audit requested the sight of the Service Continuity Plan and this was provided; however, the IT service only has access to its own continuity plan. All the individual service continuity plans are held centrally within the Council as part of its overall business continuity planning arrangements. The Service Continuity Plan, which the auditor has seen, identifies how the Unity ICT service will operate during outages/impacts against the standard working arrangement.

5.3 There is an active IT Disaster Recovery procedure. The process held by Unity IT would see the restoration of IT services in a catastrophic event. This plan would be linked to the overall Business Disaster Recovery Plan. The recovery would see a complete rebuild of infrastructure, which is then populated with the data back-ups. Where required, Service Continuity Plans would be invoked while the infrastructure was being restored.

5.4 The current disaster recovery solution could not easily be tested outside of assuring the quality of data back-ups. It would require the assembly of new infrastructure and the loading of back-up data. It is possible but could be costly in time and resources to achieve. However, this process is under change as part of the migration to Cloud/SaaS-based solutions. This will see the high availability and a more robust disaster recovery solution in place for Agresso and all other Council systems.

6. **Options/Alternatives**

6.1 The options that Audit Committee Members might consider in relation to the contents of this report are:

- a) note the Council's response and implementation of the recommendations highlighted in the 2020/21 draft Audit Completion report and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report.
- b) not to note the Council's response and implementation of the recommendation highlighted in the 2020/21 draft Audit Completion report and subsequent letter entitled 'Conclusion of Pending Matters – Audit Completion Report, and to request an alternative approach.

7. **Preferred Option**

7.1 The preferred option is option a at paragraph 6.1 (a).

8. **Consultation**

8.1 Consultation has taken place with the Councils External Auditors, Mazars LLP.

9. **Financial Implications**

9.1 There are no specific financial implications associated with this report, however, the report sets out the response to recommendations related to the audit of the 2020/21 Statement of Accounts (Anne Ryans).

10. **Legal Services Comments**

10.1 There are no Legal implications.

11. **Co-operative Agenda**

11.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the cooperative ethos of the Council.

12. **Human Resources Comments**

12.1 There are no Human Resource implications.

13. **Risk Assessments**

13.1 It is important to note that the issues identified by the External Auditor are being addressed to minimise risk to the Council. These issues all have a Low Priority categorisation but nonetheless, action has been incorporated into the work programme to take forward the response to the recommendations.

14. **IT Implications**

14.1 IT implications are included within this report.

15. **Property Implications**

15.1 There are no Property implications.

16. **Procurement Implications**

16.1 There are no Procurement implications.

17. **Environmental and Health & Safety Implications**

17.1 There are no Environmental and Health & Safety implications as a result of this report.

18. **Equality, community cohesion and crime implications**

18.1 There are no equality, community cohesion and crime implications.

19. **Equality Impact Assessment Completed?**

19.1 Not Applicable

20. **Key Decision**

20.1 No

21. **Key Decision Reference**

21.1 Not Applicable.

22. **Background Papers**

22.1 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 contained in Appendices 1 and 2
Officer Name: Lee Walsh
Contact No: 0161 770 6608

23. **Appendices**

23.1 Appendix 1 - Mazars LLP draft Audit Completion Report
Appendix 2 - Letter from Mazars LLP dated 30 September 2021 entitled 'Conclusion of Pending Matters – Audit Completion Report'

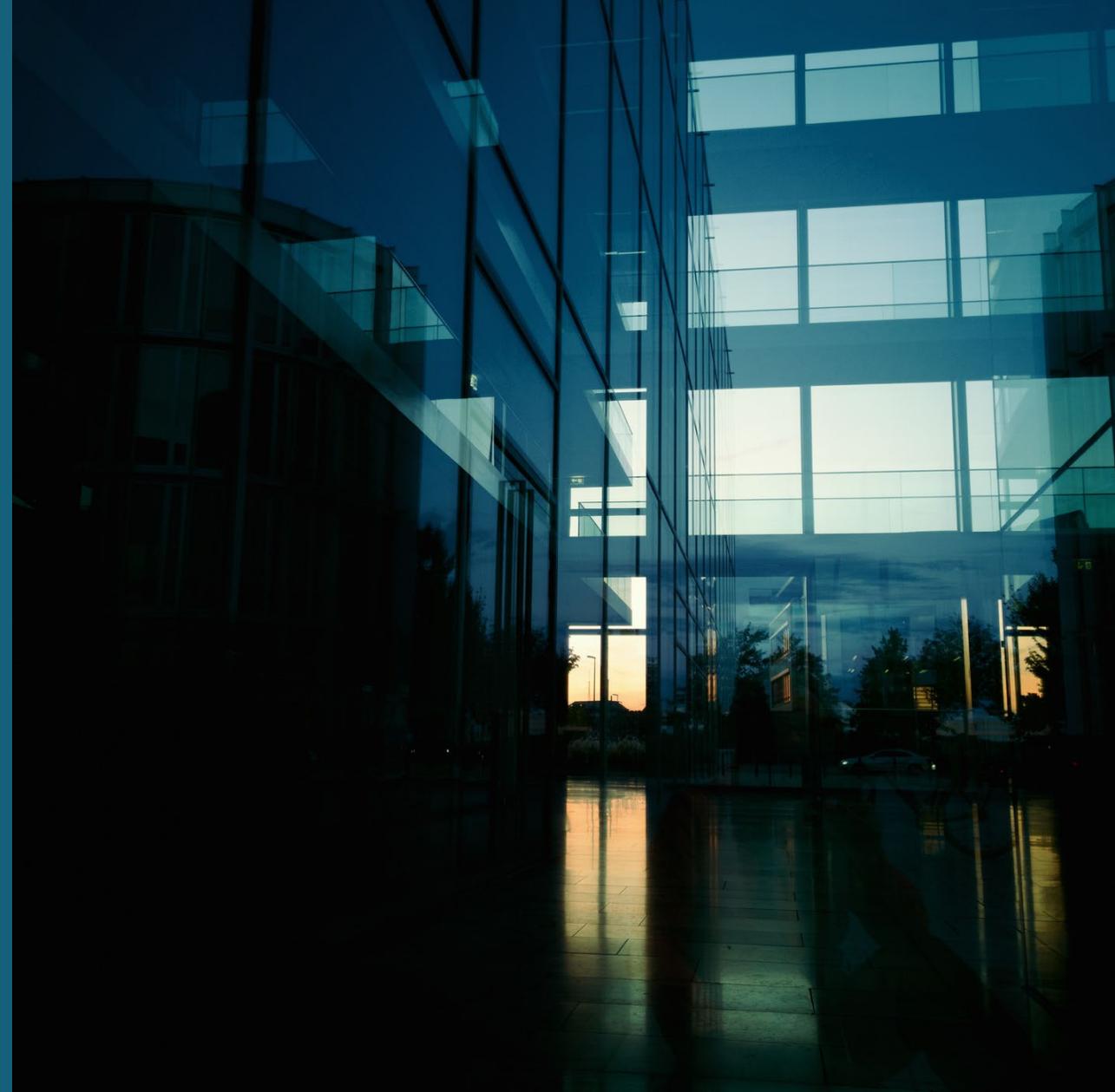
Appendix 1

Audit Completion Report

Oldham Metropolitan Borough Council
Year ended 31 March 2021

July 2021

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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.

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Mazars LLP
One St Peter's Square
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M2 3DE

27 July 2021

Dear Audit Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 10 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters 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 234043.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Karen Murray

Partner, Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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.

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, key audit matters and areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

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

Section 4 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Valuation of the Council's investment in Manchester Airport Holdings Limited

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; of which unadjusted misstatements total £1.1m. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report there are some matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through a follow up letter.

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



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



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)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



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 received correspondence and questions from a member of the public. We are currently considering the matter raised.

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1. Executive summary

COVID-19 impacts

The impact of the COVID-19 pandemic on the audit was significant for a second audit year. Although we have had the full co-operation of the finance team and Council management through the audit, the remote working of our audit team and the Council's staff has inevitably meant that the audit work took longer to complete and finalise than would ordinarily be the case.

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02

Section 02:

Status of the audit

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2. Status of the audit

Our work is nearing completion 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
Income and Expenditure testing		We are awaiting the final elements of evidence for our testing of the Council's other income, payroll expenditure and non-pay expenditure.
Property, Plant & Equipment testing		We are resolving queries relating to the valuation of the Council's property, plant & equipment and the disclosure of capital expenditure and financing.
Pension liability		We are awaiting the final evidence for our testing of the Council's defined benefit pension liability. In addition we have requested confirmation from the Pension Fund auditor on areas relating to their audit of the Greater Manchester Pension Fund. Their audit is not yet complete and the confirmations will be received when that audit is completed.
PFI		We are completing our work on the Council's PFI liabilities and the Unitary Payments
Financial instruments		We are completing our work on the Council's Financial Instruments disclosures
IT general controls testing		Our IT auditors are awaiting requested information from the Council to complete their testing of the Council's general IT controls
Group consolidation		Based on our discussions the Council has updated its group accounts and we have only recently received the supporting working papers. We are still completing our work on the Council's consolidation as a result.
Related party transactions		We are completing the final elements of our work on the related party transactions
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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03

Section 03: **Audit approach**

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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 June 2021. 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 £13.9m for the Group financial statements and £13.8m 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 £13.61m for the Group financial statements and £13.6m 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. We confirm there have been no changes to those arrangements during the audit

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



3. Audit approach

Group audit approach

The Council's group structure for 2020/21 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
Olham 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 carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £5m.
Unity Partnerships Ltd	●	The Mazars audit team undertook testing of Unity Partnership's defined benefit pension liability and carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £6m.

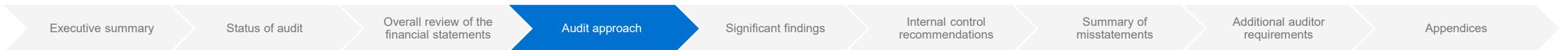
- 
Full audit
 Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality
- 
Audit of balances and/or disclosures
 Performance of an audit of specific balances and/or disclosures included in the component's financial information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



3. Audit approach

The table below summarises our significant risks and other areas of audit focus. The key findings from our audit work in these areas are detailed in section 4.

	Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion
Page 63 Significant risks	Management override of controls	●				Substantive testing	O/S	O/S	Work is still to be completed on some areas of testing but based on the work completed there are no matters to bring to the Committee's attention at this stage.
	Valuation of Land & Buildings		●	●	●	Substantive testing	O/S	O/S	Work is still to be completed but based on the work completed there are no matters to bring to the Committee's attention at this stage.
	Valuation of Investment Properties		●	●	●	Substantive testing	No	No	No matters to bring to the Committee's attention.
	Valuation of the defined benefit pension liability		●	●	●	Substantive testing	O/S	O/S	Work is still to be completed but based on the work completed there are no matters to bring to the Committee's attention at this stage.
Key areas of management judgement and enhanced risks	Valuation of the Council's investment in MAHL		●	●		Substantive testing	No	No	No matters to bring to the Committee's attention.



04

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 findings on key audit matters, including:
 - why the matter was considered;
 - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
 - how the matter was addressed in the audit including a summary of the auditor’s response to those risks;
 - where relevant, key observations arising with respect to those risks; and
 - a clear reference to the relevant disclosures in the financial statements.
- our audit conclusions regarding other significant risks, key audit matters 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 20 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.

if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]

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4. Significant findings

Key audit matters

Valuation of Council Property, Plant & Equipment

Description of the key audit matter

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 MHCLG 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 our audit addressed the key audit matter and our observations

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 2020/21 are materially fairly stated.
- Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 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 2021.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. Testing a sample of items of capital expenditure in 2020/21 to confirm that the additions are appropriately valued in the financial statements.

There are elements of our work that are still to be completed in this area. Based on the work carried out to date there are no matters to bring to the Committee's attention.

4. Significant findings

Key audit matters

Valuation of investment properties

Description of the key audit matter

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 our audit addressed the key audit matter and our observations

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 assurance on the appropriateness of the methodology and assumptions adopted by the Council’s valuer.
- Comparing the valuation to our 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.

Our work is complete and based on the results of our testing there are no matters to bring to the Committee’s attention.

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4. Significant findings

Key audit matters

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

Description of the key audit matter

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 2020/21.

How our audit addressed the key audit matter and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council and the Group components.
- Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the controls in place at the Pension Fund are free from material deficiencies.
- Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's and the Group's share of Pension Fund assets.
- Reviewing the actuarial allocation of Pension Fund assets to the Council and the Group by the actuary, including comparing the Council's and the Group'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 actuarial valuation reports provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.

