

## **Report to Audit Committee**

# **Draft Audit Completion Report for the Year Ending 31 March 2020**

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green / MAZARS

**Officer Contact:** Anne Ryans - Director of Finance / MAZARS

**Report Author:** Lee Walsh - Finance Manager / MAZARS

**Ext.** 4467

**21 July 2020**

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### **Reason for Decision**

To present to the Audit Committee, the Council's draft Audit Completion Report (attached at Appendix One) for the year ending 31 March 2020 as prepared by the External Auditor, Mazars LLP.

### **Executive Summary**

The report presents the Council's draft Audit Completion Report for the year ending 31 March 2020. The full report (attached at Appendix One) was prepared by the Council's External Auditor (Mazars LLP) and advises of the key issues in relation to the audit of the 2019/20 Statement of Accounts.

At the time of issuing the agenda, the audit of the accounts is substantially complete, however, there remain several items which require resolution. These items, presented at page 4 of the attachment, are in the main outside the control of the Council.

There will be an update at the meeting as to the progress on all outstanding matters.

### **Recommendation**

It is recommended that the Audit Committee notes the draft Audit Completion Report for the year ending 31 March 2020.

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## Appendix One

### Draft Audit Completion Report Oldham Metropolitan Borough Council Year ending 31 March 2020



# Audit Completion Report Draft to Audit Committee

Oldham Metropolitan Borough Council  
Year ending 31 March 2020

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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.

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

16 July 2020

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 (ASM) which we presented to Audit Committee on 20 January 2020. Since we presented our ASM we have revised our consideration of significant risks as set out below.

- We identified in our ASM that there was a significant audit risk, and key audit matter, relating to the valuation of the Council's pension liability. We have subsequently identified that the significant audit risk and key audit matters applies to the Council's Group level and not just the Council single-entity financial statements, resulting in the pension liabilities of the Council's two wholly-owned consolidated subsidiary companies being considered significant risks.

Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. Other than the matter highlighted above, we have concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our sincere 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

Karen Murray, Partner  
Mazars LLP

Mazars LLP – One St Peter's Square, Manchester, M2 3DE  
Tel: 0161 238 9248 – Fax: 0161 238 9201 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Oldham Metropolitan Borough Council ('the Council') and its Group for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 21 July 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 3 and 6 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 3 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 Property, Plant & Equipment (land and buildings including investment properties);
- Valuation of Defined Benefit Pension Liability; and
- Valuation of investment in Manchester Airport Holdings Limited.

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

Subject to the satisfactory completion of the remaining audit procedures, 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 conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

The timetable for the Council's WGA submission has not yet been published by MHCLG, and NAO have not yet issued auditors with their group instructions. We will complete the required work to the MHCLG timetable as soon as possible once these details have been clarified.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any questions or objections relating to 2019/20.



# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding. We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Audit area	Status	Description of outstanding matters
Valuation of Property, Plant & Equipment	●	We are completing the final elements of our testing of the Council's valuation of its land and buildings
Valuation of Heritage Assets	●	We are completing the final elements of our testing of the Council's valuation of its Heritage Assets
Valuation of Investment Properties	●	We are awaiting assurance from our external valuation expert on the Council's valuation of its lease of land to Manchester Airport
Valuation of Investments	●	We are concluding our considerations of the Council's categorisation of its Long Term Investment in Manchester Airport We are awaiting third party confirmation of the balance for one of the Council's investments
Short Term Debtors	●	We are awaiting evidence to conclude our testing of the Council's calculation of its impairment of debtors
Valuation of Pension Liabilities	●	We are completing the final elements of our testing of the Council's, and its subsidiaries' net Pension Liabilities We are awaiting the assurance letter from the auditor of the Greater Manchester Pension Fund following the completion of their audit
Provisions, Contingent Assets & Contingent Liabilities	●	We are completing our testing on the compliance of the disclosed provisions and contingent assets & liabilities with accounting standards
Signed final statements and signed Management Representation Letter	●	We will complete our final review of the financial statements to confirm all expected changes have been made, upon receipt of the signed version of the accounts and letter of representation

### Status

- 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

## Misstatements and internal control recommendations

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 5 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

# 2. AUDIT APPROACH

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in January 2019. Following further discussions with the Council we have updated our approach as previously documented in the ASM. In particular we concluded that the significant risk over the valuation of the Council's pension liability applied at the Council's Group level, and consequently we identified that the pension liability for The Unity Partnership Ltd and Miocare Community Interest Company were also significant risks to the Council's Group. As a result of this conclusion, we concluded that both subsidiary companies were significant components to the Group. We have set out our audit approach to the Group on page 7.

