

# Annual governance report

Oldham Metropolitan Borough Council

Audit 2010/11

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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Ladies and Gentlemen

### **2010/11 Annual Governance Report**

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Borough Treasurer and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- note the adjustments to the financial statements set out in this report (appendix 2);
- consider agreeing to adjust the error in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

Yours faithfully

Mark Heap  
District Auditor

28 July 2011

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

Table 1: **Key messages**

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
<b>Value for money</b>	<b>Results</b>	
Proper arrangements to secure value for money	Yes	11

## Audit opinion

**1** My audit is now substantially complete and I anticipate giving my opinion on 28 July 2011 following the scheduled Audit Committee. However, before I do this there are a number of actions which must be completed. Firstly I need to confirm that all the agreed amendments have been made in the revised financial statements. Secondly I need to obtain from the Borough Treasurer a signed letter of representation from the Council relating to areas where I am reliant on management opinion for the accounting treatment for certain items in the accounts. Finally, I will want to consider at that date whether there is any new information which has come to light which could have an impact on the audit opinion. Subject to these items, I expect to issue an unqualified opinion on the financial statements.

## Financial statements

**2** The financial statements were submitted for audit on 19 May 2011. The Council did well to produce complete accounts within this short timescale as the requirements of International Financial Reporting Standards (IFRS) means they are significantly more complex than in previous years. In addition the Council also had to recognise further complex transactions arising from the Large Scale Voluntary Transfer (LSVT) of the majority of the Council's housing stock in February 2011.

**3** I am grateful for the co-operation I received from your staff which allowed me to substantially complete the audit by 25 July. During the audit, management agreed to make a number of adjustments to the accounts. Two adjustments were required to reflect additional information available only after the draft financial statements had been produced.

## **Value for money**

**4** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

## **Audit fees**

**5** I previously reported our planned audit fee to the Audit Committee as £355,000. Some additional work was necessary due to a number of reasons and I will notify the Committee at a later stage if this has implications for the fee.

## **Independence**

**6** I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

**7** The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

**8** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

**9** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements on 28 July. Appendix 1 contains a copy of my draft audit report.

## Key areas of judgement and audit risk

**10** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
The Council had to prepare International Financial Reporting Standards (IFRS) compliant financial statements for the first time in 2010/11. There was a risk that the financial statements would not properly reflect relevant changes in accounting requirements.	The Council did well to produce complete accounts within this short timescale as the requirements of International Financial Reporting Standards (IFRS) means they are significantly more complex than in previous years. In addition the Council also had to recognise further complex transactions arising from the Large Scale Voluntary Transfer (LSVT) of the majority of the Council's housing stock in February 2011.  We worked with officers throughout the closedown period to review their working papers on the proposed amendments under IFRS. As part of this review, we provided challenge to the judgements being made by



Issue or risk	Finding
	<p>officers, resulting in some changes to the restated figures.</p> <p>We identified a number of issues in the 2010/11 financial statements which I report in the 'quality of the financial statements' section of this report.</p>
<p>Valuation of Manchester Airport shares - a material unquoted equity investment in the financial statements has previously been reported at historic cost.</p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires a fair value measurement where this can be reliably determined.</p> <p>The risk is that the shares are not correctly valued in the financial statements.</p>	<p>I recommended that the Council obtain professional advice on the most appropriate valuation method for these shares.</p> <p>The Council secured the relevant advice and concluded that alternative methods of valuation were not reliable and the shares should continue to be valued at original cost.</p> <p>I am satisfied that the Council has taken appropriate professional advice. The Council will need to review the appropriateness of this valuation method on a regular basis.</p>
<p>The Council planned to close its accounts early and approve the statement of accounts in mid-May 2011.</p> <p>There was a risk that the pressure to achieve such a tight deadline would result in material errors and misstatements.</p>	<p>There are no material errors, although a number of amendments have been made to the financial statements. Post balance sheet events arising after the production of the financial statements have also resulted in material amendments.</p>
<p>The large scale voluntary transfer (LSVT) of your housing stock in February 2011 required significant and complex financial transactions to be recognised in your financial statements.</p> <p>There was a risk that such complex transactions could be materially misstated.</p>	<p>We have worked with officers throughout the transfer process and have Audit Practice's specialist technical support to review the LSVT process and the recognition of the transactions in your financial statements.</p>

### Errors in the financial statements

**11** I am required under auditing standards (ISA 260) to report all 'non trivial' errors and uncertainties that have been identified by my audit which have not been amended before I issue my opinion. Trivial items for this audit are defined as those below £95,600.

**12** Management have agreed to make a number of adjustments to the accounts. These are reported at Appendix 2. I bring them to your attention to help you in fulfilling your governance responsibilities.