There are elements of our work that are still to be completed in this area, most notably the confirmations from the Pension Fund auditor based on their audit work. Based on the work carried out to date there are no matters to bring to the Committee's attention.



4. Significant findings

Significant risks

Management override of controls

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 have completed our work on the Council’s journals and there are no matters to bring to the Committee’s attention.

Our work on the management estimates is still to be completed and we have not to date identified any significant transactions outside the normal course of business.

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4. Significant findings

Key areas of management judgement

Valuation of investment in Manchester Airport Holdings Limited

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 2021. 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

Our work is complete and based on the results of our testing there are no matters to bring to the Committee’s attention.

Page 70



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 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council’s circumstances.

Draft accounts were received from the Council on 6th June 2021 and were of a good quality. Good quality supporting working papers have been made available in a timely manner and these have assisted our audit progress. Council finance officers have been very helpful in promptly answering our detailed audit queries and ensuring that Council officer colleagues have prioritised responding to our audit queries.

Significant matters discussed with management

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

Accounting treatment for the Council’s loan made to Manchester Airport in the year

We discussed the Council’s treatment of its loan as capital expenditure in the context of the Capital Financing regulations and the specific requirements to be met in order to treat loans to other organisations as capital expenditure. The Council provided a detailed explanation and supporting evidence to confirm that the loan was provided for capital purposes and the expenditure incurred by the Airport would have been capital had the Council incurred it itself.

Impairments of financial assets

We discussed the Council’s approach in considering impairments of its financial assets and in particular those impacted by the Covid-19 pandemic. We obtained explanations and evidence to support the Council’s approach to impairing its assets including those assets, such as the loans to Manchester Airport, which it has not impaired.

Accounting treatment of government grants

The Council has received material amounts of government grant income in the year, particularly relating to the government’s financial support to the Council and business in response to the impact of Covid-19. We had discussions with the Council in respect of their consideration of whether the Council was acting as an agent of the government or as a principal and whether there were any grant conditions which the Council should take into account in recognising the income in its accounts.

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 2020/21 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 received questions from one member of the public. We are continuing our consideration of the questions, but we are satisfied that there are no material impacts on the 2020/21 financial statements.



05

Section 05:

Internal control recommendations

Page 72

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.	1

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5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

As part of the interim audit in August 2020 we requested the Housing Benefit to General Ledger reconciliations. When we received the reconciliation we noted that the reconciliation was completed in March 2021, 7 months after the period end. We also noted that the subsequent months reconciliations were also completed in March 2021.

Potential effects

The potential impacts are that imbalances are not identified in a timely manner; that there are unexplained items that do not have an adequate investigation, leading to difficulty in identifying and clearing any reconciling items; and discrepancies are not able to be rectified in a timely manner and any unusual activity is not identified.

Recommendation

Ensure that the Housing Benefit system is reconciled to the General Ledger on a prompt monthly timetable within an agreed time frame from month end.

Management response



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 £408,000. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The following page outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Page 76	Dr: Short Term Debtors	1,174			
	Cr: Cost of Services Income				1,174
	Our testing of income received after the year end identified one government grant for £228k which related to a 2020/21 grant but was received in May 2021. The Council was already progressing through its closedown arrangements and recognised this income in 2021/22. Applying our audit methodology we extrapolated this £228k error, and if the error was representative of the whole population Short Term Debtors and Cost of Services Income would be understated by £1,174k.				
2	Dr: Cr: [Insert description]				
3	Dr: Cr: [Insert description]				
Total unadjusted misstatements		1,174	-	-	1,174



6. Summary of misstatements

Adjusted misstatements

Based on the work completed to date there are no significant adjusted misstatements to bring to the Committee’s attention.

Disclosure amendments

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

- Note 2 – Expenditure & income Analysed by Nature has been amended to remove expenditure and income with schools which is internal to the Council
- Note 3 – Financing and Investment Income & Expenditure has been amended to remove the prior year impact of the loss on disposal of academy schools which is now included in Other Operating Expenditure in the I&E Statement

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07

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.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

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. We intend to issue the Auditor's Annual Report in [insert date].

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. 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 draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report later in the year.

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Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To be provided to us on client headed note paper

[Date]

Dear Karen

Oldham Metropolitan Borough Council - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Oldham Metropolitan Borough Council ('the Council') and its Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.



Appendix A: Draft management representation letter (continued)

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council 's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- Information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- The amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



Appendix A: Draft management representation letter (continued)

Fraud and error

I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.



Appendix A: Draft management representation letter (continued)

Covid-19

I confirm that the Council has carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council and the Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours faithfully

Anne Ryans

Director of Finance

Appendix

Schedule of unadjusted misstatements

	SOCl		SOFP	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr Short Term Debtors			1,174	
Cr Cost of Services Income		1,174		
Total unadjusted misstatements	0	1,174	1,174	0



Appendix B: Draft audit report

The draft audit report will be included at the conclusion of the audit

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Appendix C: 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.

We also confirm that we have received confirmation from our external experts regarding their independence.

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Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. 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.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
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	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.

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Appendix D: 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 Page 88	<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 obtained written representations from management, and the Audit Committee, confirming that</p> <ol 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: <ol 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.

Mazars

Karen Murray, Partner

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Manchester
M2 3DE

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.

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30 September 2021

Dear Members

Conclusion of pending matters– Audit completion report

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 27 July 2021.

The outstanding matters and the conclusions reached are detailed below:

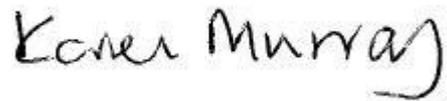
Matter	Conclusion reached
Income and Expenditure testing	We have completed our income and expenditure testing. There are no matters arising to report to the Committee.
Valuation of Property, Plant & Equipment and Investment Properties	We have completed our work on the Council’s valuations of property, plant and equipment and investment property. There are no matters arising to report to the Committee.
Pension liability	We have completed our work on the Council’s pension liabilities. In addition to the audit procedures listed in our Audit Completion Report we also confirmed that the Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. There are no matters arising to report to the Committee.
PFI	We have completed our work on the Council’s PFI disclosures. There are no matters arising to report to the Committee.

Matter	Conclusion reached
Financial instruments	We have completed our work on the Council's Financial Instrument disclosures. There are no matters arising to report to the Committee.
IT general controls testing	We have completed our testing of the Council's IT general controls. While there are no material issues identified we have raised two low priority recommendations for the Council to address. These are included in Appendix A to this letter.
Group consolidation	<p>We have completed our work on the Council's consolidation of group accounts.</p> <p>This completion work concluded that the Council has not correctly identified the debtor and creditor intra-group consolidation adjustments for its two consolidated subsidiaries, Miocare and Unity Partnerships. In producing its group accounts the Council should remove the transactions and balances that it has with these entities and which they have with the Council. Our analysis indicates that the group debtors balance appears to be overstated and is likely to include amounts that Miocare and Unity are owed from the Council which should be removed on consolidation. The Council has been unable to identify the precise value of the overstatement but we are satisfied the error could not be material since the total amount of debtors for these two entities is itself not remotely material. We have reported the total amount of the debtors for Miocare and Unity (£2.3m) as an unadjusted audit difference in Appendix A.</p> <p>We have also included a low priority recommendation in Appendix A to this letter for the Council to address in its closedown arrangements for 2021/22.</p>
Related party transactions	We have completed our work on the Council's related party transaction disclosures. There are no matters arising to report to the Committee.
Financial statements, Annual Governance Statement and letter of representation	We have received the final signed statements and the signed letter of representation. There are no matters arising to report to the Committee.

30 September 2021

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Karen Murray". The signature is written in a cursive style with a large initial 'K' and a trailing flourish at the end.

Karen Murray
Partner

Appendix A – Updated Audit Findings**Unadjusted audit difference**

As reported above the audit work on the group consolidation has identified that the consolidation adjustments for the debtors has led to an error. The precise quantification of the error is not possible without significant additional work. The total value of debtors which may be affected is those relating to Unity Partnership and Miocare that have been consolidated, and these total £2.3m in the final financial statements. We are reporting that the total unadjusted difference is this value – which is not material – although it is likely that the actual audit difference is lower than that level. The impact of the error is that both Group debtors and creditors are overstated by the same amount, and there is no impact on the Group Comprehensive Income & Expenditure Statement or the overall Group Net Assets.

	CIES		Balance Sheet	
	Dr	Cr	Dr	Cr
Dr Group Creditors	-	-	£2.3m	-
Cr Group Debtors	-	-	-	£2.3m

Recommendation 1**Description of deficiency**

The Council's closedown arrangements for the consolidation of its group entities includes a process to identify transactions and balances within the group entities. This involves interrogating the Council records to identify transactions and balances, however it does not include interrogation of the Miocare and Unity Partnership accounts and records or agreeing the entries between the three organisations.

Potential effects

The closedown arrangements may not identify all the transactions and balances within the group that should be removed on consolidation of the group accounts. This appears to be the case in 2020/21 from our analysis which shows that the Miocare and Unity Partnership debtors consolidated into the balance sheet are a greater value than the total amount of income consolidated into the CIES.

Recommendation

The Council should review its closedown processes for the group consolidation to incorporate liaison with the Miocare and Unity Partnership finance officers to identify all transactions and balances that are within the group and remove these on consolidation.

Recommendation 2

Description of deficiency

Our testing of Council's IT general controls identified that users with access to Agresso are normally configured to use a single sign on (SSO). However this is not configured for all users, and users Agresso passwords do not expire if they are not using a SSO.

Potential effects

Regular password changes is a best practice element of good password controls and not requiring them to be changed regularly weakens the password control environment.

Recommendation

The Council should ensure consistency in the password control requirements for all Agresso users regardless of whether they use single sign on or not.

Recommendation 3

Description of deficiency

Our review of the Council's IT Service Continuity Plan confirmed that it outlined the planned response to various scenarios in the case of not being able to access services. However the plan does not incorporate a specific IT disaster recovery strategy and indicates an assumption that the servers and broader network infrastructure is unaffected.

Potential effects

The reliance on IT network and server capacity and performance means that these are critical elements of the Council's control framework and should be subject to disaster recovery procedures. Not clearly articulating those procedures increases the risk that IT failures are not promptly and accurately resolved.

Recommendation

The Council should ensure that it clearly articulates its IT disaster recovery strategy and approach and should regularly test the disaster recovery approach.

Appendix B – Proposed Audit Report

See following pages

Independent auditor's report to the members of Oldham Metropolitan Borough Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Oldham Metropolitan Borough Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement in the Housing Revenue Account, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Note 34 (1.1) of the financial statements explains how the Director of Finance formed their judgement that it is appropriate to adopt the going concern basis of preparation for the Council and the Group.

In accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, our review of management's assessment of going concern was focused on the extent to which there are any indications that the functions of the Council and Group will not continue in operational existence for the foreseeable future.

Our audit procedures to evaluate the Director of Finance's assessment of the Council's and the Group's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council's and the Group's ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining an understanding of the relevant controls relating to the Director of Finance's going concern assessment;
- making enquiries of the Director of Finance to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Council's and the Group's continuation of service;
- obtaining and reviewing the Director of Finance's written going concern assessment; and
- considering whether the Director of Finance's assessment is proportionate to the risks associated with going concern for the local government sector.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures. These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter	How our scope addressed this matter
<p>Valuation of Council Property, Plant and Equipment <i>Note 17 to the financial statements discloses information on the Council's holding of property, plant and equipment (PP&E) which includes £77.1m of Council Dwellings and £500.4m of Other Land & Buildings held at current value at 31 March 2021.</i></p> <p>The CIPFA Code of Practice 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</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • 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 2020/21 are materially fairly stated.

Key audit matter	How our scope addressed this matter
<p>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.</p> <p>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 MHCLG 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.</p>	<ul style="list-style-type: none"> • Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 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 2021. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of land & buildings included in the financial statements is reasonable.</p>
<p>Valuation of Investment Property</p> <p><i>The Council's Balance Sheet discloses their Investment Properties to be valued at £18.8m at 31 March 2021.</i></p> <p>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.</p> <p>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.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • 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.

