Audit Strategy Memorandum

Oldham Metropolitan Borough Council – Year ending 31 March 2024

November 2024

forv/s mazars

Audit Committee

Oldham Metropolitan Borough Council

Civic Centre

West Street
Oldham
OL1 1UT

28th November 2024

Forvis Mazars

One St Peter's Square

Manchester
M2 3DE

Dear Audit Committee Members,

Audit Strategy Memorandum – Year Ending 31 March 2024

We are pleased to present our Audit Strategy Memorandum for Oldham Metropolitan Borough Council for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 0161 238 9349.

Yours Faithfully,

Daniel Watson

Forvis Mazars

Contents

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 Oldham Metropolitan Borough Council are prepared for the sole use of Oldham Metropolitan Borough Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

01

Engagement and responsibilities summary

Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Oldham Metropolitan Borough Council for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: **https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/**. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

Engagement and responsibilities summary

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee as Those Charged With Governance, of their responsibilities.

The Director of Finance is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists; and

b) consider the appropriateness of the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements.

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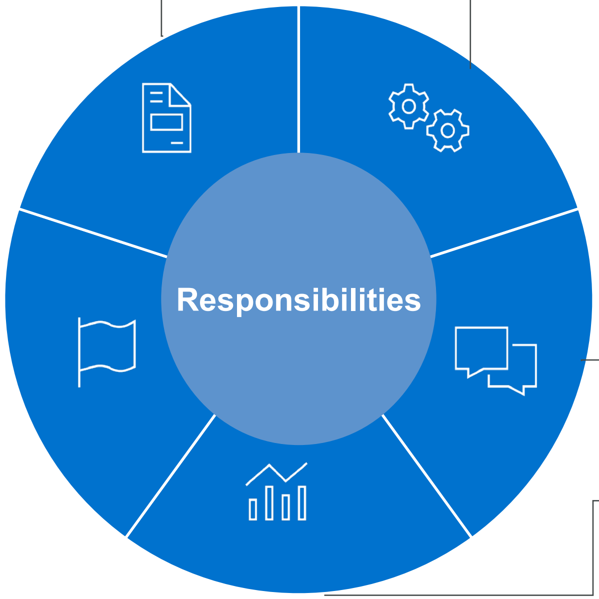
Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management [include Internal audit, other key individuals where relevant] as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oldham Metropolitan Borough Council’s internal control.

Wider reporting and electors’ rights

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

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

02

Your audit engagement team

Your audit team

Daniel Watson

Key Audit Partner

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Engagement Audit Manager

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Karen Makusha

Engagement Assistant Manager

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In addition, an Engagement Quality Reviewer (EQR) has been appointed for this engagement.

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Audit scope, approach, and timeline

