# Annual Audit Letter

## Oldham Metropolitan Borough Council

### Year ending 31 March 2019

MAZARS

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MAZARS

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Oldham Metropolitan Borough Council (the Council) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility | Summary |
|---|---|
| Audit of the financial statements | Our auditor's report issued on 10 July 2019 included our opinion that the financial statements:<br>• give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and<br>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 |
| Other information published alongside the audited financial statements | Our auditor's report issued on 10 July 2019 included our opinion that:<br>• The other information in the Statement of Accounts is consistent with the audited financial statements. |
| Value for Money conclusion | Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. |
| Reporting to the Whole of Government Accounts group auditor | In line with group audit instructions issued by the NAO, we will report to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return. The deadline for our report to the NAO is 13 September 2019. |
| Statutory reporting | Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council. |

# 2. AUDIT OF THE FINANCIAL STATEMENTS

| | |
|---|---|
| **Opinion on the financial statements** | **Unqualified** |

## The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 10 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

## Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

| | | Council | Group |
|---|---|---|---|
| Financial statement materiality | Our financial statement materiality is based on 1.7% of the gross expenditure at the Surplus/Deficit on Provision of Services level | £9,990,000 | £10,000,000 |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality | £299,700 | £300,000 |
| Specific materiality | We have applied a lower level of materiality to the following areas of the accounts: | | |
| | - Officer Remuneration bandings | £5,000 | n/a |
| | - Related Party Transactions | £50,000 | n/a |

# 2. AUDIT OF THE FINANCIAL STATEMENTS

## Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk | Our response | Our findings and conclusions |
|---|---|---|
| **Valuation of Property, Plant & Equipment**<br>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.<br>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 their materially fairly stated fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.<br>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. | We:<br>• Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;<br>• Considered whether the overall revaluation methodology used by the Council valuer is in line with industry practice, social housing statutory guidance, the CIPFA Code of Practice and the Council's accounting policies;<br>• Critically assessed the appropriateness of the underlaying data and the key assumptions used in the valuer's calculations;<br>• Critically assessed the appropriateness of the social housing factor applied to the valuation of the Council Dwellings;<br>• Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;<br>• Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;<br>• Critically assessed the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially fairly stated; and<br>• Tested a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements. | We did not identify any significant matters from our testing, and we concluded that the Council's Property, Plant & Equipment was materially fairly stated. |

## Our response to significant risks (continued)

| Identified significant risk | Our response | Our findings and conclusions |
|---|---|---|
| **Valuation of Defined Benefit Pension Liability**<br>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 overall valuation.<br>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's 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.<br>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19. | We:<br>• Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson;<br>• Liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;<br>• Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;<br>• Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. | We identified one non-material unadjusted audit difference relating to the valuation of liability relating to legal cases that impact on the Local Government Pension Scheme. Our overall conclusion was that the Council's Defined Benefit Pension Liability was materially fairly stated. |
| **Management override of controls**<br>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits | We addressed this risk through performing audit work over:<br>• Accounting estimates impacting on amounts included in the financial statements;<br>• Consideration of identified significant transactions outside the normal course of business, being:<br>    • The purchase of Unity Partnerships Limited; and<br>    • The additional loan provided to Manchester Airport Holdings Limited; and<br>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. | There were no significant matters arising from our work on the management override of controls |

# 3. VALUE FOR MONEY CONCLUSION

| | |
|---|---|
| **Value for Money conclusion** | **Unqualified** |

## Our approach to the Value for Money conclusion

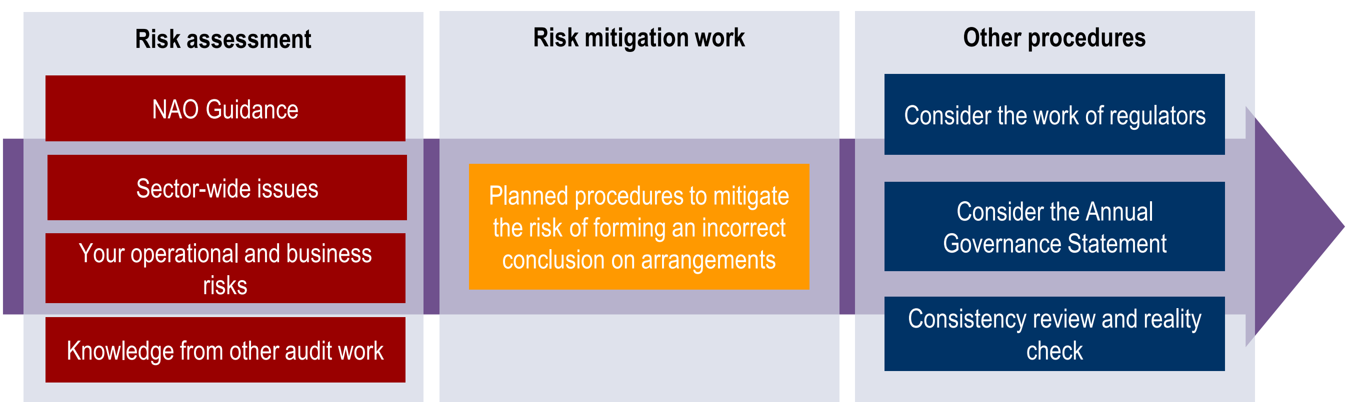
We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion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