There are no other significant changes to our approach to the Council or Group financial statements as communicated to the Council in our ASM in January 2020.

## Materiality

We set materiality at the planning stage of the audit at £13.5 million for the Group financial statements and £13.4 million for the Council financial statements, using a benchmark of around 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level.

Our final assessment of materiality, based on the final 2019/20 financial statements and qualitative factors is unchanged from that at the planning stage for both the Group and Council financial statements. Our final materiality levels and trivial thresholds are set out in the table below. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £405k for the Group and £402k for the Council based on 3% of overall materiality.

Materiality element	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 reporting to Audit Committee	£405,000	£402,000

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Group or the Council.

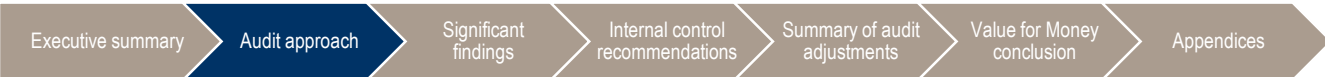
We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the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

Item of account/disclosure	Specific materiality
Officer remuneration bandings (Note 9)	£5,000 *
Related Party Transactions (Note 12)	£50,000

- Reflecting movement from one salary band to another

## Key summary of audit approach and findings

We have summarised the key information regarding our approach, risks and significant findings for the Comprehensive Income & Expenditure Statement and Balance Sheet in the tables over the page. Further information on the findings are provided in section 3.





## 2. AUDIT APPROACH (CONTINUED)

### Comprehensive Income & Expenditure Statement

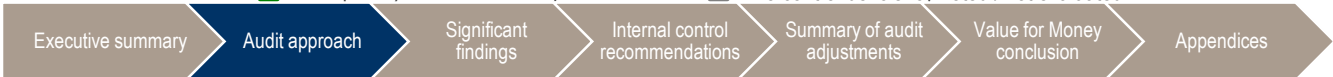
Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Control deficiencies	Significant audit findings
Net Cost of Services	Standard	-	No	None	●	Adjustments made
Other Operating Expenditure	Standard	-	No	None	●	None
Financing & Investment I&E	Standard	-	No	None	●	Adjustment made
Taxation and non-specific grants	Standard	-	No	None	●	None
Other comprehensive I&E	Standard	-	No	None	●	None

### Balance Sheet

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Control deficiencies	Significant audit findings
Property, plant and equipment	Significant	Valuation of Land, Buildings and Investment Property	Yes	None	●	Work not yet complete
Long term investments	Enhanced	-	No	None	●	Work not yet complete
Short term debtors	Standard	-	No	None	●	Work not yet complete
Cash and cash equivalents	Standard	-	No	None	●	Work not yet complete
Short term creditors	Standard	-	No	None	●	None
Borrowings	Standard	-	No	None	●	None
Provisions	Standard	-	No	None	●	Work not yet complete
Pension Liabilities	Significant	Valuation risk	Yes	Yes	●	Adjustments made
Reserves	Standard	-	No	None	●	Adjustments made

Key for Control Deficiencies

- High-priority control deficiency noted
- Medium-priority control deficiency noted
- Low-priority control deficiency noted
- No control deficiency noted / not evaluated



## 2. AUDIT APPROACH (CONTINUED)

### Overview of our group audit approach

The Council's Group financial statements for 2019/20 includes two wholly owned subsidiary companies, Miocare Group Community Interest Company and The Unity Partnership Limited.

Our Audit Strategy Memorandum provided details of our intended group audit approach. As highlighted earlier in this report we confirm that we have updated our approach and concluded that the significant risk over the valuation of the Council's pension liability applies also to the pension liability for The Unity Partnership Ltd and Miocare Community Interest Company which are consolidated into the Council's Group financial statements. As a result of this conclusion, we concluded that both subsidiary companies were significant components to the Group.

