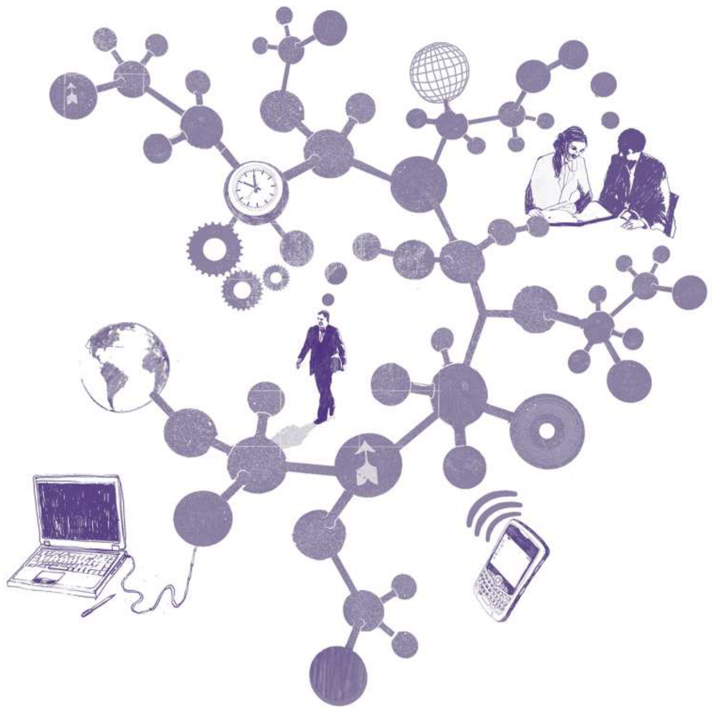
The Annual Audit Letter for Tameside Metropolitan Borough Council including Greater Manchester Pension Fund

Year ended 31 March 2016

24 October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Tameside Metropolitan Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Overview (Audit) Panel as those charged with governance in our Audit Findings Report on 12 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 12 September 2016.

The audit matters raised related mainly to classification and disclosures in the notes to the financial statements. Our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 12 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 19 October 2016.

Certificate

We certified that we had completed the audit of the accounts of Tameside Metropolitan Borough Council in accordance with the requirements of the Code on 19 October 2016 upon completion of the whole of government accounts audit.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Council's Audit Panel on 16 December 2016 in our Annual Certification Letter.

Working with the Council

During the year we have met regularly with the Chief Executive and senior leadership team. We have continued to share the firm's national publications and provided thought leadership in emerging issues that impact on the public sector.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £9,830,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash and senior officer remuneration, related party transactions and audit fee.

We set a lower threshold of £250,000, above which we reported errors to the Overview (Audit) Panel in our Audit Findings Report.

Pension Fund

For the audit of the Greater Manchester Pension Fund Accounts we determined materiality to be £175,912,000 being 1% of opening net assets. We also set a lower specific materiality for areas such as cash, management expenses, related party transactions and audit fee.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was risk based upon a thorough understanding of the Council's business.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of surplus assets and investment property and fair value disclosures under IFRS 13 The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements.	• review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of management expert valuer, Matthews and Goodman; • review of the instructions issued to valuation experts and the scope of their work; • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and • review of the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. **We did not identify any issues to report**
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	• review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of management's expert valuer, Matthews and Goodman; • review of the instructions issued to valuation experts and the scope of their work; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. **We did not identify any issues to report**
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	• documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements; • review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **We did not identify any issues to report**

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risk identified in our audit plan	How we responded to the risk
Level 3 Investments – Valuation is incorrect Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• carried out walkthrough tests of the controls identified in the cycle; • tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period; • reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. **We did not identify any issues to report**

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 12 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

We reported the key issues from our audit of the accounts of the Council to the Council's Overview (Audit) Panel on 12 September 2016.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were of a good standard and contained no material errors;
- the audit matters related mainly to classification and disclosure matters in the notes to the financial statements. Our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves; and
- due to the good standard of the draft accounts and supporting working papers it was not necessary to raise any actions or recommendations.

Pension Fund accounts

We also reported the key issues from our audit of the accounts of Greater Manchester Pension Fund hosted by the Council to the Overview (Audit) Panel on 12 September.

