

# Annual Audit Letter

Oldham Metropolitan Borough Council

Audit 2010/11



# Contents

---

<b>Key messages</b>	<b>3</b>
Audit opinion and financial statements	3
Value for money conclusion	3
<b>Current and future challenges</b>	<b>4</b>
<b>Financial statements and annual governance statement</b>	<b>5</b>
Overall conclusion from the audit	5
Significant weakness in internal control	5
<b>Value for money</b>	<b>6</b>
<b>Closing remarks</b>	<b>8</b>
<b>Appendix 1 - Fees</b>	<b>9</b>
<b>Appendix 2 - Glossary</b>	<b>10</b>

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	Yes
Proper arrangements to secure value for money	Yes

## Audit opinion and financial statements

I issued an unqualified opinion on the financial statements on 29 July 2011 and the council was able to publish the first set of audited financial statements in the country.

This was an exceptionally challenging year for the Council. The financial statements were prepared for the first time under International Financial Reporting Standards (IFRS) requiring significant additional work. The Council also transferred its housing stock to a new registered social landlord in February 2011, requiring a series of complex accounting transactions.

The Council produced the draft financial statement several weeks before the statutory deadline of 30 June 2011.

A small number of material amendments were required due to new information relating to the valuation and transfer of council houses and also clarification of guidance from CIPFA. There were also a number of amendments to disclosures in the statements, mainly arising from the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

## Value for money conclusion

I issued an unqualified conclusion stating that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources on 29 July 2011.

- The Council has arrangements in place to maintain financial resilience, responding quickly and effectively to changes in Government funding and other financial pressures.
- The Council has effective arrangements for challenging how it secures economy, efficiency and effectiveness.

# Current and future challenges

---

The current economic climate is resulting in increasing demand for Council services and reducing income, against a background of changes in Government funding. Other developments that may impact on council budgets going forward include:

- localisation of business rates;
- devolving responsibility for Council Tax Benefit to councils;
- capital and revenue school funding, including distribution of revenue funding to academies; and
- transfer of public health budgets from primary care trusts to councils.

The Council took prompt and effective action to fully address the £11 million budget gap in 2010/11, with the most significant savings arising out of Service Efficiency Savings and also Service Redesign. Substantial further reductions have been built into the Council's medium term financial plan. These are the following.

Table 1: **Savings targets over the next three financial years**

Financial year	Savings target £million
2011/12	39.6
2012/13	24.5
2013/14	16.4
2014/15	14.1
<b>TOTAL</b>	<b>94.6</b>

To address these new resource constraints, the Council is considering how services can be delivered with reduced resources. This may include significant changes to current arrangements, and new and innovative service delivery models. These in turn may give rise to challenges and risks but also the opportunity for the level of the transformation that the current economic climate requires.

# Financial statements and annual governance statement

---

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an audit report including an unqualified opinion on the financial statements on 29 July 2011.

This was an exceptional and challenging year for the Council. This year's financial statements were the first prepared under International Financial Reporting Standards (IFRS) which made major changes to accounting requirements, involving significant additional work. The Council also transferred its housing stock to a new registered social landlord in February 2011, requiring a series of complex accounting transactions. Despite these challenges the Council produced the draft financial statements on 18 May 2011, several weeks before the statutory deadline of 30 June 2011.

Following the audit of the financial statements a small number of material amendments were required due to new information relating to the valuation and transfer of council houses and also clarification of guidance from CIPFA. These amendments had no impact on the overall financial performance of the Council. There were also a number of amendments to disclosures in the statements, mainly arising from the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

The quality of supporting working papers was generally satisfactory, although two areas caused particular problems in obtaining the necessary evidence to meet audit obligations these were:

- adequacy of fixed asset register audit trail; and
- number of material year end journals and quality of journal recording.

A supplementary fee has been charged for the additional work carried out (see Appendix 1)

## **Significant weakness in internal control**

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 was identified by Internal Audit. Internal Audit continues to carry out additional testing of payroll transactions for any indication of error or manipulation occurring as a result of this weakness.

# Value for money

---

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

---

## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p><b>The Council has proper arrangements in place to ensure its financial resilience.</b></p> <p>Financial governance arrangements at the Council are good. The senior officers have a strong awareness of the financial risks facing the Council and members are made aware of any emerging issues promptly.</p> <p>The Council has a good understanding of the current economic climate and has developed a Medium Term Financial Strategy (MTFS) for 2011/12 – 2014/15 which addresses the most significant savings, £39.6 million in 2011/12, reducing to £14.1 million in 2014/15</p> <p>The Council is monitoring its progress in delivering the required efficiencies and savings against specific milestones. This is key, as clarity and promptness of financial reporting, aligned to monitoring the delivery of required savings is increasingly important given the financial pressures facing councils.</p> <p>Overall, the Council has managed the significant financial challenges it has faced well, managing within budget and successfully delivering planned savings and efficiencies.</p>

---

## Criterion

## Key messages

### **2. Securing economy efficiency and effectiveness**

**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council needs to continue to closely monitor its budget, in particular progress against the savings identified.**

Political and corporate leaders are clear about the Council's priorities and how these are to be safeguarded, even in the current economic climate.

The extent of the savings required by the Council, and the approach to delivering these, is clearly understood by leaders and senior managers.

The Council has a good approach to the use of comparative data and information, which underpins its review of service effectiveness; this approach forms the basis of its value for money reviews.

Risk management continues to develop - improvements include a new approach to partnership risk assessment, and a planned updating of the risk management strategy and risk register.

# Closing remarks

---

The contents of this letter have been agreed with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit Committee on 8 December 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee Letter	April 2010
2009/10 Certification of claims and returns – Annual Report	February 2011
Opinion audit plan	March 2011
Annual Governance Report	29 July 2011
Auditors report and certificate on the Councils financial statements and vfm conclusion	29 July 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Mark Heap

District Auditor

November 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Audit Fee	365,081	355,000	10,081
Non-audit work	0	0	0
<b>Total</b>	<b>365,081</b>	<b>355,000</b>	<b>10,081</b>

The audit fee of £355,000 reported to the Council in my audit plan was based on the risks identified at the time. There were a number of issues that required me to carry out some additional work in order to meet my audit obligations. As a result an additional fee of £10,081 has been levied.

Note: these figures do not reflect the fee rebate paid to the Council following savings made by the Audit Commission and rebated to audited bodies on a national basis.

# Appendix 2 - Glossary

---

## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **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.

## **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.

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

