

# The Audit Findings for Oldham Metropolitan Borough Council

**Year ended 31 March 2015**

18 May 2015

**Graham Nunns**

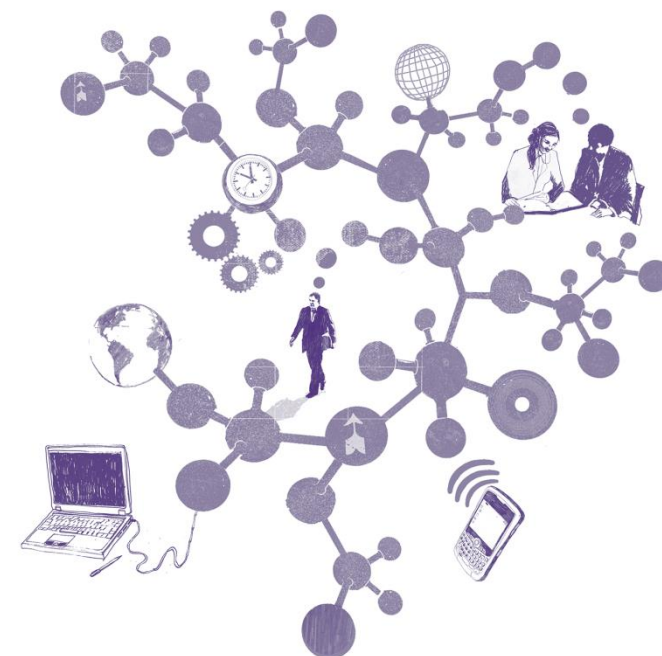
Director  
T 0113 200 2538  
E [graham.nunns@uk.gt.com](mailto:graham.nunns@uk.gt.com)

**Marianne Dixon**

Manager  
T 07880 456157  
E [marianne.dixon@uk.gt.com](mailto:marianne.dixon@uk.gt.com)

**Simon Livesey**

Assistant Manager  
T 0161 953 6900  
E [simon.d.livesey@uk.gt.com](mailto:simon.d.livesey@uk.gt.com)





Private and Confidential

Oldham Council  
Civic Centre  
West Street  
Oldham  
OL1 1UT

18 May 2015

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

Tel 0161 953 6900  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

## **Audit Findings for Oldham Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully,

Grant Thornton UK LLP

### **Chartered Accountants**

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Oldham Council's ('the Council') financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan.

Our audit is now substantially complete and we are finalising our work in the following areas,

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review to the date of signing the opinion

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts (WGA) consolidation pack. We are satisfied that this work will not have a material effect on our opinion on the financial statements or on our value for money conclusion.

As in previous years, the Council's finance team are dedicated to a very prompt sign off of the accounts. To that end, we received the draft financial statements on 14 April 2015, several days in advance of the financial statements being made available for public inspection on the 20 April 2015 and earlier than the date achieved in the previous year. Comprehensive working papers were also available from the start of the audit.

The prompt production of the draft financial statements enabled the members of the Audit Committee sufficient time to review the statements and ask challenging and pertinent questions at the Audit Committee meeting on 23 April 2015.

The standard of the financial statements and supporting working papers was high despite the challenging timetable, primarily due to the Council's effective closedown and accounts production process.

## Key issues arising from our audit

### Financial statements opinion

We anticipate issuing an unqualified audit opinion on the Council's financial statements.

Shortly after the Council produced its draft financial statements it received an actuarial statement with a revised estimate of the pension fund liabilities arising from the Local Government Pension Scheme. The Council has made adjustments to the financial statements to reflect this revised estimate.

The draft financial statements recorded net expenditure of £28,180k whereas the revised draft financial statements now show net expenditure of £74,406k. The impact on the Council's balance sheet is to increase long term liabilities by £46,226k.

Our audit has not identified any additional adjustments affecting the Council's financial position.