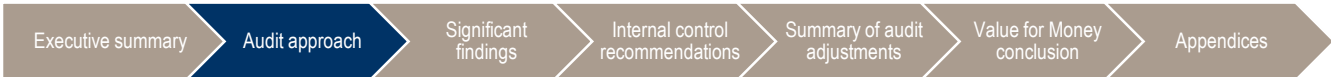
The table below confirms the approach we have taken to auditing the Council's consolidated group financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Oldham Council (parent)	NAO Code audit	Mazars LLP	A full audit of the Council financial statements and consolidation process	None
Miocare Community Interest Company (subsidiary)	Statutory audit	Grant Thornton LLP	We undertook specific audit procedures relating to the company's net pension liability as reported in the Group financial statements. We also undertook desktop group analytical procedures on the financial information prepared for group reporting purposes using component materiality	Yes
The Unity Partnerships Ltd (subsidiary)	Statutory audit	Mazars LLP	We undertook specific audit procedures relating to the company's net pension liability as reported in the Group financial statements. We also undertook desktop group analytical procedures on the financial information prepared for group reporting purposes using component materiality	Yes

The Council has applied a consideration of materiality in determining which of its subsidiaries, associates and joint ventures to consolidate into its Group financial statements. The result of this consideration, as disclosed in Note G2 to the Group financial statements is that five Council interests are not consolidated:

- Oldham Economic Development Association Ltd
- Southlink Developments Ltd
- Meridian Development Company Ltd
- FO Developments LLP
- Oldham Property LLP

The Council's consideration of the material impact of these interests on its Group financial statements is in accordance with the applicable financial reporting framework.

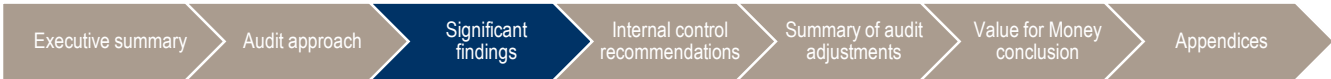


### 3. SIGNIFICANT FINDINGS

Set out on the following pages are the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
  - 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 our response;
  - where relevant, key observations arising with respect to each matter; and
  - a clear reference to the relevant disclosures in the financial statements
- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 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.

As part of our planning procedures we considered the risks of material misstatement in the Council’s financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. Although no new significant risks or key audit matters have been identified we have reported earlier in the report that we concluded that the significant risk and key audit matter relating to the valuation of the Pension Liability related to the Council’s two subsidiaries as well as the Council.



# 3. SIGNIFICANT FINDINGS (CONTINUED)

## Key audit matters

Valuation of  
Land & Buildings  
and Investment  
Property (Council)

### 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 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. 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. 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. 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 we addressed the key audit matter

We have:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;
- Considered whether the overall revaluation methodology used by the Council valuer is in line with industry practice, social housing statutory guidance, and the CIPFA Code of Practice;
- Critically assessed the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence;
- Considering whether the Trust's valuation changes in 2019/20 are consistent with evidence of changes in industry published indices of changes in build costs;
- Critically assessed the social housing factor applied to the valuation of Council Dwellings;
- 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;
- 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;
- Critically assessed 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
- Tested a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.

### Audit conclusion

We are still finalising our work on this area although there are no matters arising from the work completed to date.

### 3. SIGNIFICANT FINDINGS (CONTINUED)

Valuation of  
Defined Benefit  
Pension Liability  
(Council & Group)

Description of the key audit matter

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. 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. 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.

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.

How we addressed the key audit matter

We have:

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's actuary, Hymans Robertson;
- Liaised with the auditors of the Greater Manchester Pension Fund and obtained 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;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuations for the Council and the two subsidiary companies. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation reports for the Council and the two subsidiary companies provided by the actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.

Audit conclusion

We are still finalising our work on this area although there are no matters arising from the work completed to date.