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor’s report, issued to the Council on 10 July 2019, stated that that, is all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

A summary of the work we have undertaken is provided below:



# 3. VALUE FOR MONEY CONCLUSION

## Significant risks to our Value for Money conclusion

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk. The work we carried out in relation to significant risks is outlined below.

| Risk | Work undertaken and findings | Conclusion |
|---|---|---|
| **Financial sustainability**<br><br>The Council's medium term financial strategy for the period 2018/19 to 2021/22 sets out the financial challenges it faced, highlighting a £33m budget gap by 2021/22 to achieve a balanced budget. The Council used reserves to balance the 2018/19 budget and in-year projections indicated an overspend in service budgets, in particular Children's Social Care (at £4m). This was offset by projected underspends in capital financing, increased treasury management income and additional grants. The continuing challenges the Council faced are not new and are not unique to Oldham Council. However, the challenges present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term. | **Work undertaken**<br><br>We reviewed the arrangements the Council had in place throughout 2018/19 for ensuring financial resilience.<br>Specifically we reviewed whether the medium term financial plan took into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans.<br><br>**Findings**<br><br>The Council set robust and balanced budgets for 2018/19 and 2019/20, which, although utilising reserves, does not cause a material or significant reduction in those reserves through the two years, and those reserves have been held for the purpose of supporting the budgetary pressures. However the use of reserves to support revenue budgets in the longer term is not sustainable, and the Council will need to ensure that its longer term financial sustainability does not deplete its reserves to unsustainably low levels.<br><br>The Council's monitoring of its 2018/19 budget has been through detailed 'officer-led' monthly monitoring, with quarterly reporting to Council members in the Cabinet. The reporting provides a timely and detailed report of the current position and the projected position at the year end.<br><br>The review of the monitoring in year identifies that the Council undertakes a robust review and regular reporting, and has 'adequate arrangements' for delivering financial sustainability. | We conclude that for 2018/19 the Council has made proper arrangements to deliver financial sustainability in the medium term. |

# 4. OTHER REPORTING RESPONSIBILITIES

| | |
|---|---|
| **Exercise of statutory reporting powers** | **No matters to report** |
| **Completion of WGA group audit reporting requirements** | **To be completed and reported by 13 September 2019** |
| **Other information published alongside the audited financial statements** | **Consistent** |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

## Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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 did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. The deadline for completion of this work is 13 September 2019 and we will submit our report to NAO by this deadline.

## Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts was consistent with the audited financial statements.

# 5. OUR FEES

## Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our estimated final fees includes an additional £600 for which approval from Public Sector Audit Appointments has been requested. This relates to additional work we carried out in relation to the impact of recent legal cases on the valuation of Council's defined benefit pension liability.

| Area of work | 2018/19 estimated fee | 2018/19 planned fee |
|---|---|---|
| Delivery of audit work under the NAO Code of Audit Practice | £105,028 | £104,428 |

## Fees for other work

We undertook one non-audit engagement for the Council in the year relating to the Homes England requirement for the Council to obtain a compliance audit on the funding it received from Homes England for its project for Supported Housing for Adults with a learning disability and complex needs. Our fees for this work were £1,000.

# 6. FORWARD LOOK

## Financial resilience

**Fair Funding Review**

The Government announced in August that it would produce a one-year spending review setting out the department allocations for 2020/21 with the three-year spending review being delayed until later in 2020. Regardless of the timing and period covered by the spending reviews, the Council will need to continue to respond positively the management of general reserves to ensure reserves remain at a level to deliver financial resilience and to enable the Council to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and increased income generation.

**Local Authority Financial Resilience Index**

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

**Commercialisation**

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published in July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. The challenge for Councils with regards to its borrowing, and its commercialisation agenda is to be able to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the prudency of its arrangements for loan repayment through applying the updated statutory guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

## Financial Reporting

**Lease accounting**

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

**UK Local Government Annual Accounts**

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government.

A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest that Councils also voice their opinion by responding to the consultation.

## Audit developments

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

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