
Report to Audit Committee

Audit Strategy Memorandum 2019/20

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Head of Corporate Governance

Ext. 4783

20 January 2020

Purpose of Report

Attached to this report is the proposed Audit Strategy Memorandum for the financial year 2019/20.

Executive Summary

The Audit Strategy Memorandum sets out the proposed work to be undertaken by the external audit team on the 2019/20 Statement of Final Accounts including the Value for Money Opinion which is linked into the future financial resilience of the Council.

The report will be presented by the External Auditor.

Recommendations

That Members of the Audit Committee note the Audit Strategy Memorandum for 2019/20.

Audit Strategy Memorandum

Oldham Metropolitan Borough Council

Year ending 31 March 2020





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Materiality and misstatements
5. Significant risks, key audit matters and other key judgement areas
6. Value for Money
7. Fees for audit and non-audit services
8. Our commitment to independence

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Extended auditor's report

This document is to be regarded as confidential to Oldham Metropolitan Borough Council. It has been prepared for the sole use of the Audit Committee as the appropriate committee charged with governance by the Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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

6 January 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Oldham Metropolitan Borough Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 8 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Oldham Metropolitan Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0161 238 9248.

Yours faithfully

Karen Murray

Karen Murray
Partner and Engagement Lead
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Oldham Metropolitan Borough Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 6 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management, or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- **Karen Murray, Partner and Audit Engagement Lead**
- E: karen.murray@mazars.co.uk
- T: 0161 238 9248 M: 07721 234043



- **Alastair Newall, Senior Manager**
- E: alastair.newall@mazars.co.uk
- T: 0161 238 9243 M: 07909 986776

- **Amelia Payton, Assistant Manager**
- E: amelia.payton@mazars.co.uk
- M: 07823 521012

In addition an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

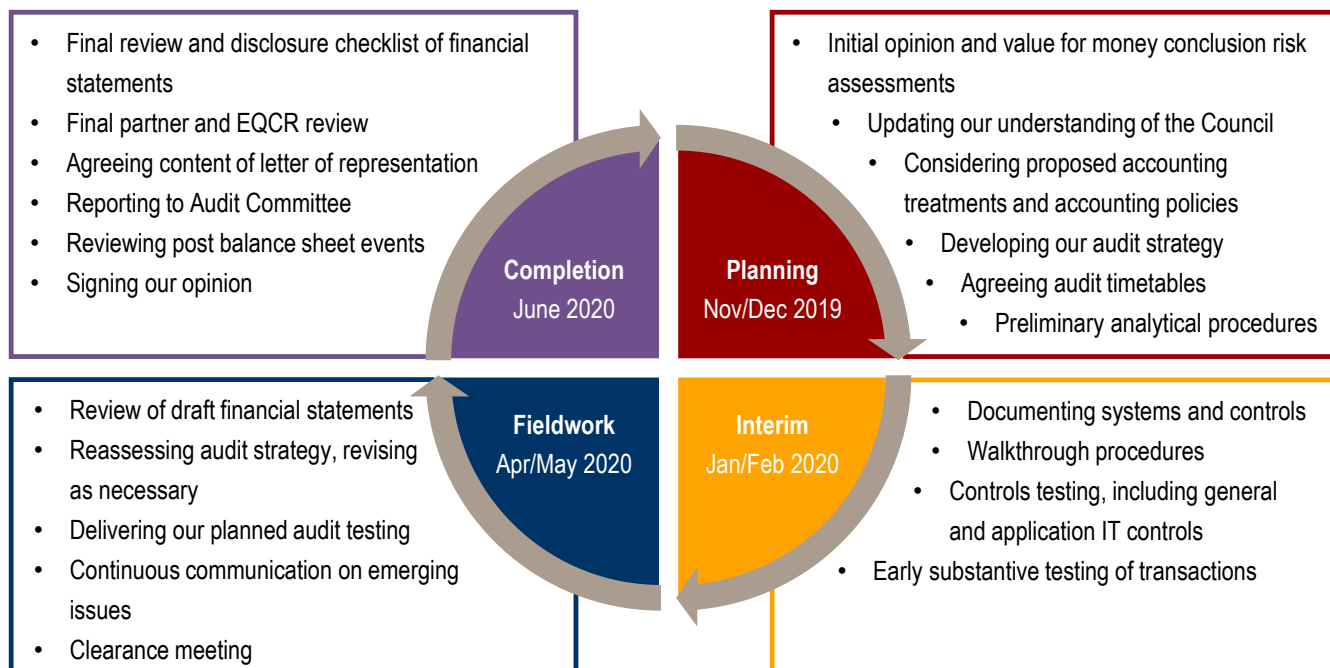
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