### 3. SIGNIFICANT FINDINGS (CONTINUED)

#### Significant risks

Management override of controls	Description of the risk
	<p>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.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• Accounting estimates impacting on amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<p><b>Audit conclusion</b></p> <p>We are still finalising our work on the accounting estimates as highlighted on page 4. There are no matters arising from the other areas of our work completed against this risk.</p>



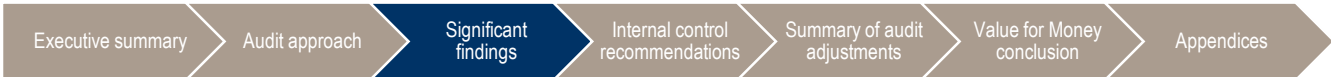
### 3. SIGNIFICANT FINDINGS (CONTINUED)

#### Area of management judgement

Valuation of investment in Manchester Airport Holdings Limited	Description of the management judgement
	<p>The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited (MAHL) at 31 March 2020. The valuation is determined under IFRS13 applying a consistent methodology to previous and applying key assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.</p>
	<p><b>How our audit addressed this area of management judgement</b></p> <p>Our approach to auditing the investment in Manchester Airport Holdings Limited included the involvement of the Mazars in-house valuation team.</p> <p>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.</p> <p>We reviewed the calculation of the valuation by the Council's external valuation expert in light of the update financial information available in July 2020 from the published MAHL financial statements for the year to 31 March 2020.</p>
	<p><b>Audit conclusion</b></p> <p>We have completed our procedures and there are no matters arising against the valuation of the Council's investment in MAHL.</p>

#### Valuation methods

We are required by International Standard on Auditing 260 to report to the Audit Committee the methods of valuation the Council has adopted in its financial statements and whether there have been any changes in those valuation methods. We have set out in this section the valuation methods for the Property, Plant & Equipment, Investment Property, Long Term Investment in MAHL and the Pension Liability. There are no changes in the valuation methods from the previous year. The other balance sheet categories have been valued in accordance with the CIPFA Code of Practice on Local Authority Accounting and applicable International Financial Reporting Standards. There are no changes in those valuation methods from the previous year.



# 3. SIGNIFICANT FINDINGS (CONTINUED)

## Qualitative aspects of the Council’s accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council’s accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council’s circumstances.

Draft accounts were received from the Council on 31 May 2020 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.

## Significant matters discussed with management

The significant matters we discussed with management through the audit included:

- The impact of COVID-19 on the Council’s financial statements, including potential impact on risks of material misstatement. We concluded that there were no additional risks of material misstatement in 2019/20.
- The valuation of the Council’s land & buildings and investment property. The outcome of this work is reported earlier in the report.
- The valuation of the Council’s investment in Manchester Airport Holdings Limited. The outcome of this work is reported earlier in the report.
- The accounting treatment of the Council’s investment in the new Manchester Airport car park company. We Council has updated its disclosure of the classification of this investment to report that it has designated the investment at Fair Value through Other Comprehensive Income.

## Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit was significant. Although we have had the full co-operation of the financial team and Council management through the audit, the finance team’s lack of access to hard copy records did cause them, and us, some difficulties particularly in relation to the supporting evidence for the valuation of land & buildings and investment properties. These issues are being resolved through the dedication and excellent support from the Council, but have delayed the audit significantly.

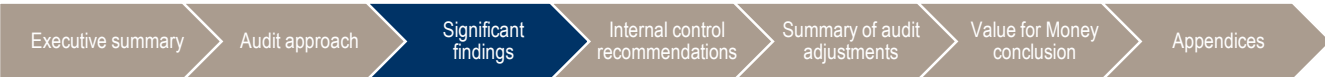
## Wider responsibilities

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 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections during our audit from electors.



# 4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is 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. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor 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. From our audit work carried out in 2019/20 we have not identified any internal control recommendations.

## Follow up of previous internal control points

We have reviewed the Council's response to our recommendations raised in 2018/19 and report an update in the table below and overleaf.

### 2018/19 Recommendations

#### 1. Process for identifying Related Party Transactions

The Council, in its closedown procedures for 2019/20, should carry out an interrogation of its ledger for all the related parties disclosed by members and senior officers.

#### 2019/20 update

The Council has carried out an interrogation of its ledger for all the related parties disclosed by members and senior officers.

