



Oldham
Council

Report to Audit Committee

Mazars LLP External Audit Recommendations

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

Officer Contact: Anne Ryans - Director of Finance

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

2 November 2021

Reason for Decision

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

Executive Summary

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

Recommendations

It is recommended that the Audit Committee notes:

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

1. Background

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

2. Housing Benefit System to General Ledger reconciliations

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

3. The Consolidation of the Council's Group Entities

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

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

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

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

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

5. **IT Service Continuity Plan**

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

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

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

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

6. **Options/Alternatives**

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

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

7. **Preferred Option**

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

8. **Consultation**

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

9. **Financial Implications**

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

10. **Legal Services Comments**

10.1 There are no Legal implications.

11. **Co-operative Agenda**

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

12. **Human Resources Comments**

12.1 There are no Human Resource implications.

13. **Risk Assessments**

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

14. **IT Implications**

14.1 IT implications are included within this report.

15. **Property Implications**

15.1 There are no Property implications.

16. **Procurement Implications**

16.1 There are no Procurement implications.

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

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

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

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

19. **Equality Impact Assessment Completed?**

19.1 Not Applicable

20. **Key Decision**

20.1 No

21. **Key Decision Reference**

21.1 Not Applicable.

22. **Background Papers**

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

File Ref: Background papers are contained in Appendices 1 and 2
Officer Name: Lee Walsh
Contact No: 0161 770 6608

23. **Appendices**

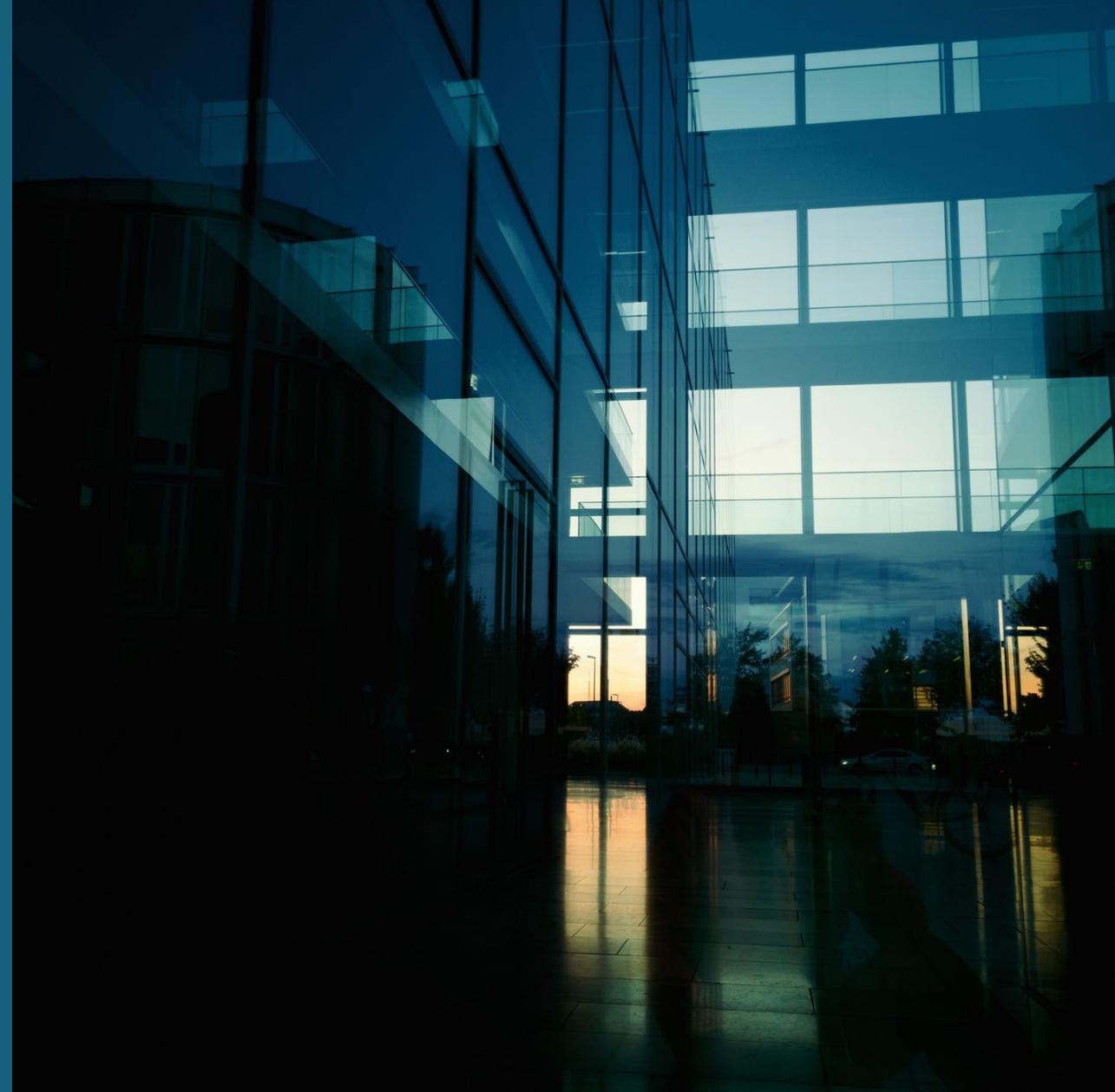
23.1 Appendix 1 - Mazars LLP draft Audit Completion Report
Appendix 2 - Letter from Mazars LLP dated 30 September 2021 entitled 'Conclusion of Pending Matters – Audit Completion Report'