Key audit matter	How our scope addressed this matter
<p>Valuation of the Council's and the Group's Defined Benefit Net Pension Liability</p> <p><i>The Council's balance sheet discloses the Council pension liability to be valued at £444.2m at 31 March 2021 and comprises assets of £1,094.3m and liabilities of £1,538.5m.</i></p> <p><i>The Group Balance Sheet discloses the group pension liability to be valued at £467.9m at 31 March 2021 and comprises assets of £1,225.9m and liabilities of £1,654.0m.</i></p> <p>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.</p> <p>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 2020/21.</p>	<ul style="list-style-type: none"> • Sample testing the completeness and accuracy of underlying data used by the valuer as part of their valuations. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of investment properties included in the financial statements is reasonable.</p> <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council. • 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 included 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. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. • 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 included comparing

Key audit matter	How our scope addressed this matter
	<p>them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office.</p> <ul style="list-style-type: none"> 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 and Group's financial statements. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Council	Group
Overall materiality	£13.6m	£13.61m
Basis for determining materiality	Materiality has been determined as approximately 2% of gross expenditure at the surplus/deficit on provision of services level	
Rationale for benchmark applied	Gross expenditure at the surplus/deficit on provision of services level was chosen as the appropriate benchmark as this is a key measure of financial performance for the Council/Group and for users of the financial statements	
Performance materiality	£10.88m	£10.888m
Reporting threshold	£408,000	£408,000

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Director of Finance made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Council and

Group, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our approach to auditing the Group was based on our understanding of the group structure and an assessment of the significance of individual components to the group financial statements. In summary:

- Full scope audit procedures were carried out on the Council which represents (99.2%) of the Group's total assets, (97.0%) of the Group's total liabilities, (99.8%) of the Group's income and (93.9%) of the Group's expenditure.
- Specific audit procedures were carried on the Defined Benefit Pension Liability of The Unity Partnership Limited and Miocare Group Community Interest Company which represents 2.4% of the Group's total liabilities.
- Analytical procedures were performed on the remaining entries in The Unity Partnership Limited and Miocare Group Community Interest Company which were included in the Group financial statements.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.. The

Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) the Local Government Finance Acts of 1988, 1992 and 2012, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing, reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

We are also required to conclude on whether the Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view 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 not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is three years covering the audit of the financial years ending 31 March 2019 to 31 March 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council or Group and we remain independent of the Council and Group in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

This report is made solely to the members of Oldham Metropolitan Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and

30 September 2021

- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Karen Murray, Key Audit Partner
For and on behalf of Mazars LLP
One St Peter's Square
Manchester
M2 3DE
30 September 2021

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Report to Audit Committee

Update on External Audit Matters

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

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

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

Ext. 4783

02 November 2021

Reason for Decision

To provide Members with an update on matters relating to both the future oversight of external audit within Local Government and matters of interest from Public Sector Audit Appointments (PSAA), who oversee the appointment and high-level quality of external audit provision.

Executive Summary

The report updates Members of the Committee on:

- The latest developments within external audit regulation following the production of the Redmond Report, and the recommendations which were made.
- The proposed procurement exercise which, subject to Local Authorities exercising their right to opt in, is to be undertaken by the PSAA to appoint their external auditors from 1 April 2023.
- An update on the overall reported performance of external audit opinions issued for Local Authority accounts before the Statutory Deadline of 30 September 2022.

Recommendations

Members are requested to note the developments outlined in this report.

Update on External Audit Matters**1. Background**

- 1.1 This report is to brief Members of matters linked into proposed developments for the Regulation of Local Authority External Audit resulting from the past publication of the Redmond Report and current ongoing matters linked into external audit associated with Public Sector Auditor Appointments (PSAA).
- 1.2 As previously reported to this Committee the PSAA currently appoint the external auditors to the Council and provide oversight of the sector for Local Authorities.

2 Update on Redmond, including proposed Statutory Oversight of the sector and latest position on external audit fees

- 2.1 The production of the Redmond Report highlighted that the regulation of external audit overseeing Local Government required reform. One of the most significant recommendations concerned the impact of abolishing the Audit Commission and the impact it had on overseeing external audit in both Local Government and the NHS. The preferred approach of government in response to the Redmond Report was to propose the inclusion of a separate unit to oversee public audit within the Audit Regulation and Governance Authority (ARGA) to provide oversight of both private and public sector audit. This was not fully in line with the Redmond report which recommended the creation of an independent body to oversee Local Government and NHS audit. ARGA is to be the successor body to the Financial Reporting Council. As well as concerns with Local Authority audit, there are also matters on the audit of private companies which require future regulatory reform. Whilst matters on the final design of ARGA are under consultation it is generally accepted this will happen and is broadly supported. One specific challenge it will need to manage is balancing up any conflict on approach between private and public audit.
- 2.2 When the reforms become legislation, it would be sensible to review the Terms of Reference of this Committee as detailed guidance is expected on how Audit Committees will operate in the future. One requirement is likely for it to become mandatory to appoint Independent Members to the Audit Committee. In practice the Council has this flexibility, within its present constituted Committee but the challenge has been attracting suitably qualified individuals to undertake this role. Given this will probably become a requirement for all Authorities the practicalities of implementation could become a difficult issue.
- 2.3 Should the implementation work as planned; it is possible that a new Code of Practice for the external audit of Local Authorities will be developed from the financial year 2023/24. At present, the requirement is to update the Code every 5 years. The last update was completed in 2020. Given the Local Government environment has more challenges than historically (Section 114 Notices being issued, Capitalisation Directions required, Statutory Recommendations being issued, some authorities not having their accounts signed off for a number of financial years as examples) it does not seem inappropriate to do this in advance of the 5-year requirement.
- 2.4 The final matter to bring to the attention of the Audit Committee, is the future need to prepare an Annual Report to full Council (at present it is included in a joint Scrutiny Report for all of these Committees). This seems sensible and is something the Audit Committee in this Authority used to do several years ago. In advance of it becoming a Statutory Recommendation, it is perhaps something the Committee would like to consider for the financial year 2021/22 in say the summer/ autumn of 2022.

3. The forthcoming Procurement of External Auditors from 1 April 2023.

- 3.1 One key recommendation from the Redmond review was that legislation should be put in place, so Local Authorities do not have the power to appoint their own auditors. Since the abolition of the Audit Commission an individual Local Authority could appoint their own auditor if they wanted. In practice the vast majority including Oldham have opted into the procurements undertaken by the PSAA (the successor body set up after the abolition of the Audit Commission overseen by the Local Government Association). The current contracts for audit procurement let by the PSAA expire after the end of the financial year 2022/23.
- 3.2 The PSAA is now consulting on whether individual Local Authorities would want to exercise their right to appoint their own external auditor, or opt into the proposed procurement to be undertaken by the PSAA. These contracts overseen by the PSAA are for a period of five years. At present the arrangement for Oldham Council external audit mirrors that for the other 9 Districts and the Greater Manchester Combined Authority in that all have a common auditor (Mazars LLP). This approach was agreed by the Treasurers as a collective and has benefits on common issues having one interpretation such as the investment in Manchester Airport.
- 3.3 The recommendation of the Director of Finance and the Assistant Director of Finance for Corporate Governance and Strategic Financial Management is that the Council should opt into the procurement exercise undertaken by the PSAA. It is consistent with the principle recommended in the Redmond Review that Local Authorities should not appoint their own auditor. In terms of price, there is a likely benefit from a bulk procurement, and it is uncertain if Oldham was to undertake its own procurement it would attract an appropriate external auditor. As Redmond highlighted in the review there are only limited participants in the market prepared to undertake Local Authority audit.
- 3.4 It is considered important to highlight this matter to the Audit Committee for discussion. The previous approach which was for all the Manchester Districts and the GM Combined Authority to have the same auditor is a sensible approach.

4. Feedback on 2020/21 Audit of Accounts

- 4.1 In relation to the 2020/21 audit of accounts, Members will recall that the Accounts and Audit Regulations were amended so an audited opinion on the Statement of Final Accounts was required by 30 September 2021. This is also the target date for the audit of the accounts for the financial year 2021/22.
- 4.2 In terms of external audit delivering this opinion, it has only been achieved at 9% of upper or middle tier Local Authorities subject to the regime. This highlights the issues identified by the Redmond Review around the capacity in the market to provide external audit to Local Authorities. This clearly needs to be addressed. Oldham Council is one of the 9% of authorities who have obtained such certification. For Oldham it is important to highlight that it obtained its audit opinion (excluding the value for money opinion within the deadline) which is a good position to be in nationally.
- 4.3 This overall position is a decline in the performance for the previous financial year (2019/20) whereby 43% of audit opinions were issued within the later statutory deadline of 30 November 2020. Both deadlines for the audit opinions (as well as 2021/22) have been extended from the underlying target date set out in the Accounts and Audit Regulations which envisages the opinion being given by the end of July. It would be easy to just blame the pandemic/ switch to home working for this dip in performance as the single reason, but it is likely there are several other issues as detailed below:

- The capacity of external audit to meet the deadline for both Local Government and the NHS (this has been highlighted in the Redmond Review).
- A lack of capacity within Finance Teams at several Local Authorities to meet the deadline (recent returns for the provisional revenue out-turn for the financial year 2020/21 were not submitted on time by 62 Authorities).
- Issues arising at a selection of authorities which are difficult to resolve (examples would be legitimate complaints by registered electors on material transactions or accounting for income from third parties) within the deadline and can take a number of years to resolve.
- Poor accounting practice in a small minority of authorities (a recent publication identified an example of a District Council who did not charge a year's pension costs to its revenue account in error).

5 **Options/Alternatives**

5.1 N/A.

6 **Preferred Option**

6.1 N/A.

7 **Consultation**

7.1 N/A.

8 **Financial Implications**

8.1 N/A.

9 **Legal Services Comments**

9.1 N/A.

10 **Cooperative Agenda**

10.1 N/A.

11 **Human Resources Comments**

11.1 N/A.

12 **Risk Assessments**

12.1 N/A. (Mark Stenson)

13 **IT Implications**

13.1 N/A.

14 **Property Implications**

14.1 N/A.

15 **Procurement Implications**

15.1 N/A.

16 **Environmental and Health & Safety Implications**

16.1 N/A.

17 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

18 **Equality Impact Assessment Completed**

18.1 No.

19 **Forward Plan Reference**

19.1 N/A.

20 **Key Decision**

20.1 No.

21 **Background Papers**

21.1 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: <https://www.psaa.co.uk/>
Officer Name: Mark Stenson
Contact No: 0161 770 4783

22 **Appendices**

22.1 None.

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Report to Audit Committee

Treasury Management Mid-Year Review Report 2021/21

Portfolio Holder: Cllr 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 & Treasury)
Ext. 6608

2 November 2021

Reason for Decision

This report advises Audit Committee on the performance of the Council's Treasury Management function for the first half of 2021/22 and provides a comparison of performance against the 2021/22 Treasury Management Strategy and Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first six months of 2021/22;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- Why there has been no debt rescheduling undertaken during 2021/22; and
- A review of compliance with Treasury and Prudential Limits for 2021/22.

The report is presented to the Audit Committee to enable it to have the opportunity to review and scrutinise the 2021/22 Treasury Management Mid-Year Review report prior to its presentation to Cabinet on 15 November 2021 and Council on 15 December 2021.

Recommendations

That the Audit Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends to Cabinet the:

- a) Treasury Management activity for the first half of the financial year 2021/22 and the projected outturn position.
- b) Amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report.
- c) Amendments to the Capital Financing Requirement (CFR) as set out in the table at section 2.4.5

Treasury Management Strategy Mid-Year Review Report 2021/22

1 Background

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested with low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence, treasury management is defined as:
- “The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. Within these new codes as from 2020/21, all Local Authorities have been required to prepare a Capital Strategy which is to provide the following:
- a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
 - b) an overview of how the associated risk is managed.
 - c) the implications for future financial sustainability.
- 1.5 The Council has traditionally prepared a Capital Strategy, but the requirements of the Prudential and Treasury Management Codes required a revised format and content to ensure alignment with both Codes. A report incorporating the new requirements was presented to the 2021/22 Budget Cabinet and Budget Council meetings.

2 Current Position

2.1 Requirements of the Treasury Management Code of Practice

- 2.1.1 Treasury Management reports must be prepared in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017).
- 2.1.2 The primary requirements of the Code are as follows:
- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** (this report) and an Annual Report (stewardship report) covering activities during the previous year.
- d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Director of Finance.
- e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

2.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2021/22;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- Why there has been no debt rescheduling undertaken during 2021/22; and
- A review of the compliance with Treasury and Prudential Limits for 2021/22.