**13** The overall net impact is to increase the deficit on the Comprehensive Income and Expenditure Statement by £11.5 million and reduce Net Assets and Total Reserves in the Balance Sheet by £17.9 million. There is no impact on the overall financial performance of the Council.

**14** The net impact of adjustments made to comparatives for 2009/10 is to increase the deficit by £1.1 million and reduce Net Assets and Total Reserves by £1.1 million.

**15** I also identified a number of narrative disclosure issues and these are reported separately at Appendix 2.

**16** I identified a classification error of service income which has not been adjusted and this is reported at Appendix 3.

**17** I have not commented here on trivial errors, or minor presentational errors that have been identified during the course of the audit.

### Recommendation

**R1** The Committee should note the adjustments made to the financial statements.

**R2** The Committee should consider adjusting the remaining error in the financial statements I have identified, or set out the reasons for not amending it

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### Important weaknesses in internal control

**18** I am required to report to you any important weaknesses in internal control.

**19** In February 2011 the Council's payroll function was transferred to its strategic partner. Following the transfer a specific weakness in the segregation of duties within processes operated by the strategic partner was identified by Internal Audit. Additional levels of substantive testing carried out by Internal Audit have not identified any indication of errors or manipulation occurring as a result of this weakness.

**20** The Council's Annual Governance Statement has been amended to report the internal control weakness together with the action planned by management to address the risks arising through a compensating control.

**21** I only report those weaknesses identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Recommendation

**R3** The Council should ensure that its strategic partner implements effective controls in their operation of the payroll function.

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## Quality of your financial statements

**22** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

**23** As required the Council retrospectively restated its balance sheet to take account of the effects of IFRS. The Balance Sheet included restated figures as at 31 March 2009 and 31 March 2010. LAAP Bulletin 88 also requires the notes supporting the balance sheet to show the relevant balances at these dates but the initial draft for audit did not include all balances as at 31 March 2009. The Council has now restated the relevant balances as at 31 March 2009.

**24** The Council's Comprehensive Income and Expenditure Statement (CIES) contains items that would previously have been treated as exceptional items under UK GAAP, these include:

- a large adjustment caused by basing annual pension increases on Consumer Price Index (CPI) rather than Retail Price Index (RPI); and
- a large impairment arising from the revaluation of housing stock being transferred under LSVT

**25** International Accounting Standards (IAS1) requires material items to be presented separately on the face of the CIES where 'such presentation is relevant to an understanding of the entity's financial performance'. The Council has now restated the CIES to identify these material items.

**26** The Code of Practice requires the Council to present key figures within the Cash Flow Statement or alternatively provide supporting notes analysing key figures in more detail. The Council chose to use supporting notes but omitted the important supporting note analysing cash flows for operating activities.

**27** The notes have been now amended to include an analysis of:

- adjustments to surplus/deficit on the provision of services for non-cash movements totalling £444.6m; and
- adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities totalling £8.2m

### Recommendation

**R4** The Council should ensure it meets fully the reporting requirements of the Code of Practice and International Accounting Standards.

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## Difficulties encountered during the audit

**28** This year the Council has been one of the earliest in the country to produce its financial statements and has worked hard in its aim to receive one of the earliest unqualified audit opinions.

**29** The Council has brought about various improvements in working papers and agreed these with me. The drive for the early closedown and the significant extra work arising from the introduction of IFRS and the LSVT has meant that working papers have on occasions not been to the required

standard and in some cases a number of revised versions have been submitted in support of key financial statements. Officers are already planning further improvements in future years' working papers and should ensure their enhanced quality review of the financial statements is carried out before they are submitted for audit. I am continuing to assess the amount of extra audit work which has been required as a result of the additional work on some working papers. I will notify the Committee at a later stage if this has implications for the fee

**30** I plan for my staff to take part in detailed discussions on further improving the final accounts process in future years. Our joint aim is to improve further wherever possible, both the process of preparing the final accounts and the efficiency of the audit process.

## Recommendation

**R5** Review the process for preparing the financial statements and also for providing enhanced quality reviews for future years.

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## Letter of representation

**31** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

# Value for money

**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

**32** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

Table 3: **Value for money conclusion criterion assessment**

<b>Criterion</b>	<b>Finding</b>
The Authority has proper arrangements in place for securing financial resilience.	We have reviewed your medium term financial planning within the context of the impact of the comprehensive spending review. We found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance.
The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	Arrangements are operating effectively. The Council continues to identify and deliver improvements in economy, efficiency and effectiveness.

**33** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

# Appendix 1 Draft independent auditor's report to Members of Oldham Metropolitan Borough Council

## **Opinion on the Council and Group accounting statements**

I have audited the Council and Group accounting statements of Oldham Metropolitan Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Movement in Reserves Statement, the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Oldham Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Borough Treasurer and auditor**

As explained more fully in the Statement of the Borough Treasurer's Responsibilities, the Borough Treasurer is responsible for the preparation of the Council and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Oldham Metropolitan Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure 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.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report, for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Council's responsibilities**

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**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Oldham Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.