#### 2. Corporate Information Security Policy

The Council should consider reviewing and updating its Corporate Information Security Policy.

#### 2019/20 update

The Council has reviewed and updated the Corporate Information Security policy during the year.

#### 3. IT Backup Policy

The Council should consider documenting a formal Backup Policy.

#### 2019/20 update

Backup policy is in place and has been reviewed in the year.

#### 4. IT Logical Access Policy

The Council should consider documenting a formal logical access policy.

#### 2019/20 update

The Council as part of annual review, updated the IT Access Control Policy in the year.



# 5. SUMMARY OF AUDIT ADJUSTMENTS

We set out below the items identified for adjustment during the course of the audit, above the level of trivial threshold of £405k (Group) and £402k (Council).

## Unadjusted audit differences 2019/20

The Council have adjusted all the audit differences identified as summarised on the table below.

## Adjusted audit differences 2019/20

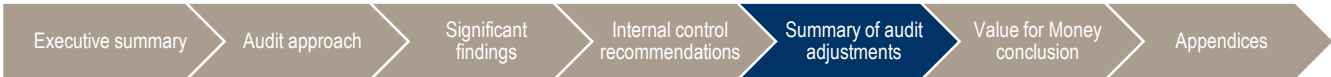
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Changes to the Group pension liability				
	Dr: Group Pension Liability			22,947	
	Cr: Group Pension Reserve				22,947
	The Council obtained updated actuarial reports for Miocare and The Unity Partnership as well as the Council itself. The Combined impact of the new reports were that the Group Pension Liability reduced by with the negative Group Pension Reserve also reducing by the same amount. This adjustment also impacts on the Group Movement in Reserves Statement and Group pension notes.				
2	Changes to the Council's pension liability				
	Dr: Council Pension Liability			17,379	
	Cr: Council Pension Reserve				17,379
	The Council obtained an updated actuarial report and this reported that the level of pension liability had reduced by £17,379k. This has also reduced the negative Pension Reserve. This adjustment also impacts on the Movement in Reserves Statement and pension notes.				
3	Changes to Council and Group Financing & Investment Expenditure				
	Dr: Commissioning Gross Expenditure	831			
	Dr: Capital, Treasury & Technical Accg Gross Exp	645			
	Cr: Financing & Investment Expenditure		1,476		
	The Council identified a miscoding of transactions in the ledger which were incorrectly identified as Financing & Investment Expenditure but should have been coded as a Cost of Service.				

# 5. SUMMARY OF AUDIT ADJUSTMENTS (CONTINUED)

## Disclosure amendments

In addition to the adjustments outlined on the previous page, the Council has made a number of amendments to the disclosures in the financial statements. Among these adjustment were contextual or presentational adjustments made to:

- Amend the analysis of income in Note 2 and Note 5
- Amend some of the disclosure entries of Financial Instruments in Note 20 to reflect the correct categorisation and measurement of the Council's financial assets;
- Include non-adjusting post balance sheet events in Note 37;
- Include the Council's required Operating Lease disclosures where it is the lessor in Note 38; and
- Include disclosure of the Group External Audit Fees at Note G4.



# 6. VALUE FOR MONEY CONCLUSION

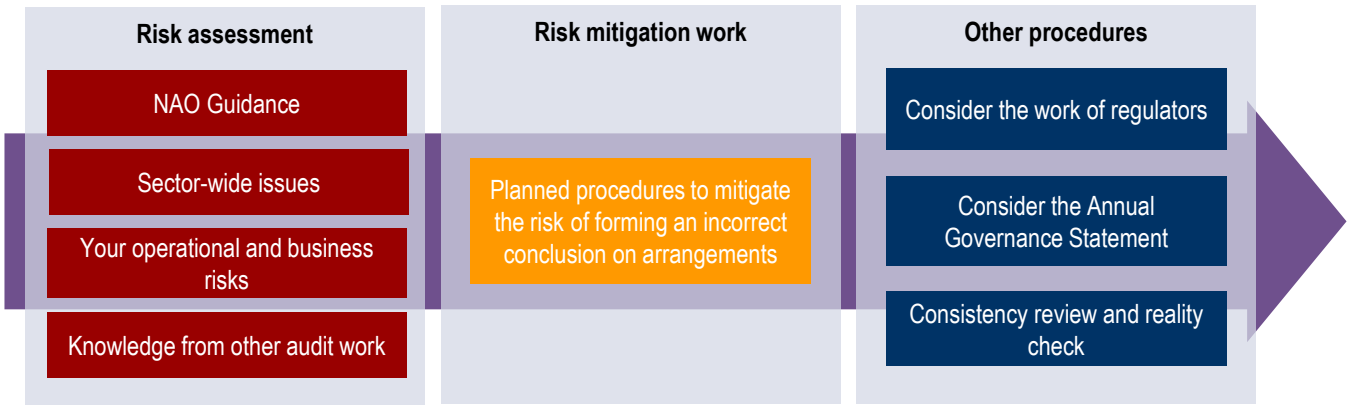
## Our approach to the Value for Money conclusion