Audit scope, approach, and timeline

Audit scope

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

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

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

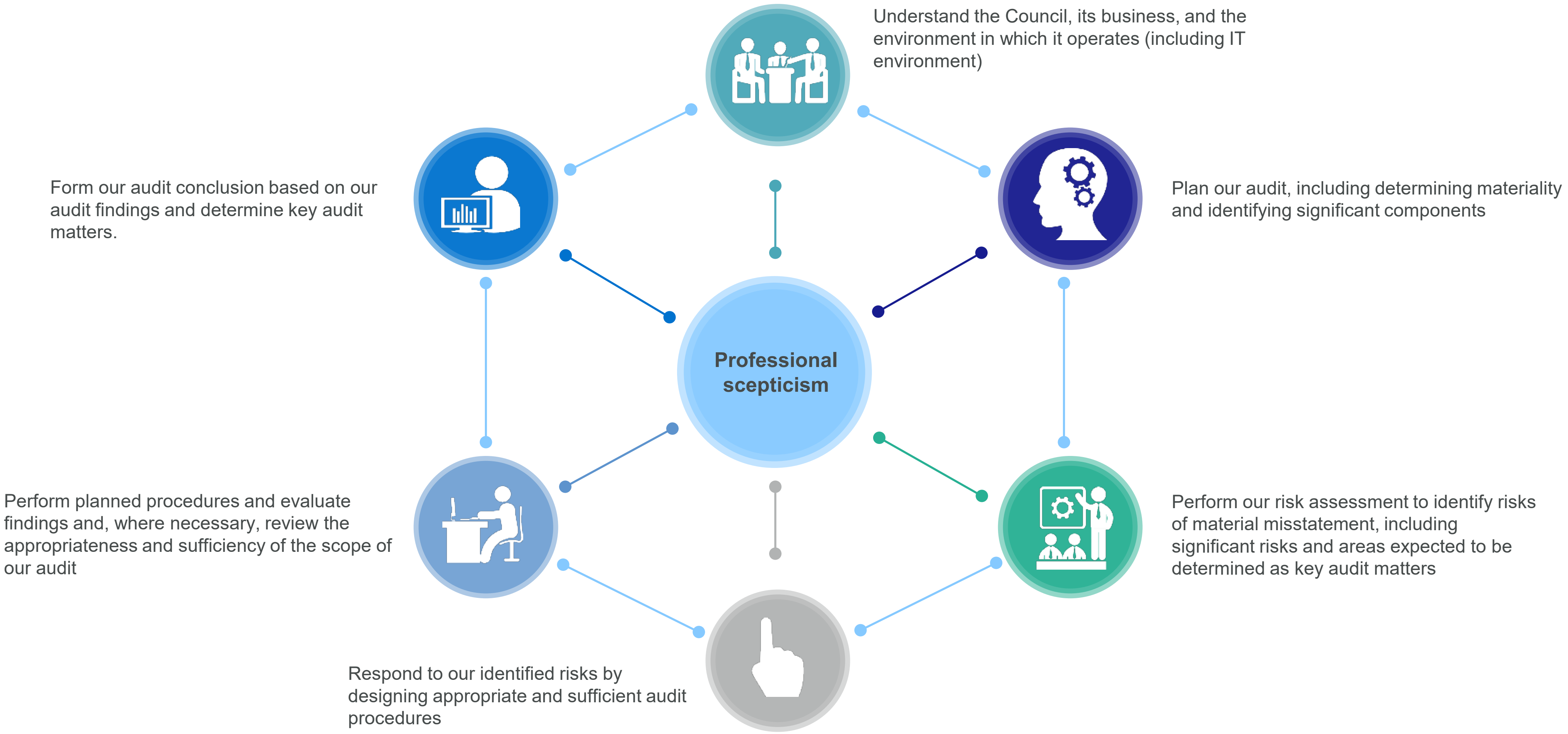
If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit

Audit scope, approach, and timeline

Risk-based approach



Audit scope, approach, and timeline

Audit timeline

Planning and risk assessment
July 2024 -September 2024

- Planning our visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim
September 2024

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls and application controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork
October 2024

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks, key audit matters and other high risk areas including detailed testing of transactions, account balances and disclosures
- Detailed work to examine and assess arrangements in relation to any significant risks relating to the value for money conclusion
- Communicating progress and issues
- Clearance meeting

Completion
December 2024

- Final review and disclosure checklist of financial statements
- Final partner and EQR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the independent auditor’s report

Audit scope, approach, and timeline

Management's experts and our experts

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

Item of Account	Management's expert	Our expert
Defined benefits pension assets and liabilities	Hymans Robertson Actuaries	PWC – NAO's Consulting actuary
Valuation of Manchester Airport Land	Colliers International Property Consultants Ltd	Forvis Mazars in-house valuation team
Valuation of shareholding in Manchester Airport Holding Limited	BDO LLP	Forvis Mazars in-house valuation team
Valuation of Financial Instruments	Arlingclose Limited	We will review Arlingclose's methodology for providing fair value disclosures

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

There are no service organisations providing services to the Authority

Audit scope, approach, and timeline

Group audit approach

The Council’s group structure for 2023/24 will include one wholly owned subsidiary company, Miocare Group Community Interest Company. In auditing the accounts of the Council’s Group financial statements we need to obtain assurance over the transactions in the Group relating to the Councill's subsidiary companies.