2.2 **Economic Update for the First Six Months of the Financial Year**

The United Kingdom (UK)

- 2.2.1 At the meeting of The Monetary Policy Committee (MPC) 24 September 2021 the MPC voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- 2.2.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, the Governor was indicating the potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer.
- 2.2.3 It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system, indicating, the MPC had been prepared to look through a temporary spike in inflation.
- 2.2.4 Therefore, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices,

particularly the increases in gas and electricity prices in October and due again April 2022, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement. This suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year.

- 2.2.5 This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.
- 2.2.6 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment as furlough ended at the end of September. At the MPC's meeting in February 2022 it will only have available the employment figures for November. To get a clearer picture of employment trends, it would need to wait until the May 2022 meeting when it would have data up until February 2022. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.
- 2.2.7 The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
- Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
 - Raising Bank Rate to 0.50% before starting on reducing its holdings.
 - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
 - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

European Union (EU)

- 2.2.8 The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle.
- 2.2.9 Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the European Central Bank (ECB) is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

German General Election

- 2.2.10 With the Christian Democratic Union of Germany (CDU)/ Christian Social Union (CSU) and Social Democratic Party (SDP) both having won around 24-26% of the vote in the September 2021 General Election, the composition of Germany's next coalition Government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition Government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China

- 2.2.11 After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year. This enabled China to recover all the initial contraction. During

2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth.

- 2.2.12 At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns, which will also depress economic growth.
- 2.2.13 There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan

- 2.2.14 During 2021, Japan has had a difficult year in combating the Covid-19 pandemic. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4.
- 2.2.15 The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon and inflation was negative in July 2021. New Prime Minister Kishida has promised a large fiscal stimulus package after the November 2021 General Election which his party is likely to win.

World Growth

- 2.2.16 World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022.
- 2.2.17 It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply Shortages

- 2.2.18 The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time, there are major queues of ships unable to unload their goods at ports in New York, California, and China.
- 2.2.19 Such issues have led to misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries.
- 2.2.20 Many western countries are also having difficulty in filling job vacancies. It is expected that these issues will be gradually reduce, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

2.3 Interest Rate Forecast

- 2.3.1 The Council's treasury advisor, the Link Group, has provided the following forecast of interest rates over the period from December 2021 to March 2024 together with Public Works Loan Board (PWLB) Rates which are presented at certainty rates (gilt yields plus 80 basis points (bps)).

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

2.3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

2.3.3 As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 2023/24 and a third one to 0.75% in quarter 4 of 2023/24.

Significant Risks to the Forecasts

2.3.4 There are significant risks to forecasts and these are set out below:

- Covid-19 vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC tightens monetary policy too early, by raising Bank Rate or unwinding quantitative easing (QE).
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets, for example in the US, become increasingly judged as being over-valued and susceptible to major price corrections.
- Central Banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- Geo-political risks are widespread for example, the German General Election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany.

The Balance of Risks to the UK Economy

2.3.5 The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid-19 and its variants, both domestically and their potential effects worldwide.

Forecast for Bank Rate

2.3.6 Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so it should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021.

2.3.7 Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons:

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which actions to take.
- Some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit.
- Rising gas and electricity prices in October 2021 and April 2022 and increase in other prices caused by supply shortages and increases in taxation next April 2022, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October 2021, which could also end up in reducing consumer spending power.
- On the other hand, consumers have around £200bn of excess savings left over from the pandemic for which the timing of spending is unclear.
- Approximately 1.6 million people came off furlough at the end of September 2021. It is unclear how many of those no longer have a permanent job and will, therefore, be available to fill labour shortages in many sectors of the economy. So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further developments in the Covid-19 pandemic, on top of the flu season this winter, which could depress economic activity.

2.3.8 In summary, with the high level of uncertainty prevailing on several different fronts. It is likely that these forecasts will need to be revised again soon.

2.3.9 It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid-19 crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normality.

2.3.10 In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB Rates and Gilt Yields

2.3.11 As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

2.3.12 There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors:

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the US Federal Reserve (FED) take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will Central Banks implement their new average or sustainable level inflation monetary policies?
- How well will Central Banks manage the withdrawal of QE purchases of their national bonds?

- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?
- 2.3.13 The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming and that there are no major changes in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.
- Gilt and treasury yields
- 2.3.14 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic Party's determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid-19 pandemic was what unsettled financial markets.
- 2.3.15 This was in addition to the \$900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American Families Plan over the next decade which is currently caught up in Democrat / Republican debates. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when:
- A fast vaccination programme has enabled a rapid opening up of the economy.
 - The economy had already been growing strongly during 2021.
 - It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to impact on inflationary pressures more in the US than in other countries.
 - The FED was still providing monetary stimulus through monthly QE purchases.
- 2.3.16 These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the FED to take much earlier action to start tapering monthly QE purchases and/or increasing the FED rate from near zero, despite their stated policy being to target average inflation.
- 2.3.17 It is notable that some FED members have moved forward their expectation of when the first increases in the FED rate will occur in recent FED meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation.
- 2.3.18 A run of strong monthly jobs growth figures could be enough to meet the threshold set by the FED of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries.
- 2.3.19 However, during June 2021 and July 2021, longer term yields fell sharply. Even the large non-farm payroll increases in the first week of August 2021 seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the FED is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK.
- 2.3.20 As an average since 2011, there has been a 75% correlation between movements in 10-year treasury yields and 10-year gilt yields. This is a significant upward risk exposure to forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in

unison.

- 2.3.21 There is also a possible downside risk from the huge sums of cash that the UK population has saved during the pandemic. When savings accounts earn little interest, it is likely that some of this cash could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down.

Balance of Upside risks to medium to long term PWLB rates

- 2.3.22 One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the FED, the Bank of England, and the European Central Bank (ECB), to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate.
- 2.3.23 There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.
- 2.3.24 The FED in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- 2.3.25 The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- 2.3.26 For Local Authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- 2.3.27 Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- 2.3.28 Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

2.4 Treasury Management Strategy Statement and Annual Investment Strategy Update

- 2.4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved at the Council meeting of 4 March 2021. The underlying TMSS approved previously now requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the next sections of this report.
- 2.4.2 A decrease is required to both the overall Authorised Limit (the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 above which the Council does not have the power to borrow) and Operational Boundary (the expected borrowing position of the Council during the year) for external debt. This indicator is made up of external borrowing and other long-term liabilities, Private Finance Initiatives (PFI) and Finance Leases. The revision to the limits aligns to the reduction in the Capital Financing Requirement as outlined at paragraph 2.4.4 and 2.4.5 below.
- 2.4.3 The Council has the following PFI and Public Private Partnership (PPP) Schemes each contributing to the Other Long-Term Liabilities element of the Authorised Limit and the Operational Boundary, thus making them both higher than if the Council was not required to

present PFI schemes in this way:

- Gallery Oldham and Library
- Sheltered Housing (PFI2)
- Radclyffe and Failsworth Secondary Schools
- Chadderton Health & Well Being Centre
- Street Lighting
- Housing (PFI4)
- Blessed John Henry Newman RC College (Building Schools for the Future)

2.4.4 It will be necessary to reduce the Capital Financing Requirement (CFR) by £30.889m. Whilst approved capital expenditure / funding carry forwards from 2020/21 caused an initial increase, this is more than offset by estimated re-phasing and re-alignment and other anticipated adjustments in the 2021/22 capital programme resulting in the reduced CFR.

2.4.5 Members are therefore requested to comment on the key changes to the 2021/22 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2021/22	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	541,500	519,500
Operational Boundary	516,500	499,500
Capital Financing Requirement	525,647	494,758

2.5 **The Council's Capital Position (Prudential Indicators)**

2.5.1 This section of the report presents the Council's capital expenditure plans and their financing, the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow together with compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

2.5.2 The table below shows the anticipated half year position and the revised budget for capital expenditure. It therefore highlights the changes that have taken place and are forecast since the capital programme was agreed at the Council meeting on 4 March 2021.

Capital Expenditure by Service	2021/22 Original Estimate £'000	2021/22 Revised Estimate £'000
Corporate Services	5,320	3,765
Children's Services	6,110	15,403
Communities & Reform	637	36
Community Health & Adult Social Care	3,409	2,005
HRA	3,412	785
People & Place	65,671	29,934
Funds for Emerging Priorities	1,442	1,115
Closing balance	86,002	53,043

- 2.5.3 The above table shows an anticipated decrease in the capital programme of £32.959m at month 6 compared to the March 2021 position, with current forecast spend of £53.043m. During the summer months the Council undertook the Annual Review of the Capital Programme in line with practice of recent years. The review identified a requirement for significant re-profiling across a number of schemes. Most of the re-phasing moved significant expenditure (£32.959m) from 2021/22. Some expenditure has been realigned into the later years of the capital programme. However, following the review, the overall capital programme has reduced by £24.858 (most of which would have been funded by Prudential Borrowing) therefore producing an associated revenue financing saving. The budget variations largely relate to re-profiling in the People and Place directorate capital programme.

Changes to the Financing of the Capital Programme

- 2.5.4 The table below draws together the main strategy elements of the capital expenditure plans (above) highlighting the original supported (£43.131m) and unsupported elements i.e., requiring borrowing (£42.871m), and the expected financing (revised position) arrangements of this capital expenditure. The borrowing need element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.
- 2.5.5 The overall net reduction in the capital programme has resulted in a change in the mix of funding sources required in 2021/22; a decrease in all financing types reducing the forecast borrowing need by £17.777m from £42.871m to £25.094m.

Capital Expenditure	2021/22 Original Estimate £'000	2021/22 Forecast Position £'000
Total Capital Expenditure	86,002	53,043
Financed by:		
Capital receipts	(3,999)	(5,533)
Capital grants – Ringfenced	(24,210)	(9,242)
Capital grants – Un-ringfenced	(11,459)	(11,718)
Other Resources	(51)	(671)
Revenue	0	0
HRA Revenue	(3,412)	(785)
Total Financing	(43,131)	(27,949)
Borrowing Need	42,871	25,094

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

- 2.5.6 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. As previously mentioned in paragraph 2.4.4, the CFR needs to decrease by £30.889m. It also shows the expected debt position over the period (the Operational Boundary). This indicator has decreased to reflect the revisions to the forecast year end position of the capital programme.

	2021/22 Original Estimate £'000	2021/22 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	525,647	494,758
CFR – housing	0	0
Total CFR	525,647	494,758
Net movement in CFR		(30,889)
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	301,500	284,500
Other long-term liabilities	215,000	215,000
Total debt 31 March	516,500	499,500

Limits to Borrowing Activity

- 2.5.7 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.

2.5.8 Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

2.5.9 The CFR calculation is shown in the table below and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator as there is £112.806m headroom between total debt and the CFR.

	2021/22 Original Estimate £'000	2021/22 Revised Estimate £'000
Gross borrowing	197,593	168,374
Plus: other long- term liabilities*	213,729	213,578
Total Debt	411,322	381,952
CFR* (year-end position)	525,647	494,758
Headroom	114,325	112,806

* - Includes on balance sheet PFI schemes and finance leases

2.5.10 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. Presented in the table below is the original and the revised Authorised Limit.

Authorised limit for external debt	2021/22 Original Indicator £'000	2021/22 Revised Indicator £'000
Borrowing	321,500	299,500
Other long-term liabilities*	220,000	220,000
Total	541,500	519,500

* - Includes on balance sheet PFI schemes and finance leases.

2.5.11 The table above shows a reduction in the Authorised Limit of £22m due to the reduction in the capital programme and the associated financing.

2.6 Annual Investment Strategy

2.6.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 4 March 2021. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity.

2.6.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current

economic climate as detailed in 2.3, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

- 2.6.3 As shown by the interest rate forecasts at 2.3, it is now impossible to earn the level of interest rates commonly seen in previous decades. All short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24 September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

Creditworthiness

- 2.6.4 Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

Investment Counterparty criteria

- 2.6.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS Prices

- 2.6.13 Although CDS prices, (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment Balances

- 2.6.14 The Council held £103.699m of investments, including property funds as at 30 September 2021 (£83.540m at 31 March 2021). A full list of investments as at 30 September is included at Appendix 1. A summary of investments by type is included in the table below.
- 2.6.15 The Council ensures enough funds are kept in either instant access accounts and/ or on-call accounts to meet its short-term liquidity requirements. As at 30 September the Council held £34.200m in Money Market Funds and £24.500m in Notice Accounts of a 35-day notice period. Rates on Notice Accounts are currently quite high compared to previous years therefore higher balances are currently invested in notice accounts.