## **Certificate**

I certify that I have completed the audit of the Council and Group accounts of Oldham Metropolitan Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Heap

Officer of the Audit Commission

Aspinall House, Aspinall Close,

Middlebrook,

Horwich,

Bolton

BL6 6QQ

July 2011

## Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 4:

Amendments/Adjusted misstatement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<b>VAT debtors/creditors</b>				
Offset of VAT balances relating to the LSVT and VAT shelter arrangements ( <i>adjusting post balance sheet event</i> ):				
■ Debtors				45,958
■ Creditors			45,958	
<b>Impairments to Council Dwelling</b>				
Impairment of value of council dwellings, in particular the sheltered housing PFI asset following DCLG direction on changes to social housing discount factor to be used to value social housing assets. ( <i>adjusting post balance sheet event</i> ). Also affecting PFI disclosures (Note 43)				16,826
■ Property, plant and equipment			4,834	
■ Revaluation Reserve			11,992	
■ Capital Adjustment Account	11,522			
■ Net Cost of Services (HRA)		11,522		
■ Movement in Reserves (HRA)				
<b>Accumulated Absences</b>				
Accrual for Holiday Pay - reclassification following clarification of CIPFA guidance				
■ Provisions (current liabilities)			7,246	
■ Short Term Creditors				7,246

Amendments/Adjusted misstatement	Comprehensive income and expenditure statement	Balance sheet
<b>Short Term Liabilities</b>		
Correction of misclassification of liabilities (PFI, Finance Leases) as 'Long Term Liabilities' for amounts that are payable within 12 months		
■ Short Term Liabilities		6,371
■ Other Long Term Liabilities		6,371
<hr/>		
<b>Loans / Investments - interest receivable/payable</b>		
Correction of misclassification of interest receivable/ payable as debtors/creditors		
■ Creditors	1,326	
■ Short Term Borrowing		1,326
■ Debtors		169
■ Short Term Investments	154	
■ Cash and Cash Equivalents	15	
<hr/>		
<b>Grant</b>		
<hr/>		

## Disclosure note issues

### **Financial Instruments Page 106, Note 16**

There has been significant restatement of the Financial Instruments notes

- To eliminate statutory balances that should be excluded from financial instruments:
- To correct the omission of Cash and investments balances
- Correction of comparative figures for previous years

### **Operating Leases Page 136, Note 42**

The note has been expanded to comply with the Code and disclose future minimum lease payments beyond 10 years amounting to £218.2 million.

### **Related Party Transactions Page 133, Note 40**

The note has been expanded to comply with the Code and disclose balances payable to / receivable from related parties. These additional disclosures amount to:

- Debtors       £3.6 million
- Creditors     £1.2 million

## Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5:

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Misclassification of receipts in advance between service headings in the Comprehensive Income and Expenditure Statement		1,202		
■ Children's and Education Services	601			
■ Cultural, Environmental and Planning Services	601			
■ Housing				

## Appendix 4 Draft letter of representation

Mark Heap  
District Auditor  
Audit Commission,  
Aspinall House,  
Aspinall Close  
Middlebrook,  
Horwich  
Bolton  
BL6 6QQ

Dear Mark

### **Oldham Metropolitan Borough Council – Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other chief officers of Oldham Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Group accounts included within the financial statements.

#### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

#### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

#### **Supporting records**

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

## **Internal Control**

I have communicated to you all deficiencies in internal control of which I am aware.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

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 applicable financial reporting framework.

## **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

## **Related party transactions**

I confirm that I have disclosed the identity of Oldham Metropolitan Borough Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

### **Specific representations**

#### **Valuation of shares in Manchester Airport.**

I confirm that following the receipt of appropriate professional advice on the method of valuation of the Council's shares in Manchester International Airport, my view is that the shares should be recorded in the Council's financial statement at historical cost, as alternative valuations have proven to be unreliable.

Signed on behalf of Oldham Metropolitan Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 July 2011.

Signed

Name

Position

Date

## Appendix 5 Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

### **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.



'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

### **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

## Appendix 6 Action Plan

### Recommendations

#### Recommendation 1

The Committee should note the adjustments made to the financial statements.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 2

The Committee should consider adjusting the remaining error in the financial statements I have identified, or set out the reasons for not amending it.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 3

The Council should ensure that its strategic partner implements effective controls in their operation of the payroll function.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 4

The Council should ensure it meets fully the reporting requirements of the Code of Practice and International Accounting Standards.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 5

The Council should review the process for preparing the financial statements and also for providing effective quality reviews for future years.

<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	