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 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

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



## Significant Value for Money conclusion risks

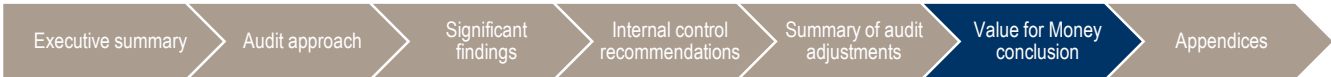
The NAO’s guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.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

Since issuing our Audit Strategy Memorandum the COVID-19 pandemic has impacted significantly on the Council operationally and financially. We have considered the impact of COVID-19 on the significant risk for our Value for Money conclusion. In doing this we have considered the Council’s arrangements in place up to the 31 March 2020, and we are satisfied that there are no new significant risks to our Value for Money conclusion for 2019/20 arising from COVID-19.

The work we carried out in relation to the significant risk is outlined overleaf.

## Our overall Value for Money conclusion

Our draft auditor’s report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.





# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken and findings	Conclusion
<b>Financial sustainability</b>  The Council's medium term financial strategy for the period 2019/20 to 2023/24 sets out the financial challenges it faces, highlighting a significant financial gap by 2023/24 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 financially sustainability over the medium term.	<b>Work undertaken</b>  We reviewed the arrangements the Council had in place throughout 2019/20 for ensuring financial resilience.  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. In addition to considered the Council's arrangements in place in 2019/20 in the context of the emerging impact of the COVID-19 pandemic.  <b>Findings</b>  The Council set balanced budgets for 2019/20 and 2020/21. The budget for 2019/20 was set with assumptions of significant levels of budget reductions from the standstill position in the previous year (£7.8m) and utilising significant levels of earmarked reserves (£8.8m). The outturn reported results for the year show a small underspend against the budget (£0.2m) but this is after the Council received £7.6m of central government funding for the impact of COVID-19 in late March 2020 – funding which will be predominantly spent during 2020/21. This enabled the Council to not have to rely on utilising reserves in 2019/20 to support the spending, and this has meant the General Fund balance is £15m and Revenue Earmarked Reserves are £79m as at 31 March 2020.  The Council's monitoring of its 2019/20 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. The review of the monitoring in year identifies that the Council undertakes a robust review and regular reporting. The in year monitoring has been largely accurate and has predicted the level of overspending through the year, enabling timely mitigating decisions to be taken.  (continued overleaf)	We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.