Investment Type	Total at 30 September 2021 £'000
Property	15,000
Commercial Paper	4,999
Fixed (Term Deposits) Bank / Building Society	25,000
Fixed (Term Deposits) Local Authorities / Public Bodies	0
Notice Accounts	24,500
Money Market Fund	34,200
Total	103,699

- 2.6.16 The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.
- 2.6.17 The Council's investment strategy looks to achieve a return on its investment of London Interbank Bid Rate (LIBID) plus a 5% mark up. The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments up to 10 years if the cash flow forecast allows and the credit rating criteria is met. Performance against this benchmark was as follows:

Benchmark	Benchmark Return LIBID +5%	Council Performance
7 days	(0.08%)	0.010%
1 month	(0.07%)	0.747%
3 months	(0.05%)	0.137%
6 months	(0.02%)	0.215%
Average Return first 6 months		0.125%

- 2.6.18 The Council's performance on its cash investments exceeded its target on all benchmarks as can be seen in the table above.
- 2.6.19 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Property Fund

- 2.6.20 In the first six months of the year the Council's investment within the Churches, Charities and Local Authorities (CCLA) property fund has generated a return of (4.15%). Given the impact Covid-19 has had on investment returns, this fund has continued to perform better than expected and rental collection by the fund remains high which should result in continuing to receive better than expected dividends.
- 2.6.21 Due to the huge market uncertainty surrounding Covid-19 and Brexit, the property fund had seen a decline in the value up until the end of August 2020 mainly to valuer caution rather than any significant increase in pressure to sell properties, however valuations since then have continued to increase and are now slightly higher than the level of the original investment.

2.7 **Borrowing**

- 2.7.1 It is proposed in this report that the Council's CFR for 2021/22 is revised to £494.758m and this denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 2.7.2 The table within paragraph 2.5.9 shows the Council has expected year end borrowings of £381.952m and will have utilised £112.806m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.
- 2.7.3 The capital programme is being kept under regular review due to the effects of the Covid-19 pandemic and shortages of materials and labour. The borrowing strategy will, therefore, also

be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

- 2.7.4 At this point it is not anticipated that borrowing will be undertaken during this financial year.
- 2.7.5 The Council applied in September 2021 for the PWLB certainty rate reduction. This entitles the Council to receive a 20-basis point rate reduction on the prevailing rate of PWLB on any borrowing undertaken from 1 November 2021 to 31 October 2022.
- 2.7.6 Current PWLB certainty rates are set out in the following table and show for a selection of maturity periods over the first half of 2021/22, the range (high and low points) in rates and the average rates over the period. In addition, Appendix 2 tracks the movement in the PWLB certainty rate over the period April to September 2021 across the same range of loan terms as is used in the table below.

Maturity Rates	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/21	08/07/21	05/08/21	17/08/21	10/08/21
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/21	28/09/21	28/09/21	13/05/21	13/05/21
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

2.8 Debt Rescheduling

- 2.8.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

2.9 Compliance with Treasury and Prudential Indicators

- 2.9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22 and continues to manage its treasury affairs in a prudent manner. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 2.9.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

2.10 Other Key Issues

International Financial Reporting Standard (IFRS) 16 – Leases

- 2.10.1 IFRS 16 is a new standard for lease accounting which should have come into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out for property, plant and equipment (PPE). The standard for the public sector should have commenced from 1 April 2020. However, due to COVID-19 and the additional pressure Local Authorities are facing in these unprecedented times, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2022/23.

- 2.10.2 Previously, leases were split into finance leases and operating leases however, from 1 April 2022 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure was charged to the Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently ongoing to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affect by the implementation of IFRS 16.

Code Consultation

- 2.10.3 In April 2021, CIPFA consulted on the principles to support the changes to the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) to which the Council provided a response. On 21 September 2021, CIPFA issued stage 2 of the consultation process and provided an amended draft of the two revised Codes for further consultation. The consultation closes on 16 November 2021 and the Council is currently preparing a response. Members should note that if the proposed changes to the Treasury Management Code is approved there will be a significant change to the Council's Treasury Management Practices (an internal document that covers the process, approvals and governance of the Treasury Management operations of the Council). Audit Committee Members will be updated when the consultations have been completed and the revised Codes are issued with any significant changes brought to their attention.

3 Options/Alternatives

- 3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

- 4.1 As stated above, the preferred option is that the Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends the report to Cabinet.

5 Consultation

- 5.1 Consultation has taken place with Link Asset Services (the Council's Treasury Management Advisors), and Senior Officers. The report is presented to the Audit Committee for scrutiny prior to its consideration by Cabinet and Council.

6 Financial Implications

- 6.1 All included within the report.

7 Legal Services Comments

- 7.1 None.

8 Co-operative Agenda

- 8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Co-operative Council.

9 Human Resources Comments

9.1 None.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in both Internal and the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None.

12 Property Implications

12.1 None.

13 Procurement Implications

13.1 None.

14 Environmental and Health & Safety Implications

14.1 None.

15 Equality, community cohesion and crime implications

15.1 None.

16 Equality Impact Assessment Completed?

16.1 No.

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FCL-13-21

19 Background Papers

19.1 The following is a list of the 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 that Act.

File Ref: Background papers are contained with Appendices 1, 2A, 2B & 2C
Officer Name: Lee Walsh/Talei Whitmore
Contact No: 0161 770 6608 / 4424

20 Appendices

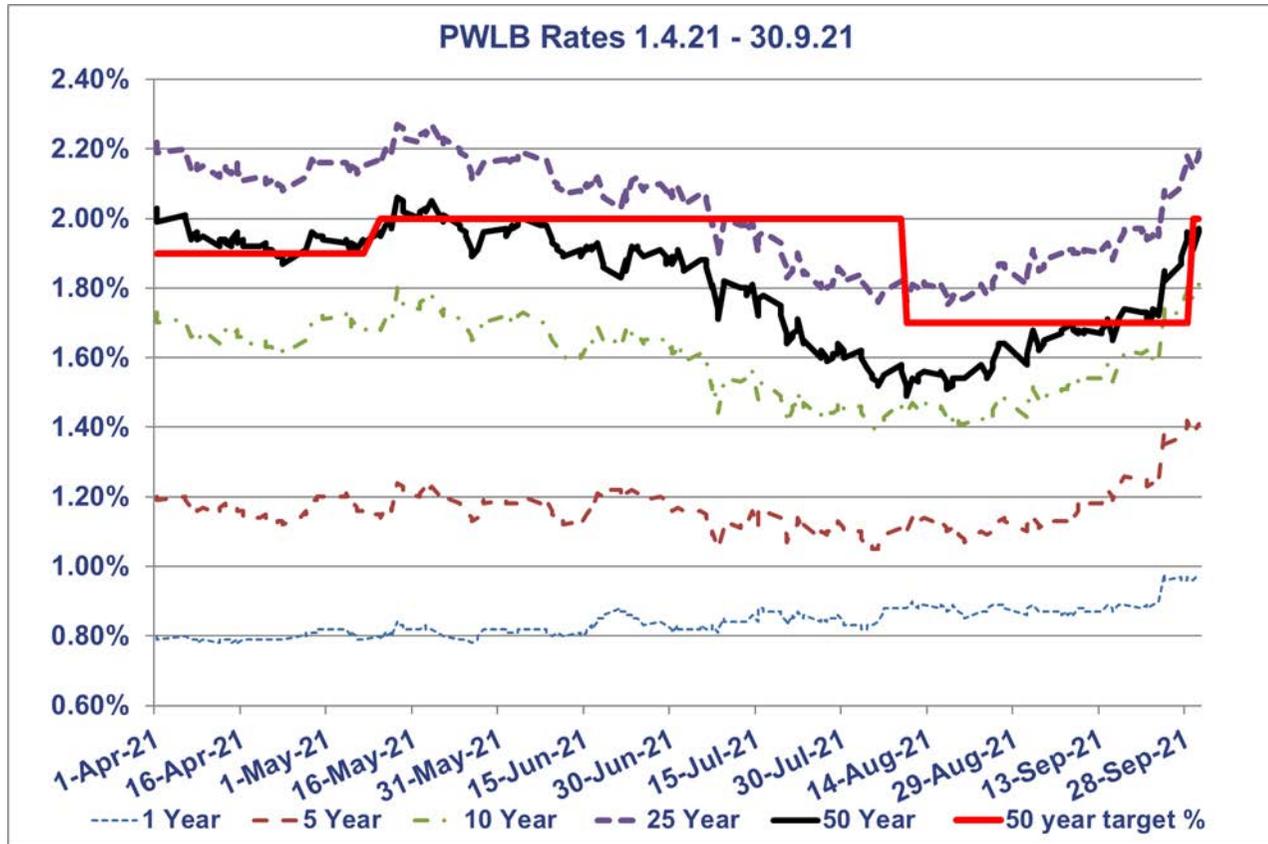
Appendix 1	Investments as at 30 September 2021
Appendix 2A	PWLB Certainty Rate Variations 2021/22
Appendix 2B	Comparison of Borrowing parameters to actual external borrowing - Table
Appendix 2C	Comparison of Borrowing parameters to actual external borrowing - Graph

Appendix 1 Investments as at 30 September 2021

Investments	Type	30th September 2021 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	15,000	4.15%	Prior Years	open
Total Property Fund		15,000			
Transport for London		4,999	0.12%	15-Sep-21	10-Nov-21
Commercial Paper		4,999			
Close Brothers Ltd	Fixed	5,000	0.25%	25/05/2021	25-Nov-21
Close Brothers Ltd	Fixed	5,000	0.25%	29/06/2021	29-Dec-21
Nationwide Building Society	Fixed	5,000	0.07%	01/07/2021	04-Jan-22
Goldman Sachs	Fixed	5,000	0.18%	02/08/2021	01-Feb-22
Nationwide Building Society	Fixed	5,000	0.07%	23/09/2021	23-Mar-22
Total Fixed Investments		25,000			
Santander	35 day call	2,500	0.30%	03-Jun-20	open
Santander	95 day call	2,500	0.40%	30-Apr-21	open
Bank of Scotland	95 day call	5,000	0.05%	26-Jul-21	open
Bank of Scotland	95 day call	5,000	0.05%	03-Aug-21	open
Santander	180 day call	5,000	0.38%	28-May-21	24-Nov-21
Barclays	O/night	4,500	0.01%	30-Sep-21	
Total Investments on call		24,500			
Invesco Sterling Liquidity	MMF	10,000	0.01%	23-Sep-21	
Aberdeen Sterling Liquidity	MMF	19,520	0.01%	30-Sep-21	
Federated Sterling Liquidity 3	MMF	14,680	0.01%	28-Sep-21	
Total MMF		34,200			
Total		103,699			