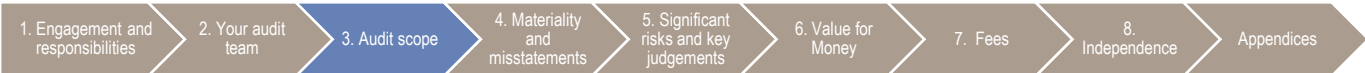
Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. We discuss our use of experts further in respect of independence in section 8.

Items of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Hyman Robertson Actuaries	PwC, consulting actuary, on behalf of National Audit Office.
Property, plant and equipment valuation	Unity Partnership Ltd	We will use available third party information to challenge the key valuation assumptions.
Valuation of shareholding in Manchester Airport Holding Limited	BDO LLP	In-house Mazars valuation team.
Valuation of Financial Instruments	Link Asset Services	We will review Link's methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct.

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to Oldham Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by Oldham Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll, non-pay expenditure and other transactional items of account	The Unity Partnership Limited	We plan to obtain assurance by understanding the process and controls that the Council has in place to assure itself that transactions are processed materially correctly. Our testing will include sample testing of transactions based on evidence available from the Council rather than the Shared Service.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

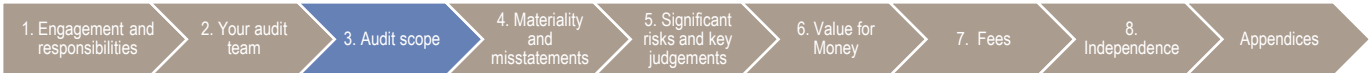
Group audit approach

The Council's group structure for 2019/20 will include two wholly owned subsidiary companies, Miocare Group Community Interest Company and The Unity Partnership Limited. In auditing the accounts of the Council's Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council's subsidiary companies.

Our approach will reflect the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements. Based on our planning discussions and review of previous year's accounts, we do not consider either subsidiary company to be a significant component. Our plan, based on our initial understanding of 2019/20 and the values reported in the prior year financial statements, is to obtain assurance from analytical procedures. At this stage, we do not plan to obtain specific assurance from the component auditors of the companies. Should our view, and our approach change through the audit we will communicate this to the Audit Committee.

We have not identified any significant risks for Group accounts purposes in relation to the components. The significant risks and areas of audit focus for the Council as a single-entity are set out in section 5. Based on our initial planning discussions we do not consider these significant risks to be risks for the component subsidiary companies.

If there are any changes to our assessment of the significance of the Council's group components, either through the size and complexity or the significant risks at the components, we will communicate these changes to the Audit Committee.



4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group Materiality	Council single-entity materiality
Overall materiality	13,500,000	13,400,000
Performance materiality	10,800,000	10,720,000
Trivial threshold for errors to be reported to the Audit Committee	405,000	402,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

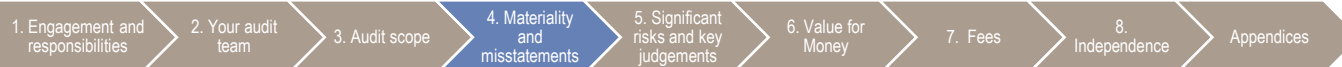
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that Gross Revenue Expenditure at Surplus/deficit on Provision of Services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We have not identified any qualitative factors which were considered relevant in setting the level of materiality. We have set our materiality threshold at approximately 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level.



4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the values reported in the 2018/19 financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be £13.5m for the audit of the Group financial statements and £13.4m for the audit of the Council's single entity financial statements.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that prior year work has indicated a strong control environment and very few identified audit adjustments required. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Specific items of lower Materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officer Remuneration bandings	£5,000*
Related party transactions	£50,000

* Reflecting movement from one salary band to another

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

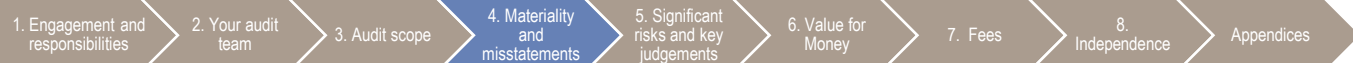
Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £405,000 for the Group and £402,000 for the Council single-entity financial statements based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk**