In view of the significance of the judgement needed to be exercised in relation to the accounting for school land and buildings in the accounts this year, our audit work considered in some detail the basis for and evidence underpinning the exercise of management judgement applied. The judgement applied has led to the Council recognising an additional net £80m of assets on its balance sheet this year, based on a school by school review of the rights to these assets. Based on the evidence obtained, we can confirm our agreement with Management's treatment.

We did identify classification errors within the Notes to the Cash Flow Statement, a small number of disclosure errors and requested a number of adjustments to improve the presentation of the financial statements.

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

- the draft accounts and working papers were of a high quality
- the only errors identified related to supporting disclosures within the notes to the accounts
- finance staff responded promptly to all audit queries in line with agreed protocols, contributing to the prompt completion of the audit.

Further details of our audit findings are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

In our Audit Plan we referred to the additional testing that we felt was needed in response to the controls weaknesses which had been identified by Internal audit within the payroll system.

Officers have reported that actions have been taken to strengthen control arrangements and our additional testing of payroll transactions during the year did not identify any errors.

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim Director of Finance.

Our recommendation is set out in the action plan in Appendix A and has been discussed and agreed with the Interim Director of Finance and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

## Section 2: *Audit findings*

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**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 5 March 2015. We also set out the adjustments to the financial statements arising from our audit work..

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified audit opinion. Our draft audit opinion is set out in Appendix B.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Our Audit Plan referred to the guidance in ISA 240 that there is also a presumed significant risk that revenue may be misstated due to the improper recognition of revenue. We determined that the risk of fraud is not significant because there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited. Our audit work did not cause us to believe that we needed to change this planning assumption.

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated).	<p>We have undertaken the following work in relation to this risk,</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>substantive testing of operating expenses to ensure valid spend and appropriate categorisation within the net cost of service headings in the comprehensive income and expenditure statement</li> <li>review and testing of year end accruals and creditors, including correct year (cut off ) testing</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct).	<p>We have undertaken the following work in relation to this risk,</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>substantive testing of payroll expenditure to confirm that employees exist, are paid correctly and payroll costs are correctly allocated in the financial ledger, Testing included accuracy of major employee deductions (PAYE, NI and Pension) and employer contributions</li> <li>testing of monthly payroll reconciliations to confirm that payroll totals are accurately and completely recorded in the general ledger</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained and issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure is misstated	<p>We have undertaken the following work in relation to this risk,</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of welfare benefits in accordance with work required by Department of Work and Pensions on certification Housing Benefit (BEN01) claim including analytical review and testing of sample of benefits awarded.</li> <li>• reconciliation between the housing benefits system and the general ledger</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.



## Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in our Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Financial statements risk	Work completed	Assurance gained & issues arising
<p><b>Accounting for Schools</b></p> <p>Clarification on accounting for school buildings has been published by CIPFA in their 'LAAP bulletin 101: - Accounting for non-current assets used by Local Authority maintained schools'.</p> <p>The guidance refers to the considerations in relation to determining whether school land and buildings should be recognised on the Council's balance sheet. The guidance covers community, voluntary aided, voluntary controlled and Foundation schools.</p> <p>A key determinant of the assessment for inclusion of the individual school land and buildings in the accounts is whether the Council owns the asset or whether the rights to use the asset has been transferred to the Council from the entity which owns the asset. All community school land and buildings are included on the Council's balance sheet. Judgements were required, in particular, for those schools designated as voluntary aided, voluntary controlled and Foundation schools. An additional consideration was in relation to schools built using PFI financing.</p> <p>This assessment requires management to exercise judgement based on evidence of ownership and agreements from other entities on the rights over the use of the asset. As a result of this exercise, management identified that an additional net amount of some £80m of school land and buildings should be recognised on the Council's balance sheet.</p> <p>Due to the material nature of this judgement, it was necessary for us to perform work to determine whether the judgements made on a school by school basis were appropriate. It was also necessary for us to consider the evidence supporting the valuations used for those assets recognised on the balance sheet for this year.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• tested whether the Council has identified all maintained schools within its area</li> <li>• tested whether the Council has obtain necessary information and sufficient evidence from bodies, such as local Trustees and Dioceses, on the agreements which underpin the use of school assets</li> <li>• considered the Council's application of the relevant accounting principles to account for these and challenged judgements where necessary</li> <li>• reviewed whether the financial valuations of those assets to be brought on to the balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers</li> <li>• confirmed transactions have been appropriately recorded as a prior year adjustment, as appropriate, as any changes to the accounting for these assets has been deemed to be a change in accounting policy</li> </ul>	<p>Based on the evidence made available to us and the application of the principles in the Code and other accounting guidance we can confirm that we agree with management's exercise of judgement.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>NDR and Council Tax Income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably</li> <li>Government grants and third party contributions and donations are recognised as due when there is reasonable assurance that the Council will comply with conditions attached to the payment; and the grants or contributions will be received</li> <li>revenue relating to the provision of services is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received and the stage of completion of the service can be measured</li> </ul>	<ul style="list-style-type: none"> <li>Revenue recognition policies are in line with the requirements of the Code of Practice on Local Authority Accounting 2014/15 and accounting standards</li> <li>we have undertaken substantive testing of grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies</li> <li>Revenue recognition policies are appropriately disclosed.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Judgements and estimates have been considered in the following areas:                             <ul style="list-style-type: none"> <li>asset revaluations</li> <li>Useful economic lives in relation to depreciation</li> <li>pension fund valuations and settlements</li> <li>investments in Manchester Airport Group</li> <li>insurance provisions</li> <li>bad debt provision</li> <li>PFI implied interest rate</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>the Council has appropriately disclosed its significant judgements and estimates</li> <li>the Council has appropriately relied on the work of experts for asset revaluations, pension fund valuations, insurance provisions, and the valuation of its investment in the Manchester Airport Group.</li> </ul>	 <b>Green</b>

**Assessment**



- Accounting policy which is inappropriate
- Accounting policy appropriate but scope for improved application or disclosures
- Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Estimates and judgements - PPE</b>	<ul style="list-style-type: none"> <li>Note 15 of the accounts sets out the authority's rolling programme of revaluations. This shows that the date of valuations for other land and buildings can vary between 2011 and 2015. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015. In our view, however, this rolling programme does not meet the Code's current requirement to value items within a class of property simultaneously or with a short period, in order to 'avoid reporting a mixture of costs and values as at different dates'.</li> </ul>	<ul style="list-style-type: none"> <li>we have accepted the Council's approach on the basis that we do not consider that it is likely to lead to a material misstatement in the accounts</li> <li>CIPFA has addressed this issue in its interpretation for the proposed new 2015/16 code which will set out the approach to the requirement to revalue simultaneously.</li> <li>In 2015/16 the short period is interpreted to mean that assets are normally measured once every five years for each class of assets, provided that carrying amount does not differ materially from that would be determined using fair value at the end of the reporting period</li> </ul>	 <b>Amber</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>we have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</li> </ul>	 <b>Green</b>


## Assessment

 Marginal accounting policy which could potentially attract attention from regulators  
 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved application or disclosures

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>the Council has a reasonable expectation that the services provided will continue for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>we have reviewed management's assessment and related financial plans and forecasts and are satisfied that the going concern basis is appropriate for the preparation of the 2014/15 financial statements</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved application or disclosures
- Accounting policy appropriate and disclosures sufficient

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final draft of the financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	12092	Cash Flow Statement	Transfer from adjustment re surplus/deficit to items that are investing/financing. No overall effect on the Cash Flow Statement
2 Disclosure	6000	Financial Instruments notes	Investments overstated and cash understated but no impact on the financial statements
3 Disclosure	5000	Financial Instruments notes	Investments strategy states that transactions with local authorities and public bodies have maximum of £15m but should be £10m
4 Disclosure	N/A	Land & Buildings valuations	Note regarding assets valued at depreciated replacement cost amended to show the outcome of the desktop valuation exercise
5 Disclosure	N/A	Vacant possession value of council dwellings	Note amended to quote the full vacant possession value at 1 April 2014



## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>Whilst we are aware there continues to occur a number of housing benefit frauds, we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, as in previous years</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. We made a number of recommendations to improve disclosures.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties re loans, cash balances and investments</b>	<ul style="list-style-type: none"> <li>We requested direct confirmations for bank balances from one institution, another five institutions for loans and a further eight organisations and institutions for investments.</li> <li>Of these requests we received positive confirmations for bank balances and from 6 organisations and institutions for investments. Where requests were not received we undertook alternative procedures, <ul style="list-style-type: none"> <li>- loans were agreed to correspondence from the Bank to the Council</li> <li>- 2 Money Market Funds were agreed through access to the online portal</li> </ul> </li> </ul>

## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to,

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are;

**The Council has proper arrangements in place for securing financial resilience** - the Council 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.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission,

- Financial governance
- Financial planning
- Financial control.

Overall, our work concluded that the Council's arrangements for securing financial resilience remain effective. There is robust challenge and support from members, and the Council prepares and keeps under review its medium term financial plan.

There are effective arrangements in place to monitor and manage revenue and capital budgets. This includes regular reports to management and members on financial and service performance during the year, including savings achieved and actions required to address any shortfall or additional spending.

The Council is aware of its comparatively high level of borrowing, when including PFI liabilities, but continues to be confident about the on-going receipt of PFI grant and credits (currently £32m per annum) to finance.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes,

- prioritising resources
- improving efficiency and productivity

Our work concluded that,

- the Council has effective arrangements in place which enabled it to deliver its challenging £23m of savings in 2014/15
- the Council continues to face challenges in the future with the need to achieve an estimated £94m of further savings over the next three years
- whilst the Council has effective arrangements for prioritising its resources, looking at new service delivery arrangements and working co-operatively with partners, increasingly more radical ways of working with other organisations are likely to be required in the longer term