# 6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken and findings	Conclusion
Financial sustainability (continued)	<p><b>Findings (continued)</b></p> <p>The financial position for 2020/21 is significantly more challenging. The Council agreed its budget for 2020/21 before the COVID-19 pandemic. That pre-COVID-19 budget assumed budget reductions from the standstill position in 2019/20 of £1.7m, identified a further requirement for £18.1m of savings of which £3m were specifically approved, assumed that £10m of the £18.1m would be funded through the Council's earmarked reserves, with the remaining £5.1m planned to be funded from other one off measures. Even before the impact of COVID-19 on the Council's financial position, the 2020/21 budget presented a significant challenge to the Council's long term financial sustainability.</p> <p>The Council is continuing to refine its assessment of the impact of COVID-19 on 2020/21 and future years. What is certain is that there are significant additional cost pressures, particularly in delivering Adult &amp; Children's Social Care, and significant levels of lost income. The lost income relates to fees and charges, income from the Council's investments including that in the Manchester Airport Group and the impact on the Collection Fund. The Council has continued to respond to the government's request for increasingly detailed financial information in monthly returns, and according to the latest submitted return for June 2020, the Council reports:</p> <ul style="list-style-type: none"><li>• the gross impact on the 2020/21 financial year is estimated to be £56.4m, although this reduces to £20.8m after taking into account notified government grants and the impact of reduced Council Tax and Business Rates income which will impact in 2021/22;</li><li>• the impact on 2021/22 financial year, particularly through the estimated losses on the Collection Fund arising from lower Council Tax and Business Rates receipts, is estimated to be £41m.</li></ul> <p>The Council has significant levels of earmarked reserves as at 31 March 2020, but these are not sufficient to sustain the Council's financial position over the medium term given the estimated impact. The Council has acknowledged that it needs to quickly make difficult strategic decisions, particularly relating to its capital programme and development plans for the borough. Ensuring the Council remains in a robust financial position is essential.</p> <p>At the time of setting the 2020/21 budget, the Council's medium term financial strategy also recognised that the transformation programme was expected to deliver savings across a range of areas. Whilst these savings plans were not yet fully identified, the importance of the transformation programme in supporting the longer term financial sustainability of the Council was recognised. The subsequent impact of the COVID-19 pandemic has understandably meant the Council's focus has turned to urgent service delivery and business continuity matters, but the delivery of the longer term transformational savings is still critical to delivering the medium term financial strategy.</p>	

# 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 2020**

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 2020 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 2019/20 (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.

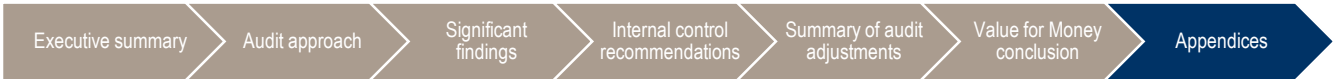
As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

**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.

**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.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

### 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.

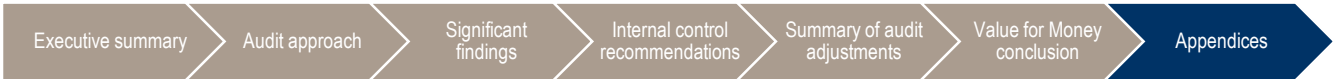
### Fraud and error

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.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

### 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.

### Covid-19

We confirm that we have 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

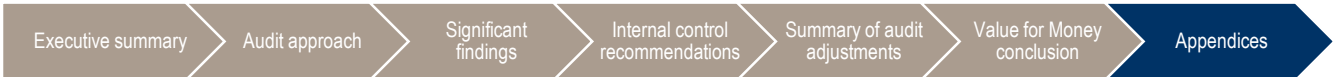
To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval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

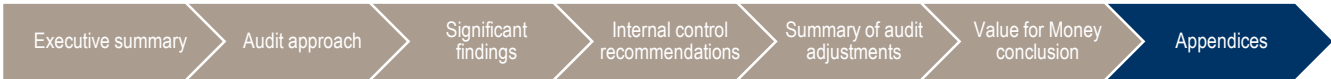
Anne Ryans  
Director of Finance



# APPENDIX B

## DRAFT AUDITOR’S REPORT

To be included





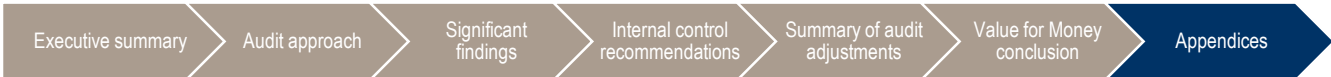
# APPENDIX C

## 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.



## CONTACT

### **Karen Murray**

Partner

Mobile: 07721 234043

Email: [karen.murray@mazars.co.uk](mailto:karen.murray@mazars.co.uk)

### **Alastair Newall**

Senior Manager

Mobile: 07909 986776

Email: [alastair.newall@mazars.co.uk](mailto:alastair.newall@mazars.co.uk)