Our approach will reflect the size and complexity of the transactions from the subsidiary company that is consolidated into the Council’s Group financial statements. Based on our planning discussions and review of previous year’s accounts we do not consider the subsidiary company to be a financially significant component. However, we do consider that our significant risk relating to the Pension Liability, as set out in section 5, is a risk at the Group lever and applies to the subsidiary company as well as the Council.

Our planned approach, based on our initial understanding of 2023/4 and the values reported in the prior year financial statements, is to obtain assurance on the pension liability significant risk from carrying out our own audit procedures and we do not plan to obtain specific assurance from the component auditor of the company. Our planned approach for the remaining group financial statement entries is to undertake group level analytical procedures. The table below summarises our planned group audit approach.

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

The nature and extent of audit work we plan to perform on the consolidated components is set out below.

Entity	Significant by size	Significant risk	Planned Audit Scope	Auditor
Oldham MBC	Yes	Yes	Full audit carried out by group engagement team	Forvis Mazars – Group engagement team
Miocare CIC Ltd	No	Yes	Specific audit procedures relating to pension liability significant risk Group level analytical procedures Audit procedures for payroll testing	Forvis Mazars – Group engagement team

Audit scope, approach, and timeline

Key developments

The below key developments have taken place in the year. We have set out below how we will approach these areas during our audit.

Acquisition of Chadderton Total Care Ltd

- A prominent care home in Chadderton went into administration. The Council purchased the business and the assets, and Oldham total Care Ltd now operates and manages the home.
- The accounting arrangements for acquisitions can be complex.

  We will review the underlying accounting entries and assess their impact on the single entity and the Group.

Audit scope, approach, and timeline

Audit approach for significant financial statement areas

Our audit approach on significant financial statement areas is set out below.

Financial statement area	Expected key audit matter	Significant risk	Key judgement area or enhanced risk	Testing of controls	Detailed substantive testing	Comments
Property, plant and equipment	●	●	○	○	●	Obtain an understanding of the basis of the valuation, reviewing the approach to assets not valued in year.
Infrastructure assets	○	○	○	○	●	Sample test the additions, and existence of assets within this balance.
Heritage Assets	○	○	○	○	●	Test a sample of assets to confirm, ownership, physical verification, and valuation.
Investment properties	○	○	○	○	●	Sample test the completeness and accuracy of underlying data provided by the Council, obtain assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer.
Intangible assets	○	○	○	○	●	Test a sample to ensure that assets are correctly classified.
Investments (Shareholding in Manchester Airport Holdings)	○	○	●	○	●	Review by the in-house valuation team of the methodology and key assumptions used by the management's expert for the airport shareholding. Obtain independent confirmation of investment balances
Debtors	○	○	○	○	●	Test a sample of debtors for accuracy, occurrence, and rights and obligations.
Cash and cash equivalents	○	○	○	○	●	Obtain independent confirmation of cash balances.

Audit scope, approach, and timeline - continued

Financial statement area	Expected key audit matter	Significant risk	Key judgement area or enhanced risk	Testing of controls	Detailed substantive testing	Comments
Assets Held for Sale	○	○	○	○	●	Sample test assets to ensure the balance complies with IFRS 9
Borrowing	○	○	○	○	●	Obtain independent confirmation of loan balances.
Creditors	○	○	○	○	●	Test a sample of creditors for accuracy, occurrence, and rights and obligations
Provisions	○	○	○	○	●	Test a sample of provisions to ensure compliant with IAS 37, and challenge to ensure the completeness of the disclosure.
Pension Liabilities	●	●	○	○	●	Review the pension liability has been calculated correctly and reporting is in line with IAS 19.
PFI Liabilities	○	○	○	○	●	Test a sample to ensure the labilities are correctly calculated, review the latest accounting models to ensure consistency with operator models
Capital Grants Receipt in advance	○	○	○	○	●	Test a sample of receipts in advance for accuracy, classification and completeness.
Reserves	○	○	○	○	●	Review reserves to ensure movements are internally consistent with other areas of the accounts.