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions,

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed,

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
<b>Key indicators of performance</b>	<p>The Council's key financial indicators remain reasonably good overall. At the 31<sup>st</sup> March 2015, the Council's General Fund balance was £18m, and Earmarked Reserves £99m, a £26m increase in the year. The Council's Housing Revenue Account continued to retain a healthy balance of £16m. In addition, the Council had almost £12m of Capital Grants that had yet to be utilised.</p> <p>As a result of the Council's significant capital investment in schools and housing, the level of borrowing in the form of PFI liabilities is higher than many similar authorities. However, the servicing of the long term debt continues to be sustainable through the receipt of PFI grant/credits from sponsoring government departments (DFES and DCLG). We are satisfied, that the level of PFI debt does not present a significant risk to the Council.</p>	<b>Amber</b>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Medium Term Financial Strategy shows realism regarding the financial challenges facing the Council, in particular the £94m of savings required over the next three years. Members and Officers share a good understanding of the financial issues facing the Council and there are strong scrutiny arrangements in place.</p> <p>The MTFS is regularly revisited in terms of assumptions as new information becomes available and regular updates are presented to the Cabinet throughout the year. The budget planning process is open and transparent and the community is able to engage in the budget planning process through the Council's website, as well as through District partnership consultation sessions. contributing ideas to meet the financial challenge. The 'Star Chamber' process remains key in reviewing potential savings options.</p> <p>In developing its budget plans, the Council considers and employs a range of initiatives, including customer led service redesign, alternative methods of provisions in areas such as Adult Social Care and joint working with authorities across Greater Manchester.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	<p>The Council has effective financial governance arrangements in place with a good understanding of the Council's financial environment at all levels. Members are kept up to date through themed sessions on understanding the financial environment and proposals for responses to risks identified.</p> <p>Revenue budget and Capital Programme reporting is clear and comprehensive. Revenue monitoring is reported to the Cabinet and Overview and Scrutiny Panel VFM Select Committee throughout the year and facilitates a good level of challenge, including reviewing any potential impact on service performance.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
<b>Financial control</b>	<p>The Council has a good track record of achieving savings targets and remaining within budget and delivered its Challenging £23m savings plan for 2014/15. The Council has set a budget which does not anticipate needing to use available balances.</p> <p>The Cabinet is updated on a monthly basis on the progress of directorates against savings plans. Budget and financial reporting delivers to a prompt timescale at all levels and the Council is looking to further improve this through the introduction of the A1 project which integrates financial management, HR and Payroll systems and facilitates 'self service' to the Council's Business Units.</p> <p>Key financial systems are reviewed regularly by Internal Audit and findings are reported promptly to the Audit Committee, with particular focus for any systems where controls weaknesses are identified. This is regarded as an important part of ensuring that the financial systems can be relied upon to produce accurate budget reporting as well as annual financial statements.</p>	<b>Green</b>	<b>Green</b>
<b>Prioritising resources</b>	<p>The Council continues to be effective in challenging the cost effectiveness of existing services as well as challenging the way services are delivered to achieve maximum value from reducing financial resources. The MTFs and budget Plan demonstrate how it prioritises the funding of services in accordance with the Council's Corporate Objectives. Transformational Service Plans are in place for key services, eg Adult Social Care and demonstrate how these schemes address corporate priorities.</p> <p>The Council is investing in capital schemes to improve the borough's leisure facilities and redevelop the Old Town Hall and is planning further schemes to boost economic activity in the Borough. The Council's Capital Strategy demonstrates how these developments are driven by the Council's Corporate Plan.</p>	<b>Green</b>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council understands its cost base. It has achieved good levels of efficiency and productivity and reductions in the workforce have not had no substantial impact on service provision.</p> <p>Transformational Service Plans are already being implemented in key areas to improve efficiency, through internal efficiencies and also through Integrated Commissioning.</p>	<b>Green</b>	<b>Green</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion,

Residual risk identified	Summary findings	RAG rating
<p><b>Risk of an impact on the efficiency and effectiveness of the Council's financial services from lack of monitoring of Unity Partnership.</b></p>	<p>This risk was identified from the deterioration in the performance of the payroll function and the failure of some controls within payroll service.</p> <p>Our review of the Council's arrangement for monitoring the performance of Unity Partnership has been able to confirm that the Unity Operations Board and Unity Partnership Board have been effective in monitoring and effecting change in the effectiveness of Unity Partnership.</p> <p>A deed of variation was agreed in November 2014, which introduced changes to the arrangement, clarifying the Council's controls in respect of performance monitoring and introducing new KPIs, as well as raising the level of existing KPIs. It also introduces clauses on continuous improvement and clearer clauses on partner failure with some increased penalties to provide incentive for good performance. Council Officers have confirmed their commitment to implementing partner failure clauses when necessary.</p> <p>Internal audit have recently reported an improvement in the effectiveness of payroll controls, and Council Officers have recently reported an improvement in the performance of the Partnership.</p>	<p><b>Green</b></p>
<p><b>Risk of an impact on effectiveness and affordability from the number of major capital projects underway.</b></p>	<p>This risk was identified from the significant number of large capital schemes now underway, which involve significant capital investment and are important to delivering the Council's corporate objectives.</p> <p>Our review identified, that in addition to the routine monitoring of capital schemes by project managers and capital finance staff, the Head of Governance monitors all projects, and challenges the relevant project and finance staff on the risks to the costs and effective delivery of each scheme. Key issues are discussed with The Interim Director of Finance and Director of Legal Services to ensure a common corporate understanding of the risks and help coordinate action if necessary.</p> <p>The Audit Committee's Project Working Group receives regular updates from the Head of Corporate Governance.</p> <p>Our review concluded that effective arrangements are in place in monitoring the delivery of capital schemes.</p>	<p><b>Green</b></p>
<p><b>Risk of lack of progress or failure to deliver the Better Care Fund plan.</b></p>	<p>Our previous year's review confirmed that the Council and its partners had been successful in meeting the deadline for submitting Oldham's Better Care Fund (BCF) Plan. A key target for 2014/15 has been the development of individual schemes within the BCF plan. Savings proposals for 2015/16 are based on the BCF initiatives succeeding and securing efficiencies for the Council, in particular the Transformation of Adult Care Services Plan.</p> <p>Our review looked at the way the Council is working with partners to develop schemes and joint commissioning arrangements. In particular, schemes to prevent the 'bed-blocking' of local hospitals through commissioning additional support from local care home with the assistance on non-recurrent funding from the CCG.</p> <p>Our review concluded that the Council is working effectively with partners to develop and monitor schemes and that, within the Council, the BCF plan appears to be recognised and considered at all relevant Directorates and levels of staff. The Council is active in monitoring the delivery of BCF schemes to ensure resources are deployed effectively.</p>	<p><b>Green</b></p>

## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	180,830	180,830
Grant certification	21,740	21,740*
<b>Total audit fees</b>	<b>202,570</b>	<b>202,570</b>

\* the grant certification fee is estimated, based on the latest indicative fees published by the Audit Commission.

## Fees for other services

Service	Fees £
Teachers Pension claim	4,200
VAT support	8,850

Grant Thornton UK LLP also provided services to the wholly owned subsidiary companies Oldham Care and Support Ltd and Oldham Care and Support at Home Ltd, for fees totalling £20,000.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

**Priority: (High/Medium/Low)**

Rec No.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	<p>Whilst the Council's financial statements are of good quality and contained relatively few non trivial errors, they continue to be a large document, in excess of 140 pages.</p> <p>Local authority financial statements are complex documents however there is still scope for the Council to build on its success in streamlining the accounts production process by going on to streamline the notes to the accounts.</p> <p>Key opportunities for improvement are in,</p> <ul style="list-style-type: none"> <li>• the conciseness and clarity of accounting policies</li> <li>• avoiding repetition between accounting polices and the narrative within notes</li> <li>• the number of contingencies that reasonably require disclosure</li> <li>• utilising links to the Council's website for descriptive areas of the Explanatory Foreword (council and management structure)</li> </ul> <p>The advantages of such an exercise would be,</p> <ul style="list-style-type: none"> <li>• the financial statements are more understandable to the reader</li> <li>• The closedown process becomes more focused on material areas of the financial statements, further improving efficiency</li> <li>• There is less risk of typographical and publishing error</li> </ul> <p>We recommend the ideal time to start the process for next year is at the debrief of the 2014/15 accounts and audit process in June.</p>	Low	<p>During the Council's 2014/15 accounts closedown process an assessment of the statements and disclosures was completed to improve the readers ability to understand the financial statements in line with the 'Cutting the Clutter' agenda. This resulted in the removal of 9 disclosures and re-ordering of the remaining disclosures.</p> <p>We plan to continue this work and good practice in liaison with External Audit colleagues as part of the 2015/16 account closedown process. This will pick up on the improvements recommended as well as looking at other ways in which the accounts can be improved further to aid the readers understanding.</p>	Start review in June 2015

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLDHAM METROPOLITAN BOROUGH COUNCIL

### Opinion on the financial statements

We have audited the financial statements of Oldham Metropolitan Borough Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement in the Housing Revenue Account, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Interim Director of Finance and auditor

As explained more fully in the Statement of the Interim Director of Finance's Responsibilities, the Interim Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Oldham Metropolitan Borough Council as at 31 March 2015 and of its expenditure and income 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 2014/15 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources****Respective responsibilities of the Authority and the auditor**

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our 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 2014, as to whether the Authority 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 us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Oldham Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Graham Nunns  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

19 May 2015



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