A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.
- Enhanced risk**

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

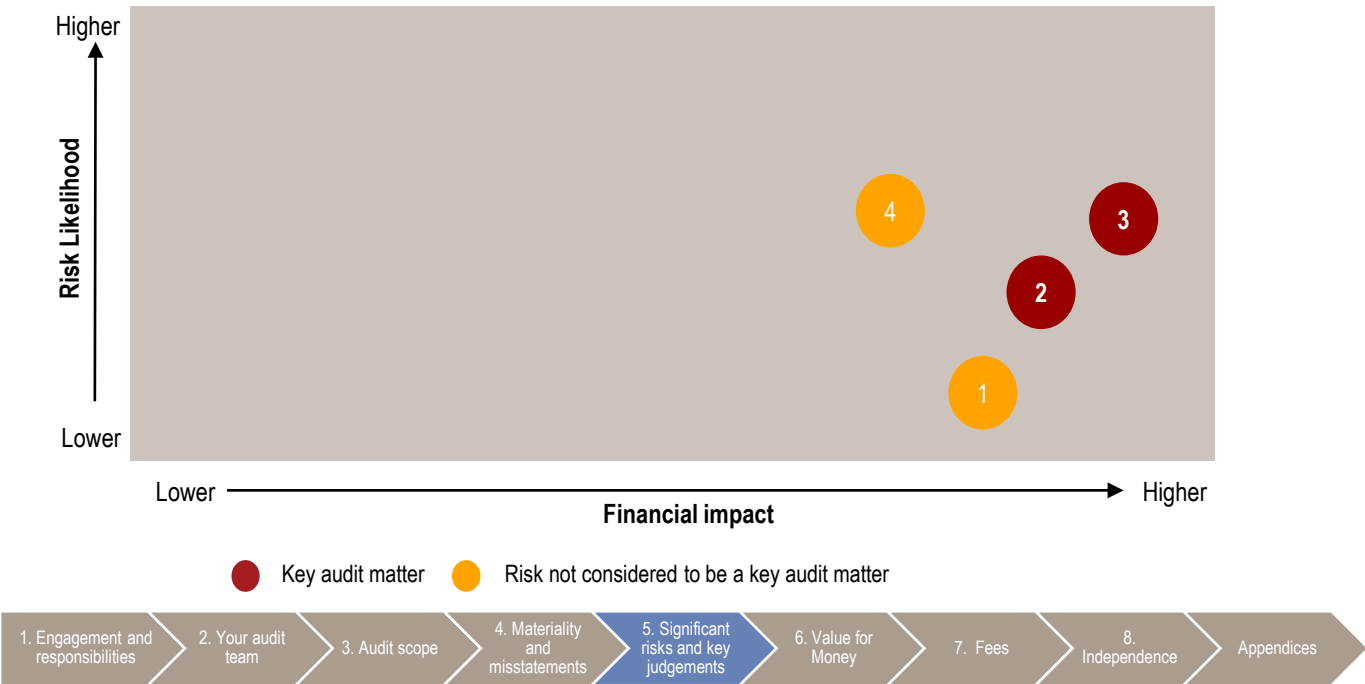
 - key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk**

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, are 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.

It is important that you understand and have opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. The summary risk assessment, illustrated below, highlights those risks which we deem to be significant, key audit matters and other enhanced risks. Our audit response to each of these risks is outlined on the table on the following page.



5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Specific identified audit risks and planned testing strategy

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Revenue recognition

International Standard on Auditing (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector. We also consider that there are limited incentives and opportunities to manipulate the way income is recognised in local government.

Based on our understanding of the Council's revenue streams we have rebutted the presumption that revenue recognition is a significant risk at the Council. Our testing of revenue is focused on our standard procedures and does not incorporate specific work on the risk of fraud in recognising revenue.

Significant risks

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organization 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 there is a risk of material misstatement due to fraud on all audits.</p> <p>Our audit methodology incorporates this risk as a standard significant risk at all audits. Based our initial knowledge and planning discussions we do not consider this risk at the Council to be unusually high or requiring enhanced audit procedures.</p>	●	○	●	○	<p>We plan to address the management override of controls risk through performing audit work over:</p> <ul style="list-style-type: none">• accounting estimates,• journal entries; and• significant transactions outside the normal course of business or otherwise unusual.