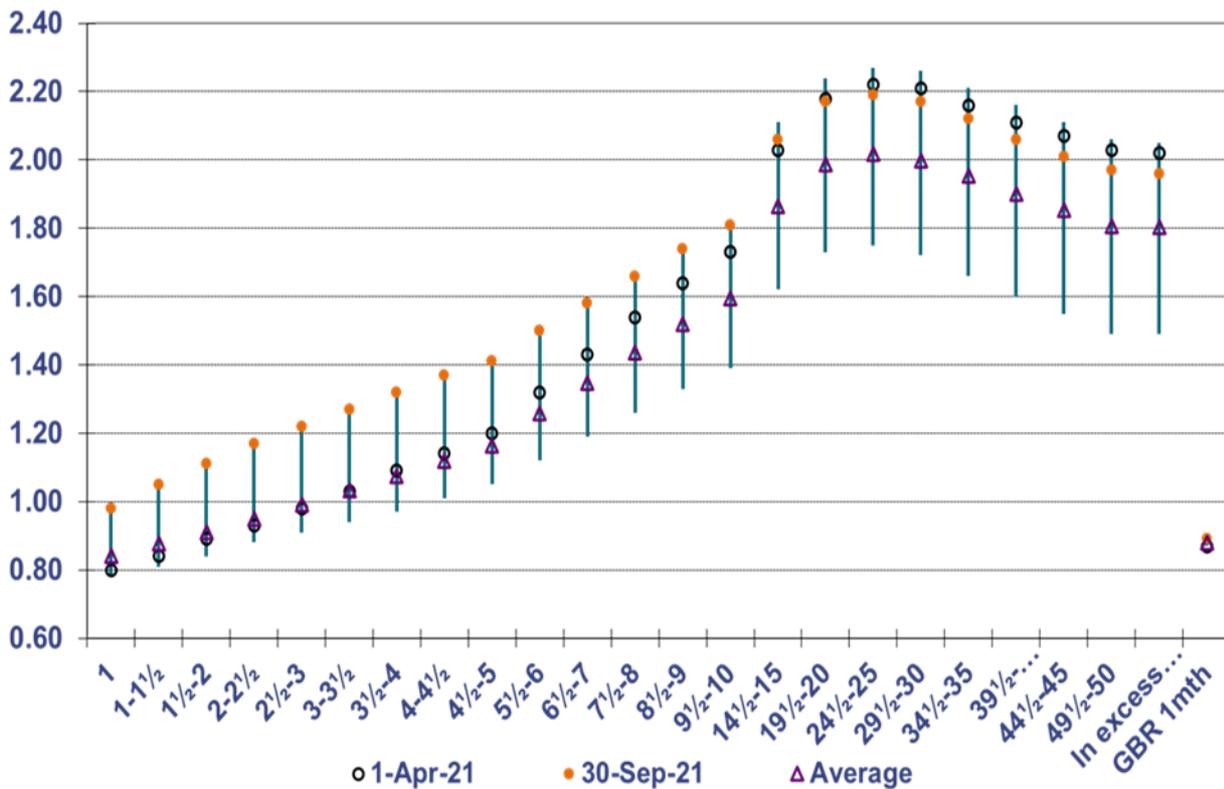
Appendix 2

2A) PWLB Certainty Rate Variations 2021/22



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

PWLB Certainty Rate Variations 1.4.21 to 30.9.2021



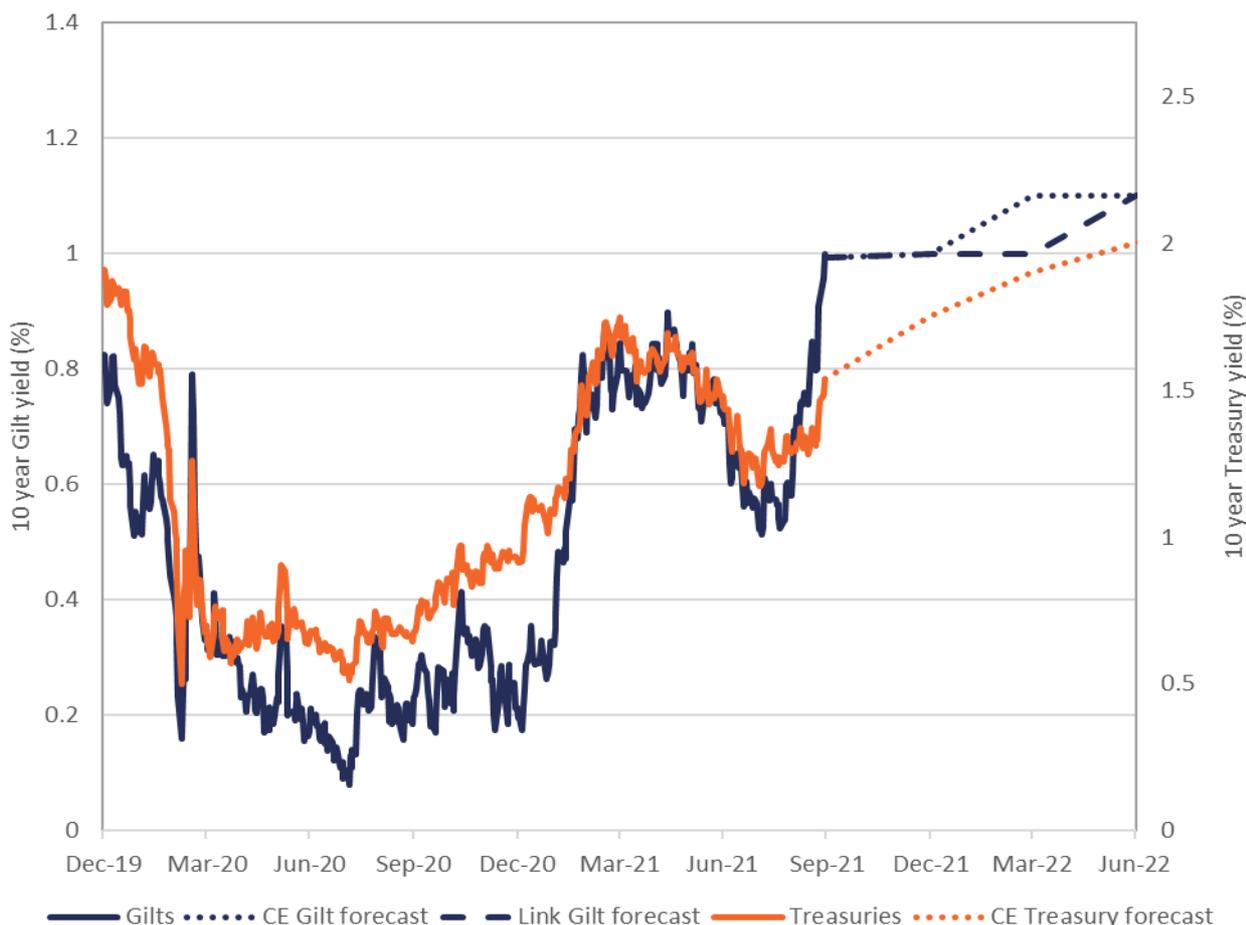
PWLB RATES. There was much speculation during the **second half of 2019** that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been **the gradual lowering of the overall level of interest rates and bond yields in financial markets.** Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10 year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020 which caused gilt yields to spike up. However, yields then fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply.

At the start of January 2021, all gilt yields from 1 to 8 years were negative: however, since then all gilt yields have become positive and rose sharply during the spring, especially in medium and longer-term periods, until starting a significant decline since May which was then sharply reversed in August / September. Repeated assurances by the Fed in the US, and by other major world central banks, that inflation would spike up after Covid restrictions were abolished, but would only be transitory, allayed investor fears until August / September when high inflation was again seen as a growing danger and both central banks in the US and UK gave indications that monetary policy tightening was now on the horizon. **There is considerable concern that the US Fed is taking a too relaxed view that inflation pressures in the US are purely transitory and that they will subside without the need for the Fed to take significant action to tighten monetary policy. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that rates will end up rising faster and further in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields.**

Correlation between 10 year US treasury yield and 10 year gilt yield

The Link Group forecasts have included a risk of a 75% correlation between movements in US treasury yields and gilt yields over 10 years since 2011. As US treasury yields are expected to rise faster and further than UK gilt yields, there is an upside risk to forecasts for gilt yields due to this correlation. The graph below shows actual movements in both 10 year yields and forecasts by Link (gilt only) and Capital Economics.

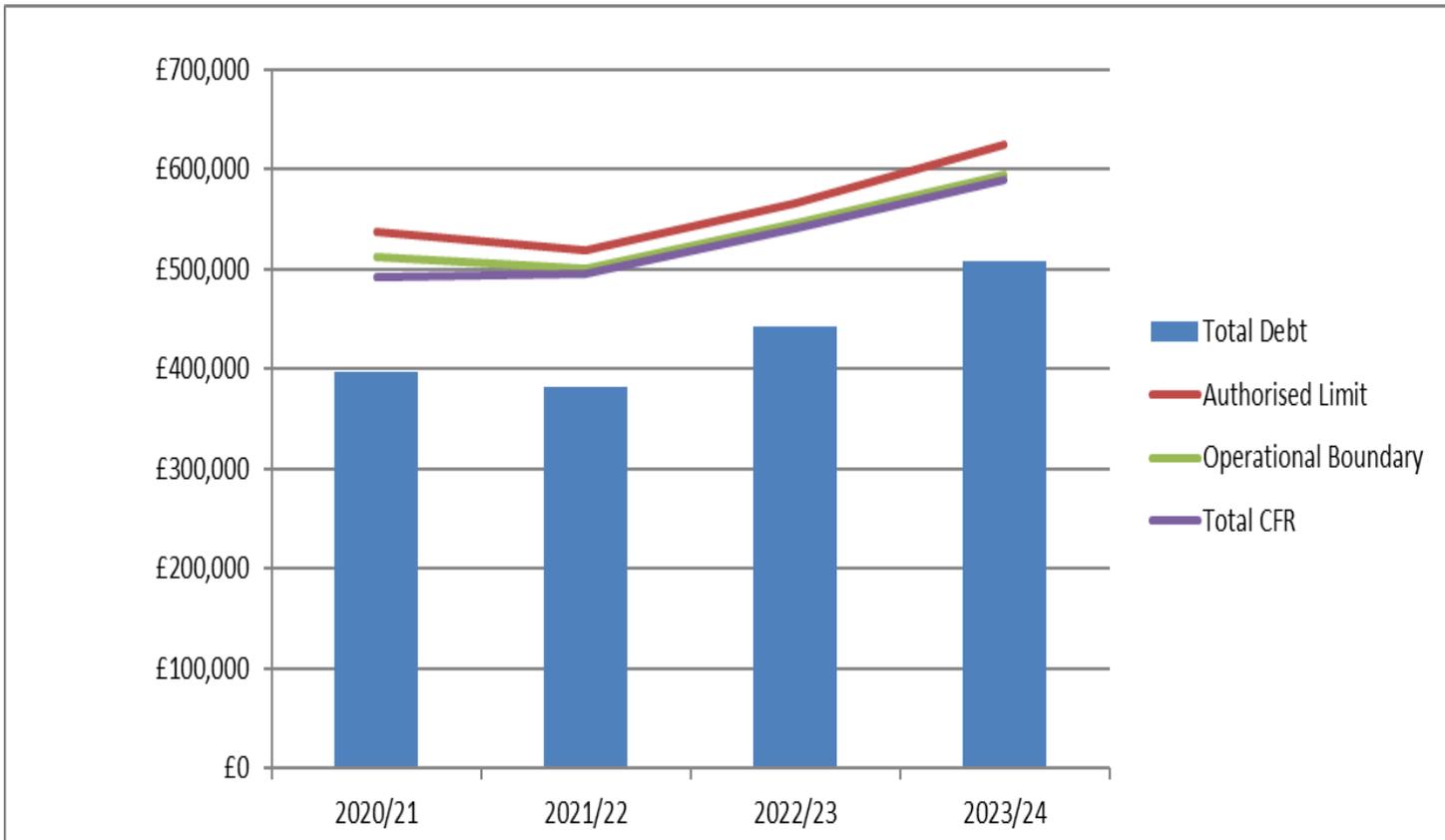


- Yields on 10 year Gilts and Treasuries initially both fell during the first quarter of 2020, as signs emerged that the COVID-19 virus would become a global pandemic which would lead to a sharp downturn in economic growth.
- The correlation between 10 year yields in the UK and the US lessened during the second half of 2020 when US yields displayed an increasing tendency to rise, whilst UK yields remained more range bound. This divergence was consistent with the relatively better economic performance registered by the US during the pandemic, which was aided by historically low US business inventory levels needing to be rebuilt.
- During late 2020 gilt yields rose significantly, reflecting optimism that the fast vaccine roll-out in the UK would support a strong economic recovery during 2021.
- During September 2021, treasury yields rose sharply in response to growing investor concerns around high inflation and indications from the Fed that tapering of quantitative easing purchases of treasuries are likely to occur in the near future. Gilts also rose sharply, as did investor concerns around a sharp increase in inflation in the UK which is now likely to go over 4%. In addition, the MPC meeting on 23rd September flagged up major concerns around the strength of inflation which may require Bank Rate to go up much faster than had previously been expected.