There were no significant issues arising from our work. The draft pension fund statements were of a high quality and supported by good working papers. The finance team responded promptly and knowledgably to audit requests and queries. We have recommended a small number of adjustments to improve disclosure and the presentation of the pension fund statements.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate on 19 October 2016 which did not identify any issues for the group auditor.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We had no recourse to exercise these other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks to concentrate our work. We did not identify any significant risks to the VFM conclusion. Our main considerations in arriving at our conclusion included:

- the Council contained net expenditure within the 2015/16 budget, reporting a £6.663m underspend at 31 March 2016;
- the Pension Fund deficit reduced from £348.3m to £273.9m during the year; and
- The Council has set a Medium Term Financial Strategy covering the period up until 2019/20 which recognises the financial pressures faced.

Of particular note is the progress that the Council and partners have made in establishing an Integrated Care Organisation (ICO) to create a sustainable future for health and social care for residents across Tameside. A single commissioning function between the Council and Tameside and Glossop CCG became operational in shadow form on 1 April 2016 under the banner of "Care Together". It is proposed that the ICO will become fully operational on 1 April 2017.

Not surprisingly the financial commitment to the ICO is significant and includes the entire CCG commissioning budget together with Adult Services, Children's Services and Public Health within the Council. A total of £435m is initially committed for 2016/17 between the CCG and the Council within a Integrated Commissioning Fund (ICF).

The financial gap to deliver the ambitions of such large scale change is significant, underpinned by the commitment to achieve a balanced position by 2020/21 or earlier. During 2016/17 the CCG and Council as commissioners forecast a £21.5m gap, added to which will include the financial gap for Tameside and Glossop Integrated Care NHS Foundation Trust.

As well as good progress with the ICO, the Council is mid way through its major Vision Tameside capital investment across the borough. Good progress has been made with implementing phases 1 & 2 of the project which includes Clarendon Sixth Form College, Skills Centre and new Council administration block in the centre of Ashton Under Lyne. This is contributing to an ambitious and exciting regeneration of the borough. Overall costs are being kept within the budget, with project management overseen by the Vision Tameside Project Board.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes:

An efficient audit – we delivered the accounts audit 18 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We are proud of the progress you have made with establishing your ambitious Care Together integrated commissioning organisation and with the benefits brought about through Vision Tameside.

Sharing our insight – we provided regular updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – we have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your teams with training on financial accounts and annual reporting at our annual Chief Accountant's Workshop.

Providing information – we provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Working with the Council

Working with you in 2016/17 - Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with you. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This important accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress made in this respect. Tameside's Highway Network Asset is likely to exceed £2.5 billion.

Our discussions to date have highlighted that Council Officers are developing an implementation plan which will be in accordance with LAAP Bulletin 100 "Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17", and will monitor progress against plan.

The Council should not underestimate the amount of time and resource across both the Finance and Highways teams that will be required to implement the new standard to ensure completeness of the data, carry out road condition surveys and to consider any significant estimations within the highways network.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year as the Care Together integrated care organisation develops including agreeing the accounting disclosures.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

2015/16 Fees – Tameside Council

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	105,017	105,017	140,023
Housing Benefit Grant Certification	38,773	38,773	32,430
Total fees (excluding VAT)	**143,790**	**143,790**	**172,453**

2015/16 Fees – Greater Manchester Pension Fund

	Planned £	Actual fees £	2014/15 fees £
Pension Fund Audit Fee	56,341	56,341	56,341
IAS 19 work for admitted bodies (PSAA regime only)	5,996	5,996	5,996
Total fees (excluding VAT)	**62,337**	**62,337**	**62,337**

Reports issued – Tameside Council

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

2015/16 Fees for other services – Tameside Council

Service	Fees £
Audit related services: Teachers' Pension Return Audit	4,200
George Frederick Byrom Trust – charity independent examination	1,500
Total fees (excluding VAT)	**5,700**

Grant Thornton UK LLP also provides audit services to:

- Matrix Homes Limited Partnership for fees totalling £11,500 and other services of £2,000; and
- Greater Manchester and London Infrastructure Limited Partnership for audit and accounts fees of £9,600 and other services of £1,800.

These are separate engagements outside the remit of Public Sector Audit Appointments Limited.

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