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Significant risks (continued)

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p>Valuation of Property, Plant & Equipment (land and buildings including investment properties)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.</p> <p>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.</p> <p>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 correct 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.</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>	○	●	●	●	<p>In relation to the valuation of property, plant & equipment we will:</p> <ul style="list-style-type: none"> Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations; Consider 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; Critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence; Critically assess the appropriateness of the social housing factor applied to the valuation of the Council Dwellings; Assess the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; Critically assess 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; Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer; and Test a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Significant risks (continued)

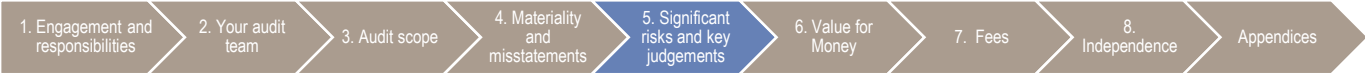
	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p>Valuation of Defined Benefit Pension Liability</p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019.</p> <p>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.</p> <p>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.</p> <p>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 2019/20.</p>	○	●	●	●	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; Liaise 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 will include 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; Review 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 will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; Agree 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.

5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
4	<p>Valuation of investment in Manchester Airport Holdings Limited</p> <p>The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2020. 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.</p>	○	●	●	○	<p>Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team.</p> <p>The Mazars in-house valuation team will review the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.</p>



6. VALUE FOR MONEY CONCLUSION

Our approach to the Value for Money Conclusion

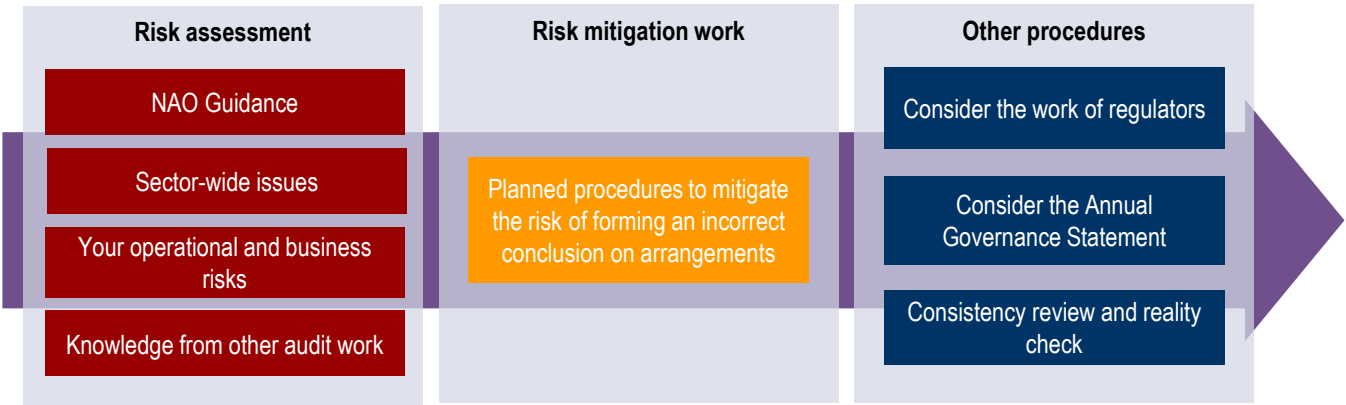
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

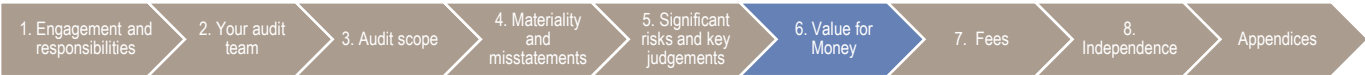
A summary of the work we undertake is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector. For the 2019/20 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
<p>Financial sustainability</p> <p>The Council's medium term financial strategy for the period 2019/20 to 2022/23 sets out the financial challenges it faces, highlighting a significant financial gap by 2022/23 to achieve a balanced budget. The Council has used reserves to balance previous years' budgets. In-year projections indicate an overspend in service budgets, in particular Education and Early Years. This is offset by projected underspends in capital financing, increased treasury management income and additional grants. The continuing challenges the Council faces are not new and are not unique to Oldham Council. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p>	<p>We will review the arrangements the Council has in place for ensuring financial resilience, specifically that the medium term financial plan has taken 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 will also review the arrangements in place to monitor progress delivering the budget and related savings plans.</p>



7. FEES FOR AUDIT AND NON-AUDIT SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 23 April 2019.

Service	2018/19 fee	2019/20 fee
Code audit work	£104,428	£104,428

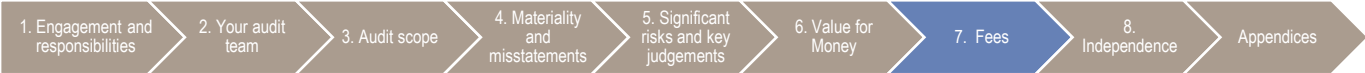
Fees for non-audit work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit.