04

Significant risks, key audit matters and other key judgement areas

Significant risks, key audit matters and other key judgement areas

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

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

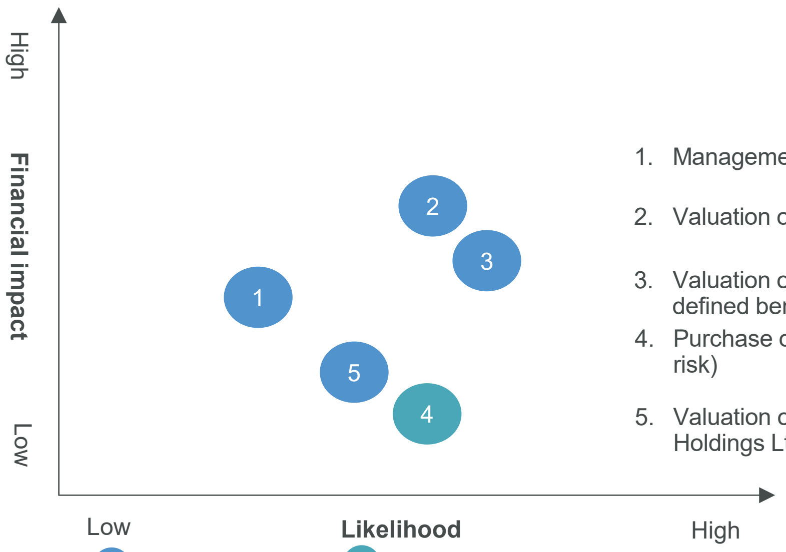
Key audit matters

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

It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



1. Management override of controls
2. Valuation of property, plant and equipment
3. Valuation of the Council's and the Groups net defined benefit pension liability
4. Purchase of Chadderton Total Care (Enhanced risk)
5. Valuation of investment in Manchester Airport Holdings Ltd (Enhanced Risk)

Key: Key audit matter Risk not considered to be key audit matter

Significant risks, key audit matters and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Expected key audit matter	Planned response
1	**Management override of controls** 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 there is a risk of material misstatement due to fraud on all audits.	●	○	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Significant risks, key audit matters and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Expected key audit matter	Planned response
2	**Valuation of property, plant and equipment (Council)** **£791m (2022/23 £710m)** 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.	○	●	●	●	Our audit procedures will include: • 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 2023/24 are materially fairly stated. • Obtaining an understanding of the Council's approach to ensure that assets revalued through 2023/24 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 2024. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements

Significant risks, key audit matters and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Expected key audit matter	Planned response
3	**Valuation of Council's and the Group's defined benefit pension liability (Council and Group)** **£38.39m (2022/23 £70.22m asset)** 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 2022. 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 asset/ liability in 2023/24.	○	●	●	●	Our audit procedures will include: • 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. • 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 and the Group's share of Pension Fund assets. • Reviewing the actuarial allocation of Pension Fund assets to the Council and 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 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. • Reviewing the calculation of the asset ceiling adjustments and accounting treatment for net pension assets across the group.

Significant risks, key audit matters and other key judgement areas

Other key areas of management judgement that we have determined as key audit matters and/or enhanced risks

	Description	Fraud	Error	Judgement	Expected key audit matter	Planned response
4	Purchase of Chadderton Total Care **(Council)** **£2.4m (2022/23 Nil)** The council purchased a care home Chadderton Total Care in the borough during 2023/24 and created a local authority trading company Oldham Total Care Ltd. There is a risk that there are issues with the accounting treatment of the acquisition.	○	●	●	○	Our audit procedures will include: • Obtaining an understanding of the arrangements in place for the purchase in relation to assets and liabilities undertaken. • Reviewing the accounting treatment on the single entity for the acquisition of the assets. • Consider the impact and accounting treatment of any goodwill.