Appendix 1

Audit Completion Report

Oldham Metropolitan Borough Council
Year ended 31 March 2021

July 2021



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Appendix B: Draft audit report

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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 Borough Council
Civic Centre
West Street
Oldham
OL1 1UT

27 July 2021

Dear Audit Committee Members

Audit Completion Report – Year ended 31 March 2021

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

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 10 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721 234043.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Karen Murray

Partner, Mazars LLP

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks, key audit matters and areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

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

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

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

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

Status and audit opinion

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

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

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



Audit opinion

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



Value for Money

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



Whole of Government Accounts (WGA)

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



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received correspondence and questions from a member of the public. We are currently considering the matter raised.

Executive summary

Status of audit

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Summary of misstatements

Value for Money

Appendices

1. Executive summary

COVID-19 impacts

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



02

Section 02:

Status of the audit

2. Status of the audit

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

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

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

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

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



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to Audit Committee in June 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £13.9m for the Group financial statements and £13.8m for the Council single-entity statements using a benchmark of 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £13.61m for the Group financial statements and £13.6m for the Council single-entity statements using the same benchmark.

Service organisations

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

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

Use of experts

We set out in our Audit Strategy Memorandum our planned use of experts to assist in our audit procedures. We confirm there have been no changes to those arrangements during the audit

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



3. Audit approach

Group audit approach

The Council's group structure for 2020/21 includes two wholly owned subsidiary companies, Miocare Group Community Interest Company Ltd and The Unity Partnership Ltd. In auditing the accounts of the Council's Group financial statements we obtained assurance over the transactions in the Group relating to the Council's subsidiary companies.

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

Group component	Approach adopted	Key points or other matters to report
Oldham MBC		The Mazars audit team undertook the full audit of the Council
Miocare CIC Ltd		The Mazars audit team undertook testing of Miocare's defined benefit pension liability and carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £5m.
Unity Partnerships Ltd		The Mazars audit team undertook testing of Unity Partnership's defined benefit pension liability and carried out review procedures of the remaining consolidated accounting entries. The component materiality used for these procedures was £6m.