Should we be engaged to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

Services provided to other entities within the Council's group

We have not been engaged by any of the Council's group entities to provide any audit, or non-audit, services in 2019/20.



8. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

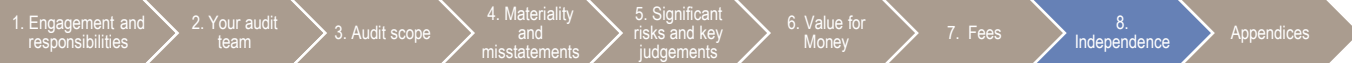
We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen Murray will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance	Audit Strategy Memorandum Engagement letter
The planned scope and timing of the audit including any limitations, specifically including with respect to key audit matters	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion; The effect of uncorrected misstatements related to prior periods; A request that any uncorrected misstatement is corrected; and In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> Enquiries of the audit committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and A discussion of any other matters related to fraud. 	Audit Completion Report Discussion at Audit Committee Audit planning and clearance meetings
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> Non-disclosure by management; Inappropriate authorisation and approval of transactions; Disagreement over disclosures; Non-compliance with laws and regulations; and Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

Required communication	Where addressed
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Board of Directors or the Audit Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	<p>Audit Completion Report</p> <p>Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual [or consolidated] financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Identification of each key audit partner involved in the audit	Audit Strategy Memorandum
Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm	Audit Strategy Memorandum and/or Audit Completion Report as appropriate

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for Money

7. Fees

8. Independence

Appendices

APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

Required communication	Where addressed
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for Money

7. Fees

8. Independence

Appendices

APPENDIX C – EXTENDED AUDITOR’S REPORT

Basis of requirement for an extended auditor’s report

We are required to issue an extended auditor’s report on the Council and the Group’s 2019/20 financial statements under ISA (UK) 700 ‘Forming an Opinion and Reporting on Financial Statements’. This is required as the Council meets the definition of a Public Interest Entity as a result of it having debt that is listed on an EU regulated market.

Layout of the extended auditor’s report

The extended auditor’s report for 2019/20 is expected to follow the format and structure outlined below, assuming that no emphasis of matter or qualification is required.

Paragraph heading	Summary of key content
Opinion	What we have audited and our opinion thereon.
Basis for opinion	Confirmation: <ul style="list-style-type: none">• that the audit is undertaken under the ISAs (UK)• of our independence including with the FRC’s Ethical Standard• regarding sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council’s: <ul style="list-style-type: none">• use of the going concern basis of accounting• disclosure of any material uncertainties
Key audit matters	Definition of key audit matters. Clarification that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none">• a description of the most significant assessed risk(s) of material misstatement• a summary of our response to those risks• key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements, where relevant.
Our application of materiality	Explanation of how we applied the concept of materiality in planning and performing the group and parent company audit. The overall materiality threshold for the group and single entity financial statements as a whole.
An overview of the scope of our audit	Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.
Other information	Responsibilities of the Chief Finance Officer and of the auditor for other information included in the Narrative Report.

APPENDIX C – EXTENDED AUDITOR’S REPORT

Paragraph heading	Summary of key content
Responsibilities of the Director of Finance for the financial statements	Cross reference to the Statement of Director of Finance Responsibilities.
Auditor’s responsibilities for the audit of the financial statements	Explanation of the ‘reasonable assurance’ objective of the audit Cross-reference to our responsibilities for the audit on the FRC’s web-site
Matters on which we are required to report by exception	Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.
Value for Money arrangements conclusion	Our conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.
Basis for conclusion	Overview of the scope of our value for money work.
Responsibilities of the Council for arrangements for securing economy, efficiency and effectiveness in its use of resources	Sets out the Council’s responsibilities.
Auditor’s responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources	Sets out the auditor’s responsibilities, derived from the Local Audit and Accountability Act 2014.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent of the Council and its group. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Sets out who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.