Significant risks, key audit matters and other key judgement areas

Other key areas of management judgement that we have determined as key audit matters and/or enhanced risks

	Description	Fraud	Error	Judgement	Expected key audit matter	Planned response
5	**Valuation of investment in Manchester Airport Holdings Limited £46.3m (2022/23 £20.1m)** The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2024. 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. There is a risk that the assumptions and methodology used in valuing the airport holding are not reasonable or appropriate to the Council. This could have a material impact to the Council and Group investment balance in 2023/24.	○	●	●	○	Our approach to auditing the investment in Manchester Airport Holdings Limited includes the involvement of the Mazars in-house valuation team. The Forvis Mazars in-house valuation team will review the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.

Significant risks, key audit matters and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit Committee has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Group and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Audit Committee which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Audit Committee which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity’s ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor’s report).

Internal audit function

We will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

05

Value for money arrangements

Value for money arrangements

The framework for value for money work

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

2023/24 will be the fourth audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources include: • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions with officers and Members.
Additional risk-based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	**Financial Resilience** The Council has reported a £16.6m overspend in 2023/24. This has been driven in the main by increased activity within Children's Services, and Place & Economic Growth (Homelessness). The Council has been required to fund this from an unbudgeted contribution from earmarked reserves. This is the fourth consecutive year that earmarked reserves have been utilised.	●	○	○	Our procedures will include • Review of the arrangements in place for the identification of budget reduction requirements; • Review of the medium term financial strategy including the underlying assumptions; • Review of the Council's arrangements for monitoring progress against budget, in particular how the Council monitors the delivery of savings.

06

Audit fees and other services

Audit fees and other services

Fees for work as the Council’s appointed auditor

At this stage of the audit we have set our proposed fees in the table below. We will report any expected changes to the Audit Committee through the year, and at the completion of our audit work.

Area of work	2023/24 Proposed Fee	2022/23 Actual Fee
Code Audit Work	£359,829	£125,673
Audit fees	£359,829	£125,673
Additional Fee	TBC	£37,000
Total Additional audit fee	TBC	£37,000
Total Fees	**TBC**	**£162,673**

Services provided to other entities within the Council's group

Forvis Mazars LLP do not provide any other services to Miocare Community Interest Company Ltd.

Fees for non-audit work

We have not been engaged by the Council to carry out any additional work separate from our delivery of the NAO Code of Practice audit work. Before agreeing to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

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Confirmation of our independence

Confirmation of our independence

	Requirements	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	Compliance	We are not aware of any relationship between Forvis Mazars and Oldham Metropolitan Borough Council that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Oldham Metropolitan Borough Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	Non-audit and Audit fees	We have set out a summary any non-audit services provided by Forvis Mazars (with related fees) to Oldham Metropolitan Borough Council in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

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

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

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

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

Prior to the provision of any non-audit services, Daniel Watson will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and and the associated safeguards we have identified and/ or put in place are set out below.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Confirmation of our independence

Use of other firms and/or external experts

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Forvis Mazars' member firm, nor have we used the work of external experts.

Any emerging independence threats and associated safeguards we identify or put in place will be communicated to you in our Audit Completion Report.

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Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit Committee.

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

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

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

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We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

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

Materiality and misstatements

Materiality (continued)

For the group and single-entity financial statements, we consider that gross expenditure is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross expenditure for the group financial statements, and a materiality threshold of 2% of gross expenditure for the Council's single entity statements. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

We have identified one disclosure in the financial statements where we have set a separate specific lower materiality level:

- Disclosure of Senior Officers Remuneration: £5,000 reflecting the movement between bandings.

As set out in the tables alongside, based on the draft Group financial statements we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £15.85m (£15.05m in the prior year), and performance materiality to be in the region of £11.9m (£12.04m in the prior year).

For the single entity statements, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £15.80m (£15.0m in the prior year), and performance materiality to be in the region of £11.80m (£12.0m in the prior year).

