



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

**Year ended 31 March 2017**

14 October 2017

**Mike Thomas**

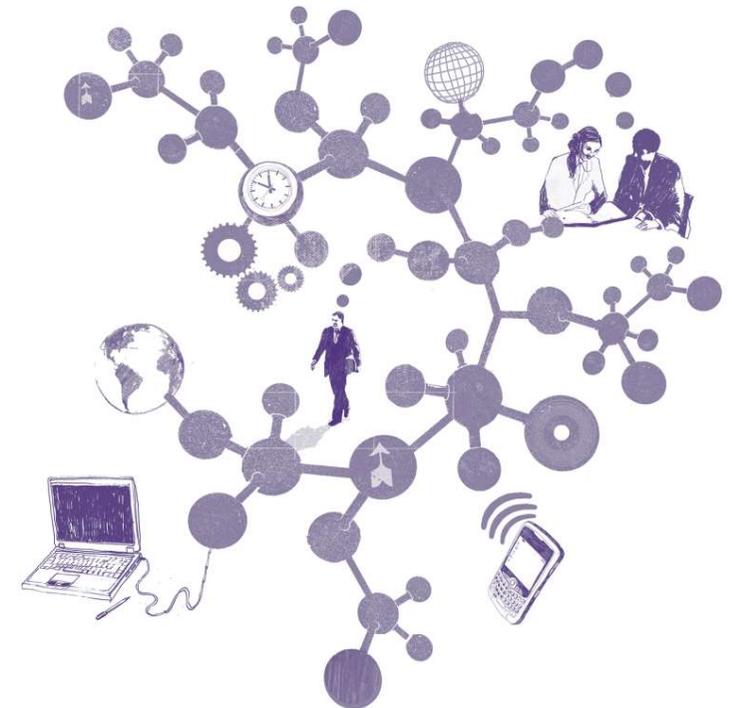
Engagement Lead  
T 0161 214 6368  
E [mike.thomas@uk.gt.com](mailto:mike.thomas@uk.gt.com)

**Stephen Nixon**

Senior Manager  
T 0161 234 6362  
E [stephen.r.nixon@uk.gt.com](mailto:stephen.r.nixon@uk.gt.com)

**Marianne Dixon**

Manager  
T 0113 200 2699  
E [marianne.dixon@uk.gt.com](mailto:marianne.dixon@uk.gt.com)



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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	9

## **Appendices**

A Fees and reports issued

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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 2017.

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 11 September 2017.

## **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 including Greater Manchester Pension Fund (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 11 September 2017.

### **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 2017 except for concerns raised by Ofsted published in the inspection report on Children's Services in Tameside in December 2016 which judged the service to be inadequate. Ofsted highlighted weaknesses in relation to service delivery, leadership, management and governance.

We therefore qualified our value for money conclusion in our audit opinion on 11 September 2017.

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### **Whole of government accounts**

We completed work on the Council consolidation return following guidance issued by the NAO and issued an unqualified report on 4 October 2017.

### **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 4 October 2017 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 2017. Once completed we will report the results of this work to the Council's Audit Panel 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**  
**14 October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £9.83 million, which is approximately 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 related party transactions and senior officer remuneration.

We set a lower threshold of £250k, 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 £212 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as related party transactions. We set a threshold of £10.64 million above which we reported errors to the Overview (Audit) Panel.

## **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance 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 Interim Director of Finance 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 included in the Statement of Accounts on which we gave 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 based on a thorough understanding of the Council's business and is risk based.

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
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gained 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.</li> <li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Council's actuary.</li> </ul> <p><b>We have no matters to report.</b></p>
<p><b>Valuation of property plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>• Liaised with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register.</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value.</li> </ul> <p><b>The following matters were reported to management:</b></p> <p>The initial set of draft accounts were not updated with all the valuations provided by the external valuer. Once the valuations were input this resulted in errors within the revaluation gains and losses calculations which impacted both Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Management corrected the errors and this resulted in the net cost of services reducing by £3.84m. Property values reduced by £16.57m on the Balance Sheet, and the CIES incurred additional charges of £16.57m with corresponding entries to unusable reserves. The Council's General Fund remained unchanged at £17.29m.</p>

# 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 on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Level 3 Investments (Valuation is incorrect)</b> Under ISA 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.</p>	<p>In response to the risk we:</p> <ul style="list-style-type: none"> <li>• updated our understanding of your process for valuing Level 3 investments.</li> <li>• performed walkthrough tests of the controls identified in the investments process.</li> <li>• tested a sample of indirect property investments valuations to valuation reports and/or other supporting documentation.</li> <li>• tested a sample of private equity investments valuations to Fund Manager valuations and/or obtained and reviewed the audited accounts at latest date for individual investments and agreed these to the fund manager reports at that date and reconciled those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• reviewed the qualifications of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached.</li> <li>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> </ul>	<p>Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 11 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the first draft version of the accounts available for audit in line with the agreed timetable, although subsequent iterations were required. The finance team responded promptly and efficiently to our queries during the audit. The draft accounts contained material errors within the Balance Sheet and Comprehensive Income and Expenditure Statement (CIES) arising from property revaluation gains and losses. The errors were corrected in the audited accounts.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Overview (Audit) Panel on 11 September 2017. The initial set of draft accounts contained material errors arising from not being updated with all the valuations provided by the external valuer. Once the valuations were input this resulted in errors within the revaluation gains and losses calculations which impacted both Balance Sheet and the CIES. Management amended the draft accounts to correct all the matters identified during the audit.