2B) Comparison of borrowing parameters to actual external borrowing (Table)

CAPITAL FINANCING REQUIREMENTS					
	Actual	Estimated	Estimated	Estimated	
	2020/21	2021/22	2022/23	2023/24	
	£'000	£'000	£'000	£'000	£'000
CFR (including PFI and finance leases)					
GFCFR	£491,714	£494,758	£540,858	£590,200	
Total CFR	£491,714	£494,758	£540,858	£590,200	
CFR (excluding PFI and finance leases)					
GFCFR	£268,347	£281,446	£336,454	£390,662	
Total CFR	£268,347	£281,446	£336,454	£390,662	
External Borrowing	£172,843	£168,374	£238,374	£308,374	
Deferred Liabilities	£224,405	£213,578	£204,404	£199,538	
Total Debt	£397,248	£381,952	£442,778	£507,912	
Authorised Limit	£537,500	£519,500	£565,500	£624,000	
Authorised Limit ex Deferred Liabilities	£313,095	£305,922	£361,096	£424,462	
Operational Boundary	£512,500	£499,500	£545,500	£594,000	
Operational Boundary ex Deferred Liabilities	£288,095	£285,922	£341,096	£394,462	

2C) Comparison of borrowing parameters to actual external borrowing (Graph)





Report to Audit Committee

Revision to the Reserves Policy for 2020/2021 to 2021/22

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

Officer Contact: Anne Ryans - Director of Finance

Report Author: Anne Ryans – Director of Finance
Ext. 4902

2 November 2021

Reason for Decision

The purpose of this report is to present to Members of the Committee, a revision to the Reserves Policy of the Council for the financial years 2020/21 to 2021/22.

Executive Summary

Members will recall that the Council has developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy and the presentation of the Policy to the Audit Committee. The aim is to improve the transparency on the level of and the use of reserves.

The Audit Committee considered the Reserves Policy for 2020/21 to 2021/22 at its meeting on 29 July 2021. This report sets out an amendment to the use of one of the reserves, the Health and Social Care Integration Reserve with a value of £10.3m

Recommendations

That Members of the Audit Committee agree to the revision to the Reserves Policy for 2020/21 to 2021/22.

Revision to the Reserves Policy for 2020/21 to 2021/221**1 Background**

- 1.1 There is a need to have a strategic approach to the creation and maintenance of the Earmarked Reserves held by the Authority. This is because resources are becoming even more scarce, and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year-on-year budgets wherever possible.
- 1.2 The Reserves Policy for 2020/21 and 2021/22 was presented for consideration by the Audit Committee on 29 July 2021.

2 Reserves Policy for 2020/21 to 2021/22

- 2.1 The 2020/21 to 2021/22 reserves policy was prepared, following the finalisation of the financial outturn position at the end of 2020/21 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 14 major Earmarked Reserves included in the Policy to align to the presentation of reserves at Note 15 in the Statement of Accounts. The accounts were closed with a balance of Earmarked Reserves of £113.512m (an increase of £34.152m), Revenue Grant Reserves of £20.145m (an increase of £12.212m) and Schools Reserve of £9.306m (an increase of £3.819m). In total, reserves are £142.964m an overall increase of £50.183m.
- 2.2 One of the reserves outlined in the policy is the Health and Social Care Integration reserve. This reserve of £10.300m was established to provide resources to support further integration between health and social care providers in line with Government policy. Its use was to be approved by Members after a review and agreement by the Strategic Director Commissioning of Oldham Council / Chief Operating Officer of Oldham Clinical Commissioning Group (CCG).
- 2.3 Given the changes to Council management arrangements and the changes to the operation of the Oldham CCG, a report was presented to and approved by the Commissioning Partnership board of 21 October 2021 to revise the use of the reserve and to amend the process for the approval of the reserve. It is now proposed that the use of the £10.300m is revised so that:
- a) The reserve is split into two elements of £5.300m and £5.000m.
 - b) Whilst some of the £5.300m has already been utilised, any future use of the reserve will be delegated to Commissioning Partnership Board having received a recommendation from the new Oldham Health & Care System Board. All bids for resources will be reviewed and proposed by the Place Lead for Oldham in consultation with the Chief Finance Officers of the CCG and the Council to provide assurance as to the financial benefits and to ensure compliance with the Oldham System Financial Framework as approved at the Commissioning Partnership Board. The use of the funds must, however, align to legislative and local financial frameworks applicable to Oldham Council given that the reserve is held in the accounts of the Council.
 - c) It is proposed that the use of the remaining £5.000m is delegated jointly to the Council's Director of Finance and the CCG's Chief Finance Officer as it is envisaged that this resource will be added to the pooled budget managed via the Section 75 Agreement between the Council and Oldham CCG. This will enable the respective officers to finalise the technical requirements in order to utilise the funds and confirm phasing arrangements.

-
- 3 **Conclusions**
- 3.1 An appropriate Reserves Policy subject to scrutiny is considered good governance for a Local Authority.
- 4 **Options**
- 4.1 Option 1 - That Members agree the revision to the Reserves Policy for 2020/21 to 2021/22.
- 4.2 Option 2 – That Members do not agree the revision to the Reserves Policy for 2020/21 to 2021/22 and suggest an alternative approach.
- 5 **Preferred Option**
- 5.1 Option 1 is the preferred option.
- 6 **Consultation**
- 6.1 To demonstrate the appropriateness of the Earmarked Reserves maintained by the Council this Reserves Policy is subject to a detailed review by the Audit Committee. The revised approach outlined in this report was considered and approved by the Commissioning Partnership Board on 21 October 2021.
- 7 **Financial Implications**
- 7.1 The revision to the use and approval of the reserve included in this report relates to a reserve totaling £10.300m and is held within the accounts of the Council.
8. **Legal Services Comments**
- 8.1 N/A
9. **Cooperative Agenda**
- 9.1 N/A
- 10 **Human Resources Comments**
- 10.1 N/A
- 11 **Risk Assessments**
- 11.1 It is important in managing its finances that an Authority achieves a balance of both setting aside earmarked reserves which are appropriate in supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)
- 12 **IT Implications**
- 12.1 N/A
- 13 **Property Implications**
- 13.1 N/A

14 **Procurement Implications**

14.1 N/A

15 **Environmental and Health & Safety Implications**

15.1 N/A

16 **Equality, community cohesion and crime implications**

16.1 None

17 **Equality Impact Assessment Completed?**

17.1 No

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 N/A

20 **Background Papers**

20.1 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 – Reserves Policy presented to the Audit Committee of 29 July 2021 and report to the Commissioning Partnership Board of 21 October 2021 – see links below

<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=134&MId=8429>

<https://committees.oldham.gov.uk/ieListDocuments.aspx?CId=548&MId=8231>

Officer Name: Anne Ryans
Contact No: 0161 770 4902

21 **Appendices**

21.1 None



Report to Audit Committee

2021/22 Audit and Counter Fraud Progress Report

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

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

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

Ext. 4783

02 November 2021

Reason for Decision

To provide Members with a high-level progress report on the work of the Audit and Counter Fraud team for the 2021/22 financial year.

Executive Summary

The report summarises the work carried out by the Audit and Counter Fraud Team from 1 April 2021 to 30 September 2021.

The team has prioritised work on the Fundamental Financial Systems (FFS) reviews related to 2020/21 transactions and work to support the 2021/22 audit of the financial accounts. Both planning and field work have commenced in a number of areas for the first stage FFS reviews for 2021/22.

In addition, other Audit and Counter Fraud Team highlights include:

- Contributing to reviewing controls around processing grants arising from the Government's COVID-19 response, including the Local Support Grant regime, and continued support around Business Grants reviews and queries.
- Carrying out investigations around potential fraud and error on Business Grants.
- Reviewing and certification of European grants.

- The Counter Fraud and Direct Payments Audit Teams (Adults and Children) have continued to deliver outcomes which have generated £1,094,080 and £55,315 (respectively) during the 2021/22 financial year.

Recommendations

Members are requested to note the 2021/22 Audit and Counter Fraud Progress Report.

Audit and Counter Fraud Progress Report**1. Background**

- 1.1 This report summarises the work carried out for the period 1 April 2021 to 30 September 2021 by the Audit and Counter Fraud Team and the team's key performance against agreed performance indicators.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2021/22 Audit and Counter Fraud Plan: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2 2021/22 Audit and Counter Fraud Plan: Progress Update

- 2.1 The priorities for the 2021/22 Audit and Counter Fraud Plan are to:
- Complete the Fundamental Financial Systems (FFS) work on 2021/22 transactions and work to support the 2021/22 audit of the financial accounts, including:
 - Commencement of ongoing testing and field work around the interim stage FFS reviews relating to 2021/22 transactions and work to support the 2021/22 audit of the financial accounts. All audits continue to be carried out remotely. Whilst challenging, this approach has worked generally well. A total of 12 systems with throughput value of over £13m are being reviewed assessing key controls within each system.
 - FFS audits are undertaken in two stages to provide earlier assurance. Interim (Stage 1) Audits which commenced on 4 October 2021, and Final (Stage 2) Audits which will commence in February 2022.
 - As part of supporting the final accounts closedown, the team also liaises closely with the organisation's External Auditors, Mazars LLP, around reviewing key controls and system reviews.
 - Work has been completed on two external client reviews, assessing their internal controls and financial systems.
 - The Internal Audit and Counter Fraud team continued to work through the 2021/22 plan and carried out ongoing work to ensure the systems and procedures in place within Oldham Council are financially sound and in line with best practice - a process of "Continuous Audit" for several key financial systems including Payroll and Adults Social Care Financial Systems.
 - Complete audits which are classed as "high priority" in the Annual Audit Needs Assessment.
 - Undertake a programme of Counter Fraud work to identify fraud risks within the corporate systems.
 - Undertake specific fraud investigations on Council Tax Reduction and Corporate Fraud.
 - Deliver the financial audits of Direct Payments in line with service plans and targets.

The team also provided services around postal votes assurance checks for the May 2021 local election and Greater Manchester Mayoral election. The Internal Audit and Counter Fraud team reviewed postal votes around accuracy and controls in place prior to postal votes being delivered.

- 2.2 The Council has now fully implemented a replacement payroll solution, the iTrent system. This implementation formed part of the wider People Programme initiative, approved by Cabinet on 25 March 2019 and combines all payroll processing into a single system.

- Council officer's payroll was transferred from the A1 system to iTrent, and payroll was processed through the new system in January 2021.
- Schools Payroll was processed in February 2021 through the iTrent System, which was transferred from the previous payroll platform Selima.

Initial indications are that in the longer term the improvements to internal controls following implementation of the iTrent system will be generated as the system develops in the operational environment. Internal Audit will continue to monitor the processes and control environment going forward providing appropriate advice. An indication of the direction of travel around the effectiveness of internal controls will be highlighted following the completion of the Interim FFS Payroll review for 2021/22. This will be incorporated into the report requested by this Committee on the system to follow up issues previously reported.

- 2.3 The Audit team have also carried out work around EU funded grant schemes, a number of which relate to low carbon initiatives. Audit work on these projects involves verification that monies received from external agencies have been spent in accordance with the terms and conditions of the funding agreements.

RED WoLF - Rethink Electricity Distribution Without Load Following:

The RED WoLF project seeks to increase renewable energy usage and reduce carbon emissions for homes with photovoltaic solar panels that do not have gas.

Coalesce - 'Community Owned and Led Energy for Security Climate Change and Energy':

This grant regime attempts to 'increase the capacity for community-based approaches to local renewable energy provision across Europe in order to reduce carbon emissions, increase energy security and tackle fuel poverty whilst driving Green Growth'.

Foundations:

This grant relates to building regional resilience to industrial structural change.

Reduces Project:

The Reduces project is funded by Interreg Europe and aims to identify the best business models in six European regions, and to research and critically assess their climate impacts and sustainability. Great Manchester is one of the six regions.

- 2.4 The team has issued several draft reports and briefing papers since 1 April 2021, including those issued to the Council's Group Companies. Reports are listed in **Appendix 1** together with the audit "opinion".
- 2.5 A new Audit Management System (Pentana) was selected in accordance with the Council's Contract Procedure Rules. Training has been carried out, and the supplier has worked with Unity ICT to implement the web-based system. The audit team are in the process of transitioning their work across to this new system to contribute to the ongoing FFS reviews.

3. **Corporate Counter Fraud**

- 3.1 The Corporate Counter Fraud Team continues to perform well. In addition to carrying out investigations around potential fraud and error on Business Support Grants, **Appendix 2** sets out the key outcomes from other work conducted. The location by Ward of the results obtained can be made available.
- 3.2 The key highlights are set out in **Appendix 2** and include:

- 25 positive cases of Council Tax Reduction (CTR) Fraud and Error identified.
- £54k of Council Tax Reduction (CTR) misuse and savings have been uncovered.
- 25 Warning Letters have been issued to Council Tax customers.
- £99k of Housing Benefit Fraud and Error Overpayments were identified as part of the CTR investigations.
- 17 positive cases of non-CTR fraud/misuse including Business Support Grants, Council Tax Discount Fraud (Single Person Discount) and Blue Badge Misuse; and
- £23k of non-CTR fraud/misuse and savings was uncovered.