There has been a slight reduction in performance materiality due to the Authority being a PIE audit and a change in our audit policy.
We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

Group financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£15,850	£15,049
Performance materiality	£11,900	£12,040
Clearly trivial	£476	£451
Specific Materiality: Officer Remuneration bandings	£5	£5

Council's single-entity financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£15,800	£15,000
Performance materiality	£11,800	£12,000
Clearly trivial	£475	£450
Specific Materiality: Officer Remuneration bandings	£5	£5

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Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £465k, based on 3% of overall materiality. If you have any queries about this, please raise these with Daniel Watson.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

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Extended auditor’s report

Extended auditor’s report

Layout of extended auditor’s report and implications for the audit

The extended auditor’s report for the Council is expected to follow the format and structure below for the year ending 31 March 2024 assuming that no emphasis of matter or qualification is required

Paragraph heading in order	Summary of key content
Opinion on the financial statements	What we have audited and our opinion thereon.
Basis for opinion	Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC’s Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Based on the audit procedures performed and the audit evidence obtained, we are required to evaluate whether sufficient appropriate audit evidence has been obtained regarding, and conclude on: • Whether, in our judgement, a material uncertainty related to going concern exists; and • The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
Key audit matters	Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: • A description of the most significant assessed risk(s) of material misstatement; • A summary of our response to those risks including significant judgements applied; and • Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements.

Extended auditor’s report

Paragraph heading in order	Summary of key content
Our application of materiality and an overview of the scope of our audit	Explanation of how we applied the concept of materiality in planning and performing both the group and single entity audit. The overall materiality threshold for both the group and single entity financial statements as a whole, performance materiality and triviality. Overview of the scope of the audit for both the group and single entity, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.
Other information	Responsibilities of the Director of Finance and of the auditor for Other information included in the annual report.
Responsibilities of the Director of Finance for the financial statements	Cross reference to the full Statement of the Director of Finance’s Responsibilities.
Auditor’s responsibilities for the audit of the financial statements	Explanation of the ‘reasonable assurance’ objective of the audit. Cross-reference to our responsibilities for the audit on the FRC’s web-site. Explain to what extent the audit was considered capable of detecting irregularities, including fraud.
Value for money arrangements	Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources including reference to: • Matters we are required to report by exception • Responsibilities of the Council • Auditor’s responsibilities
Matters on which we are required to report by exception	Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.

Extended auditor's report

Paragraph heading in order	Summary of key content
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent of the Council (and its group). Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.

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Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

Appendix A: Key communication points

We value communication with the Audit Committee as a two way feedback process at the heart of our client service commitment. ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit strategy memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

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Appendix A: Key communication points

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

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks and key audit matters	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit completion Report and discussion at Audit Committee Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report and the Audit Committee meetings
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.	Audit Strategy Memorandum

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report and Audit Committee meetings
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.	Audit Strategy Memorandum

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Appendix A: Key communication points

Required communication	Where addressed
Communication of all significant facts and matters that bear on auditors' objectivity and independence together with a confirmation of independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats; • Safeguards adopted and their effectiveness; • An overall assessment of threats and safeguards; and • Information about the general policies and process within the firm to maintain objectivity and independence.	Audit strategy memorandum and Audit completion report
Identification of each key audit partner involved in the audit.	Audit strategy memorandum
Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm.	Audit strategy memorandum and Audit completion report, as necessary
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings.	Audit strategy memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed.	Audit strategy memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year.	Audit strategy memorandum and/or Audit completion report

Appendix A: Key communication points

Required communication	Where addressed
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality.	Audit strategy memorandum and Audit completion report, as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment.	Audit strategy memorandum and Audit completion report
Reporting on significant deficiencies (in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system) including whether or not the deficiency in question has been resolved by management.	Audit completion report
Reporting any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association	Audit completion report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit completion report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework	Audit strategy memorandum and/or Audit completion report, as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Forvis Mazars' member firms.	Audit strategy memorandum and/or Audit completion report, as appropriate
Indication of whether all requested explanations and documents were provided by the entity.	Audit completion report

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 *Leases*: Lease Liability in Sale and Leaseback (Issued September 2022)

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: ***Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback***

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: ***IASB publishes final amendments on supplier finance arrangements***

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New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)

The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates (Issued February 2021)

The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)

IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)

The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Contact

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