## **Pension fund accounts**

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Overview (Audit) Panel on 31 July 2017.

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 knowledgeably to audit requests and queries. We audit resulted in a very small number of adjustments to improve disclosure and the presentation of the pension fund statements.

## **Annual Governance Statement and Narrative Report**

We are 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 which did not identify any issues for the group auditor to consider on 4 October. The 30 September 2017 deadline set by the NAO for the group assurance certificate was breached due to technical matters with the WGA workbook which the Council needed to resolve before submission to audit.

## **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 did not identify any issues that have required us to apply our statutory powers and duties under the Act.

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# 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 2016 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 where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

## Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Ofsted published its inspection report on Children's Services in Tameside in December 2016 and judged the service to be inadequate. Ofsted highlighted weaknesses in relation to service delivery, leadership, management and governance.

The Council has responded promptly to the Ofsted Actions and has agreed a multi-agency Improvement Plan which is monitored by an independently chaired Children's Services Improvement Board. The Improvement Plan is backed by significant financial investment to address the issues. It is however too early to conclude that significant progress has been made to address the Ofsted concerns and restore the Council to a satisfactory rating. Failure to continually develop, adopt and implement the Improvement Plan would result in considerable risk to children and families requiring help.

Further detail of our work on Value for Money is set out overleaf.

# Value for Money

Value for money risk based work

Risk identified	Work carried out	Findings and conclusions
<p><b>Ofsted inspection of children's services</b> Ofsted issued a report on the Council's children's services in December 2016 which rated these as 'inadequate' and the Council is currently subject to a follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>We reviewed the arrangements the Council has in place to respond to the Ofsted concerns. This included a review of progress made by the Improvement Board and monitoring of the Ofsted action plan.</p> <p>We have reviewed update reports from Ofsted as they become available.</p> <p>We have met with the Director of Children's Services and attended the monthly Children's Services Improvement Board to review progress in responding to the Ofsted concerns.</p>	<p>Ofsted published its inspection report on Tameside's Children's Services in December 2016 and judged the service to be inadequate. Ofsted highlighted weaknesses in relation to service delivery, leadership, management and governance. The Tameside Safeguarding Children Board was judged as "requiring improvement".</p> <p>The Council was already aware of the pressures within the service stemming from an unprecedented increase in service users. Children's Services caseload increased from 1,342 children and young people at 31 March 2016 to 2,753 at 31 March 2017. The 2016/17 budget allocation consequently overspent by £2.8m which was largely to fund additional social workers and placements.</p> <p>The Council has responded promptly to Ofsted's concerns by developing an Improvement Plan (IP) and creating a Children's Services Improvement Board to oversee progress. The IP sets out how a fully functioning Children's Service can be delivered and goes beyond simply addressing the Ofsted concerns.</p> <p>Delivery of the IP is overseen by the multi-agency Children's Services Improvement Board. A Terms of Reference for the Board was prepared and it has met monthly since February 2017. The Board has an independent chair and contains representatives from key stakeholders. The Council is keen to understand what good looks like for each partner agency and progress updates by the Children's Services Improvement Board are presented quarterly to the Executive Cabinet of the Council.</p> <p>It is however too early to know when sufficient progress will be made to restore the Ofsted score to a satisfactory rating. The next full Ofsted inspection is not expected until late 2018 at which time overall progress and the quality of the Service will be formally rated again.</p> <p>We consider that the Council has responded appropriately to the issues identified by Ofsted and has created a comprehensive Improvement Plan underpinned by multi-agency independent scrutiny. Working with partners is key to improving the service and ensuring that services are sustainable and not delivered in silos.</p> <p><b>Whilst we recognise the swift response of the Council to the Ofsted findings we concluded that weaknesses remain in the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</b></p>

# Appendix A: Fees and reports issued

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	105,017	105,017	105,017
Statutory audit of Pension Fund	56,341	56,341	56,341
IAS 19 work for GMPF admitted bodies	5,996	5,996	5,996
Housing Benefit Grant Certification	24,323	TBC	38,773*
<b>Total fees (excluding VAT)</b>	<b>191,677</b>	<b>TBC</b>	<b>206,127</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

\* £12,500 of the 2015/16 fee was rebated to the Council

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table across summarises all other services which were identified
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report
- The non-audit related services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Overview (Audit) Panel

## Fees for other services

Service	Fees £	Planned outputs
<b>Audit related:</b>		
Teachers' Pension Return	4,200	Independent accountants' certificate
George Frederick Byrom Trust independent examination	1,000	Independent examiners' statement
<b>Non-audit related:</b>		
CFO Insights software provision	10,000	Access to database and support
<b>Total</b>	<b>15,200</b>	

## Reports issued

Report	Date issued
Audit Plan	8 March 2017
Audit Findings Report	11 September 2017
Annual Audit Letter	14 October 2017



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