3.3 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:

- collaborate with the Internal Audit Team; and
- ensure the delivery of the Internal Audit and Counter Fraud Plan (Fraud and Loss Risk Assessment) 2021/22.

4. **Audit of Direct Payments**

4.1 The Direct Payments Audit team verifies that the spending of Direct Payments is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover overpayments / unrecovered client contributions and to ensure the client is spending the allocated funds in accordance with the agreed Support Plan.

4.2 **Appendix 3** sets the monthly Direct Payments Audit volumes and financial outcomes arising from Adults Services and Children's Services, which are £1,094,080 and £55,315 (respectively). Following the Direct Payment Audit, in approximately 72% of cases, an invoice is raised to recover an under spend, any expenditure that is not in line with the support plan, or misuse of the Direct Payments.

4.3 In summary, the team carried out 538 Adults and Children's Direct Payment Audits during the period 1 April 2021 to 30 September 2021.

4.4 The Direct Payment Audit Team continues to conduct audits of Personal Health Budgets (24) with colleagues from the NHS England (Clinical Commissioning Groups (CCGs) and Oldham Cares.

5 **Options/Alternatives**

5.1 The Audit Committee can either:

- a) choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team, or
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach.

6 **Preferred Option**

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

7 **Consultation**

7.1 N/A.

- 8 **Financial Implications**
- 8.1 N/A.
- 9 **Legal Services Comments**
- 9.1 N/A.
- 10 **Cooperative Agenda**
- 10.1 N/A.
- 11 **Human Resources Comments**
- 11.1 N/A.
- 12 **Risk Assessments**
- 12.1 The 2021/22 Audit and Counter Fraud Plan is prepared, reviewed and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)
- 13 **IT Implications**
- 13.1 N/A.
- 14 **Property Implications**
- 14.1 N/A.
- 15 **Procurement Implications**
- 15.1 N/A.
- 16 **Environmental and Health & Safety Implications**
- 16.1 N/A.
- 17 **Equity, Community Cohesion and Crime Implication**
- 17.1 N/A.
- 18 **Equality Impact Assessment Completed**
- 18.1 No.
- 19 **Forward Plan Reference**
- 19.1 N/A.
- 20 **Key Decision**
- 20.1 No.

21 **Background Papers**

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

File Ref: Background papers are included as Appendices 1 to 3
Officer Name: Mark Stenson
Contact No: 0161 770 4783

22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Reports – 1 April to 30 September 2021
- **Appendix 2:** Counter Fraud Results – 1 April to 30 September 2021
- **Appendix 3:** Direct Payments Results – 1 April to 30 September 2021

Audit and Counter Fraud 2021/22

Summary of Reports 1 April to 30 September 2021

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Quarter	Opinion
1	People and Place	People Programme - Assurance Group Highlight Report	Report	Q1	Advisory
2	Children's Services	Troubled Families	Grant Assurance	Q2	Assurance
3	Commissioning Services	Coalescse	Grant Assurance	Q1	Assurance
4	Commissioning Services	Redwolf	Grant Assurance	Q2	Assurance
5	Commissioning Services	Foundations	Grant Assurance	Q2	Assurance
6	Commissioning Services	Reduces	Grant Assurance	Q2	Assurance
7	Commissioning Services	2020/21 Final - Accounts Payable	Report	Q1	Adequate
8	Commissioning Services	2020/21 Final - Accounts Receivable	Report	Q1	Adequate
9	Commissioning Services	2020/21 Final - Bank Recs	Report	Q1	Good
10	Commissioning Services	2020/21 Final - Cash Income	Report	Q1	Adequate
11	Commissioning Services	2020/21 Final - Council Tax	Report	Q1	Adequate
12	Commissioning Services	2020/21 Final - Council Tax Reduction	Report	Q1	Adequate
13	Commissioning Services	2020/21 Final - Fixed Assets	Report	Q1	Adequate
14	Commissioning Services	2020/21 Final - Housing Benefits	Report	Q1	Adequate
15	Commissioning Services	2020/21 Final - Housing Rents	Report	Q1	Adequate
16	Commissioning Services	2020/21 Final - NDR (Business Rates)	Report	Q1	Adequate
17	Commissioning Services	2020/21 Final - Payroll	Report	Q1	Inadequate
18	Commissioning Services	2020/21 Final - Treasury Management	Report	Q1	Good
19	Commissioning Services	2020/21 Final - Personal Budgets	Report	Q1	Inadequate
20	Commissioning Services	2020/21 Final - Residential Care	Report	Q1	Inadequate
21	Commissioning Services	Local Growth Fund	Report	Q2	Assurance
22	Commissioning Services	BEIS - Business Grant Assurance Assessment - April 2021	Grant Assurance	Q1	Assurance

23	Commissioning Services	Local Election and Greater Manchester Mayoral Election - Post Votes Integrity/Verification Review	Report	Q2	Advisory
24	Commissioning Services	Local Elections Postal Vote Checks	Briefing note	Q1	Advisory
25	MioCare Group CIC	MioCare – Financial System Review	MioCare – Audit Opinion Withheld	Q1	Advisory
26	External	Shaw and Parish Council Internal Control	Report	Q2	Advisory

Audit and Counter Fraud 2021/22

Counter Fraud Results 1 April 2021 to 30 September 2021

Appendix 2

Counter Fraud Team Performance Monitoring 2021/22	Quarter 1	Quarter 2	Total
Corporate Cases - Positive Results	16	1	17
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£22,254.46	£843.35	£23,097.81
CTR cases amended as a result of an investigation	18	7	25
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£10,272.04	£89,383.41	£99,655.45
CTR Fraud and Error Overpayments identified (£)	£28,332.92	£26,535.69	£54,868.61
Financial Outcomes	£60,859.42	£116,762.45	£177,621.87

Audit and Counter Fraud 2021/22

Direct Payments Results 1 April 2021 to 30 September 2021

Adults Social Care

Financial Year 2021/22	Number of Audits Reviewed	Total Direct Payment and Financial Contribution for Recovery (£)
April	95	£162,111.39
May	74	£79,104.21
June	88	£277,993.27
July	84	£162,430.79
August	74	£224,453.40
September	72	£187,987.22
Total	487	£1,094,080.28

Audit and Counter Fraud 2021/22

Direct Payments Results 1 April 2021 to 30 September 2021

Children's Services

Financial Year 2021/22	Number of Audits Reviewed	Total Direct Payment for Recovery (£)
April	5	£9,234.39
May	4	£1,529.15
June	6	£6,837.93
July	15	£9,328.06
August	13	£21,736.90
September	8	£6,648.63
Total	51	£55,315.06

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 9 September 2021, 6.00pm.	Audit Findings Report.	Updated report to support the external audit of the 2020/21 Statement of Final Accounts.
	2020/21 Statement of Final Accounts.	This is a progress report on the audit of the 2020/21 Statement of Final Accounts.
	Update on Financial Administration in Local Authorities.	A report detailing challenges experienced in the financial administration at other local authorities as reported in the public domain. The aim is to target the work of the Committee alongside the Scrutiny function.
Page 155	Work Programme for the Performance Overview Scrutiny Committee.	A report on the proposed work programme of the key Scrutiny Committee to ensure its work and that of the Audit Committee both cover the key areas of administration to ensure appropriate oversight in the Council.
	Proposed Audit Committee Work Programme for the Statement of Accounts 2021/22.	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Update on Annual Governance Statement for 2020/21 and New Issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
		supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Update on the Corporate Risk Register.	This sets out the position as of 30 June 2021 in relation to matters included on the Corporate Risk Register.
Tuesday 2 November 2021, 6.00 pm	Project Governance Process – Alexandra Park Eco Centre.	As requested by the Committee a report setting out the planned governance process of a major capital process.
Page 156	2020/21 Statement of Final Accounts.	This report details the audited opinion for the 2020/21 Statement of Final Accounts.
	External Audit Progress Report November 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Update on progress in addressing the recommendation made by the External Auditor in the 2020/21 Audit Findings Report	To provide and update on the improvement in the in the four areas as recommended in the 2020/21 Audit Findings Report.
	Update on External Audit Matters	An update if required, on national developments linked into the ongoing developments and consultations on the provision of external audit to Local Government Bodies
	Treasury Management Mid-Year Review	The planned scrutiny of the 2021/22 Treasury Management mid-year review report before submission to Cabinet in November.
	Revision to the Reserves Policy for 2020/21 to 2021/22.	An update report by the Director of Finance to the Audit Committee to reflect a change in the Policy previously reported.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control.	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23.	This report detailing the proposed work programme for 2022/23 including actions required to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Partnership Risk Dashboard	This is the regular report produced for the Committee to assess the ongoing risk to the Council from its key partnerships.
Page 157	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
Tuesday 17 January 2022, 6.00pm.	External Audit Progress Report January 2022.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Data Protection Update.	Routine General Data Protection Regulation (GDPR) report by the Data Protection Officer as required under GDPR Legislation.
	Treasury Management Strategy Statement 2022/23	This sets out the Proposed Treasury Management Strategy for 2022/23 to support the Corporate Objectives of the Council.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control.	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
Page 158	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues for 2021/22.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Internal Control Matters for Payroll: Update.	This updates the Audit Committee on the key internal control matters supporting the administration of the payroll system identified as a key area for improvement.
	Private Report; Internal Control Matters for Contracting/ Commissioning.	This updates the Audit Committee on the progress made by the Council to address a key issue to strengthen control as detailed in the Annual Governance Statement.
Thursday 10 March 2022, 6.00 pm	External Audit Annual Audit Letter 2020/21	An update produced by the External Auditor of issues to be brought to the attention of this Committee.

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Audit of Teachers' Pensions Agency Return 2020/21.	This report considers the feedback following the external Audit of the Teachers' Pension Agency return.
	Audit of Housing Benefit Subsidy 2020/21	This report considers the feedback on the audit of the housing subsidy grant claim.
	2021/22 Proposed Accounting Policies and Critical Judgements.	In advance of the approval of the accounts an opportunity for the Audit Committee to review the Proposed Policies and Judgements for 2021/22 Statement of Accounts.
Page 159	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	Proposed Audit Committee Work Programme for 2022/23.	This report detailing the proposed work programme to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Internal Audit Plan 2022/23	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Private Report; Update on the Annual Governance Statement for 2020/21 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
	Private Report; Partnership Risk Dashboard	This is the regular update requested by the Committee on partnership governance

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
		considering potential issues identified on governance elsewhere.
Thursday early June 2022, 6.00pm	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under GDPR.
	External Audit Progress Report May 2022.	An update produced by the external auditor of issues to be brought to the attention of the Committee.
Page 160	Informing the Risk Assessment 2021/22 (Director of Finance).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Informing the Risk Assessment 2021/22 (Chair of the Audit Committee).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Review of System of Internal Audit by the Audit Committee	Annual Review of the system of internal audit using the balanced scorecard.
	2022/23 Internal Audit and Counter Fraud Plan.	The proposed plan of work for the financial year 2022/23 to enable review by the Committee.
	Internal Audit Charter 2022/23	Proposed update to the Audit Charter for 2022/23 to reflect any changes required
	Update of Local Code of Corporate Governance to June 2022	Update of the previously agreed Local Code of Corporate Governance.
	Private Report: Corporate Risk Register 2021/22 – end of year review.	This updates the Audit Committee on the implementation of the Framework previously

Proposed Audit Committee Work Programme for 2021/22 and early 2022/23

Meeting Date & Venue	Agenda Item	Summary of Report Issue
		agreed and the issues identified in the Corporate Risk Register.
Late June 2021, 6.00pm	2021/22 Annual Report by the Assistant Director of Corporate Governance and Strategic Financial Management.	Annual Report based on the work conducted by Audit and Counter Fraud Team, Insurance/ Risk and Information Governance teams to determine the overall control environment of the Council.
	Annual Governance Statement 2021/22	Draft Annual Governance Statement included within the Statement of Accounts for review and scrutiny.
Page 161	2021/22 Draft Annual Statement of Accounts	Draft Statement of Accounts subject to external audit for approval by the Committee.
	Review of Corporate Fraud Policies	An annual review of the Counter Fraud Suite of policies to reflect the recent legislation.
	Private Report; Senior Information Risk Owner (SIRO) Update	Annual report of the SIRO including an overview of reported data breaches.
	Private Report; Partnership Risk Dashboard	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.

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