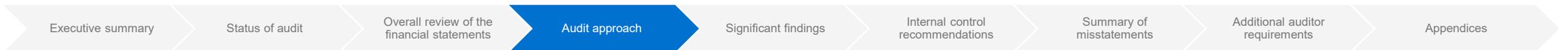
-  **Full audit**
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality
-  **Audit of balances and/or disclosures**
Performance of an audit of specific balances and/or disclosures included in the component's financial information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



3. Audit approach

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

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



04

Section 04: **Significant findings**

4. Significant findings

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

- our findings on key audit matters, including:
 - why the matter was considered;
 - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
 - how the matter was addressed in the audit including a summary of the auditor’s response to those risks;
 - where relevant, key observations arising with respect to those risks; and
 - a clear reference to the relevant disclosures in the financial statements.
 - if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 20 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.



4. Significant findings

Key audit matters

Valuation of Council Property, Plant & Equipment

Description of the key audit matter

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.

How our audit addressed the key audit matter and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer.
- Obtaining an understanding of the basis of valuation applied by the valuer in the year.
- Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated.
- Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 are materially fairly stated at the year end.
- Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.
- Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. Testing a sample of items of capital expenditure in 2020/21 to confirm that the additions are appropriately valued in the financial statements.

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



4. Significant findings

Key audit matters

Valuation of investment properties

Description of the key audit matter

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

How our audit addressed the key audit matter and our observations

Our audit procedures included:

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

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



4. Significant findings

Key audit matters

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

Description of the key audit matter

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

There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council's or the subsidiaries' circumstances. This could have a material impact to the Council and Group net pension liability in 2020/21.

How our audit addressed the key audit matter and our observations

Our audit procedures included:

- Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council and the Group components.
- Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the controls in place at the Pension Fund are free from material deficiencies.
- Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's and the Group's share of Pension Fund assets.
- Reviewing the actuarial allocation of Pension Fund assets to the Council and the Group by the actuary, including comparing the Council's and the Group's share of the assets to other corroborative information.
- Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.
- Agreeing the data in the actuarial valuation reports provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and the Group's financial statements.

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



4. Significant findings

Significant risks

Management override of controls

Description of the risk

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

How we addressed this risk

We addressed this risk through performing audit work over:

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

Audit conclusion

We have completed our work on the Council's journals and there are no matters to bring to the Committee's attention.

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



4. Significant findings

Key areas of management judgement

Valuation of investment in Manchester Airport Holdings Limited

Description of the management judgement

The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2021. The valuation is determined according to a methodology and applying assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.

How our audit addressed this area of management judgement

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

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

Audit conclusion

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



4. Significant findings

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

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

Significant matters discussed with management

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

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

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

Impairments of financial assets

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

Accounting treatment of government grants

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

Significant difficulties during the audit

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

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We received questions from one member of the public. We are continuing our consideration of the questions, but we are satisfied that there are no material impacts on the 2020/21 financial statements.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

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

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

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

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



5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

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

Potential effects

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

Recommendation

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

Management response



06

Section 06:

Summary of misstatements

6. Summary of misstatements

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

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

Unadjusted misstatements

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



6. Summary of misstatements

Adjusted misstatements

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

Disclosure amendments

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

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



07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

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

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

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

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in [insert date].

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report later in the year.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To be provided to us on client headed note paper

[Date]

Dear Karen

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

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

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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

Accounting records

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



Appendix A: Draft management representation letter (continued)

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no undisclosed contingent gains which should be disclosed.

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

Laws and regulations

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

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



Appendix A: Draft management representation letter (continued)

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

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

Future commitments

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

Subsequent events

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

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



Appendix A: Draft management representation letter (continued)

Covid-19

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

Going concern

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

Unadjusted misstatements

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

Yours faithfully

Anne Ryans

Director of Finance

Appendix

Schedule of unadjusted misstatements

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



Appendix B: Draft audit report

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



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.



