

Annual Audit Letter

Year ending 31 March 2018

Tameside Metropolitan Borough Council including Greater Manchester Pension Fund

14 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tameside Metropolitan Borough Council (the Council) including the Greater Manchester Pension Fund for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £9,500,000, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £212,711,000, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2018. We gave an unqualified opinion on the pension fund accounts of Greater Manchester Pension Fund on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective 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, including Greater Manchester Pension Fund, 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) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the concerns raised by Ofsted published in their inspection report on Children's Services in Tameside in December 2016, which judged the service to be inadequate. We therefore qualified our value for money conclusion in our audit report to the Council on 30 July 2018.
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 2018. We will report the results of this work to the Overview (Audit) Panel in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Tameside Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts before the deadline, releasing your finance team for other work.
- Sharing our insight – during the year we met regularly with the senior leadership team we have continued to share the firm's national publications and provided thought leadership on 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
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £9,500,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for remuneration- £100,000 and related parties – 2% of spend with unusual related parties.

We set a lower threshold of £478,000, above which we reported errors to the Overview (Audit) Panel in our Audit Findings Report.

Pension Fund Materiality

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 - £20,000.

We set a threshold of £10,635,000 above which we reported errors to the Overview (Audit) Panel.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts and the narrative report, and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• reviewed entity controls• reviewed journal entry process and selection of unusual journal entries for testing back to supporting documentation• reviewed accounting estimates, judgements and decisions made by management• reviewed unusual significant transactions• reviewed significant related party transactions outside the normal course of business	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries did not identify any significant issues.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.• 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 and challenging the use of those assumptions.• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability</p>

Audit of the Accounts

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate.• reviewed the competence, expertise and objectivity of any management experts used.• reviewed the instructions issued to valuation experts and the scope of their work• discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.• tested revaluations made during the year to ensure they were input correctly into the Council's asset register• evaluated 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.• tested material additions and disposals and reviewed the depreciation calculation• reviewed the Councils consideration of asset impairment	<p>Our audit work identified 2 schools that had converted to Academy status during the year but had not been removed from the fixed asset register. This error was noted by the finance team post draft publication. This had the effect of reducing the assets held on the balance sheet by £3.5m</p>

Audit of the Accounts

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness• obtained a full list of journal entries, identified and tested unusual journal entries for appropriateness• evaluated the rationale for any changes in accounting policies or significant unusual transactions	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries did not identify any significant issues.</p>
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to 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>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• gained an understanding of the Pension Funds' process for valuing level 3 investments and evaluated the design of the associated controls• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these type of investments• considered the competence, expertise and objectivity of any management experts used• reviewed the qualifications of the experts used to value level 3 investments at year end and gained an understanding of how the valuation of these investments had been reached• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period.	<p>Our audit work did not identify any issues in respect of the risks relating to the valuation of Level 3 investments at year end.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, 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.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Overview (Audit) Panel on 30 July 2018.

No further recommendations were made for the next financial year.

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 in and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 16 August 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Greater Manchester Pension Fund on 30 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Overview (Audit) Panel on 30 July 2018.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Tameside Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified below (page 11), the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Ofsted inspection of children's services</p> <p>OFSTED rated the Council's Children's Services as inadequate in December 2016 and the safeguarding board as requires improvement.</p> <p>The Council is currently subject to follow up review. Key areas of concern included the backlog of cases, leadership, management and governance.</p> <p>Although the Council established an Improvement Board with an external independent Chair to co-ordinate actions, there has been limited improvement and a recent inspection stated that the pace of change was to slow. A new Interim Director has recently been appointed and a new plan has been implemented.</p>	<p>As part of our work we have:</p> <p>Reviewed the arrangements the Council has in place to respond to the Ofsted concerns. This has included a review of the revised improvement plan.</p> <p>We have reviewed updated reports from Ofsted as they became available and have taken these into account in forming our conclusion. There have been 3 monitoring visits during the 2017/18</p> <p>We have met with the Interim Director of Children's Services who has outlined the plans for improvement going forward.</p> <p>The 1st monitoring visit in June concluded that the Council had made limited progress.</p> <p>The 2nd monitoring visit in September was still reporting that the Council were making slow progress and also suggested that there was a lack of a clear plan.</p> <p>An interim Director of Children's Services was appointed in November and a complete overall of the improvement plan was implemented.</p> <p>The new improvement plan was agreed by the Improvement Board in December 2017. This has a clearer focus on the basics that need improvement. It also focusses on a clearer reporting framework and leadership roles.</p>	<p>It has been recognised by the Council that there is increasing pressure on children's services. In March 2017 the council were supporting 584 looked after children, 456 children on child protection plans and there were a further 1,433 children in need. Nationally the pressure on children's services is increasing.</p> <p>The Council have significantly increased resources with an extra £8m being invested in 2017/18 and a further £18m budgeted for future years.</p> <p>The 3rd monitoring visit by Ofsted undertaken in January 2018 recognised the changes that had been made by the Council and commented that action had been taken to address the previously slow pace of improvement.</p> <p>As well as the development of a social work recruitment and retention plan there has been a change in the terms of reference governing the Improvement Board. Revisions have been made to the size of the board and the frequency of meetings, to better focus on effective participation and drive forward improvement at both pace and scale. Core membership will still embrace full partnership working with partnership agencies being represented by a senior member.</p> <p>However these changes need longer to embed before they will have an impact on the services that children receive.</p> <p>Responses to the Ofsted monitoring visits have shown that the Council have supported children's services both financially and with improved oversight by both senior leadership and members.</p> <p>In our view from the work we have undertaken, the Council cannot yet demonstrate sufficient improvement in the delivery of Children's Services to negate the "inadequate" Ofsted rating awarded in December 2016.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	105,017	105,017	105,017
Statutory Audit of Pension Fund	56,341	56,341	56,341
IAS 19 Assurance for admitted bodies within PSAA	5,995	5,995	5,995
IAS19 Assurance for admitted bodies outside the PSAA regime	TBC	TBC	0
Housing Benefit Grant Certification	30,273	TBC	34,323*
Total fees	197,626	TBC	201,676

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

* £10,200 in relation to 2015/16 fees was rebated against this fee

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pension Return	4,200
- George Frederick Byrom Trust Independent Examination	1,000
Non-Audit related services	
- CFO Insights software provision	10,000

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 above summarises all non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