Appendix D: Other communications

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

Appendix D: Other communications

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



Mazars

Karen Murray, Partner

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

*where permitted under applicable country laws.

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 line

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30 September 2021

Dear Members

Conclusion of pending matters– Audit completion report

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

The outstanding matters and the conclusions reached are detailed below:

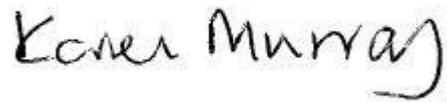
Matter	Conclusion reached
Income and Expenditure testing	We have completed our income and expenditure testing. There are no matters arising to report to the Committee.
Valuation of Property, Plant & Equipment and Investment Properties	We have completed our work on the Council's valuations of property,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

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

30 September 2021

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

Yours sincerely

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

Karen Murray

Partner

Appendix A – Updated Audit Findings

Unadjusted audit difference

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

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

Recommendation 1

Description of deficiency

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

Potential effects

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

Recommendation

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

Recommendation 2

Description of deficiency

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

Potential effects

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

Recommendation

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

Recommendation 3

Description of deficiency

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

Potential effects

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

Recommendation

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

Appendix B – Proposed Audit Report

See following pages

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

Report on the audit of the financial statements

Opinion on the financial statements

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

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

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

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

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

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

Key audit matters

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

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

Key audit matter	How our scope addressed this matter
<p>Valuation of Council Property, Plant and Equipment <i>Note 17 to the financial statements discloses information on the Council's holding of property, plant and equipment (PP&E) which includes £77.1m of Council Dwellings and £500.4m of Other Land & Buildings held at current value at 31 March 2021.</i></p> <p>The CIPFA Code of Practice requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • Obtaining an understanding of the basis of valuation applied by the valuer in the year. • Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated.

Key audit matter	How our scope addressed this matter
<p>cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.</p>	<ul style="list-style-type: none"> • Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 are materially fairly stated at the year end. • Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations. • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of land & buildings included in the financial statements is reasonable.</p>
<p>Valuation of Investment Property</p> <p><i>The Council's Balance Sheet discloses their Investment Properties to be valued at £18.8m at 31 March 2021.</i></p> <p>The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The valuation of Investment Property involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Council. • Obtaining an understanding of the basis of valuation applied by the valuer in the year. • Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer. • Comparing the valuation to our external valuation expert's estimate of the valuation.

Key audit matter	How our scope addressed this matter
<p>Valuation of the Council's and the Group's Defined Benefit Net Pension Liability</p> <p><i>The Council's balance sheet discloses the Council pension liability to be valued at £444.2m at 31 March 2021 and comprises assets of £1,094.3m and liabilities of £1,538.5m.</i></p> <p><i>The Group Balance Sheet discloses the group pension liability to be valued at £467.9m at 31 March 2021 and comprises assets of £1,225.9m and liabilities of £1,654.0m.</i></p> <p>The net pension liability represents a material element of the Council and the Group balance sheet. The Council and its consolidated subsidiaries are admitted bodies of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's and the subsidiaries' overall valuations. There are financial assumptions and demographic assumptions used in the calculation of the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's and the subsidiaries' employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council's or the subsidiaries' circumstances. This could have a material impact to the Council and Group net pension liability in 2020/21.</p>	<ul style="list-style-type: none"> • Sample testing the completeness and accuracy of underlying data used by the valuer as part of their valuations. <p>Our observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of investment properties included in the financial statements is reasonable.</p> <p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council. • Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate. • Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor. • Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing

Key audit matter	How our scope addressed this matter
	<p>them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office.</p> <ul style="list-style-type: none"> • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's and Group's financial statements. <p>Key observations</p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

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

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

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

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

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

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Director of Finance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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

Responsibilities of the Council

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

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

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

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

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

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

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

We have nothing to report in these respects.

Other matters which we are required to address

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

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

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

Use of the audit report

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

Delay in certification of completion of the audit

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

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

30 September 2021

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

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