

# Audit Findings

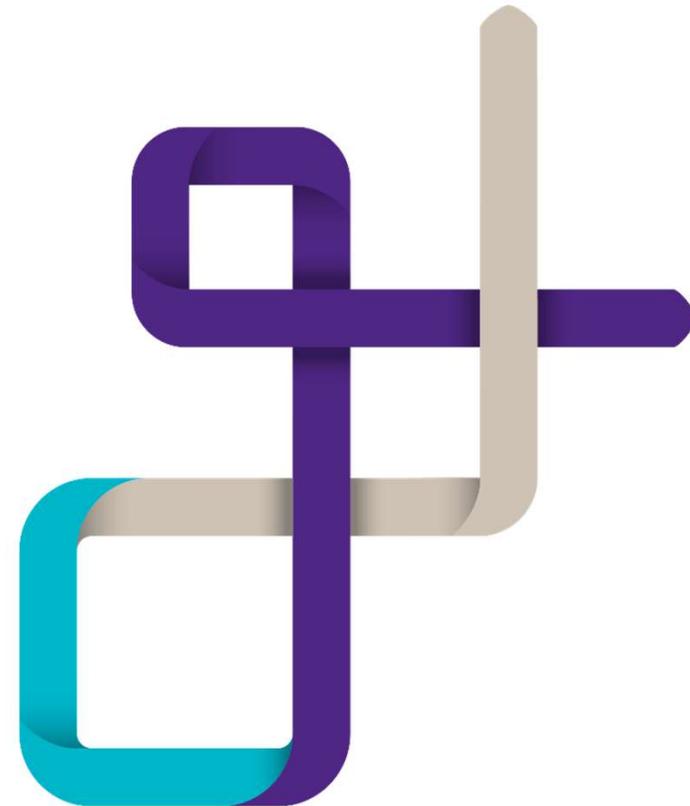
*Year ending 31 March 2018*

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Oldham Council  
July 2018

## DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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## Headlines

This table summarises the key issues arising from the statutory audit of Oldham Council and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July and our findings are summarised on the following pages. The draft 2017/18 statement of accounts presented for audit showed an underspend of £0.15 million on the Council's service income and expenditure and net cost of services expenditure of £197.3 million.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 16 July 2018, a draft of which is detailed in Appendix D. The outstanding items include:</p> <ul style="list-style-type: none"> <li>clearance of query on the remeasurement of the net pension fund liability for Miocare</li> <li>receipt of management representation letter; and</li> <li>review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Oldham Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 12 to 14.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as there is an outstanding objection to the 2016/17 financial statements that we are in the process of finalising.</p>

### Acknowledgements

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

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the component of the group based on a measure of materiality considering this as a percentage of total group assets and revenues. This is to assess the significance of the component and to determine the planned audit response. From

this evaluation we determined that the Miocare subsidiary is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 16 July 2018. A draft of version of our report is included in Appendix D. These outstanding items include:

- clearance of query on the remeasurement of the net pension fund liability for Miocare
- receipt of management representation letter; and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Oldham Council.

	Group and Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£11,000,000	Gross revenue expenditure (2% benchmark) reflects our assessment of risk
Performance materiality	£8,250,000	Reflects 75% of financial statement materiality (standard benchmark based on risk assessed knowledge of potential for errors arising)
Trivial matters	£550,000	Reflects 5% of financial statement materiality (standard benchmark for reporting any adjusted items)
Materiality for specific transactions, balances or disclosures	£50,000	Senior officer remuneration due to the public interest in the disclosures and related party transactions due to the significance to the other party.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 The revenue cycle includes fraudulent transactions</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Oldham Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• The culture and ethical frameworks of local authorities, including Oldham MBC, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>2 Management override of controls</b> 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><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk</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 journal entry processes</li> <li>• review of entity controls</li> <li>• review of unusual significant transactions</li> </ul> <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment (PPE)</b> The Council revalues its PPE on a rolling basis over a five yearly basis. The Code requires that the Council ensures that the carrying value is not materially different from the current value at the financial statements date. This represents a significant estimate by management in the core financial statements and the group accounts. This due to the significant value of PPE in the financial statements and changes in valuations.</p> <p>We therefore identified the valuation of PPE as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Updating our understanding of the processes put in place by management to ensure the revaluation measurements are correct and evaluating the design of the associated controls</li> <li>• Evaluating the competence, capabilities and objectivity of the valuation expert (the valuer)</li> <li>• Challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• Assessing the overall reasonableness of the valuation movements</li> <li>• Evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and</li> <li>• Evaluating the Council's considerations of any relevant indicators of asset impairment</li> </ul> <p>The Council's accounting policy on valuation of PPE is shown in note 34 (1.2) to the core financial statements and related disclosures are included in note 17 to the core financial statements.</p> <p><b>Key observations</b></p> <p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> <li>• the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and</li> <li>• the valuation of property disclosed in the financial statements is reasonable.</li> </ul>
<p><b>4 Valuation of the net pension fund liability</b> The Council's net pension fund liability as reflected in its balance sheet represents a significant estimate in the core financial statements and group accounts. This is due to the significant value and complexity of the underlying assumptions used.</p> <p>We therefore identified valuation of the Council's net pension fund liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Gaining an understanding of the processes and controls put in place by management to ensure that the Council's net pension fund net liability is not materially misstated and evaluating the design of the associated controls</li> <li>• Evaluating the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• Undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• Considered the adequacy, completeness and relevance of the source data provided to the pension fund actuary by the pension fund administering authority on behalf of the Council</li> <li>• review the reasonableness of the pension fund gross asset valuation and the Council's share thereof</li> </ul>

## Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>4 Valuation of the net pension fund liability (continued)</b></p> <p>The Council's net pension fund liability as reflected in its balance sheet represents a significant estimate in the core financial statements and group accounts. This is due to the significant value and complexity of the underlying assumptions used.</p> <p>We therefore identified valuation of the Council's net pension fund liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>The Council's accounting policy on the valuation of the net pension fund liability is shown in note 34 (1.10) to the core financial statements and related disclosures are included in note 30 to the core financial statements and note G4 to the group accounts.</p> <p><b>Key observations</b></p> <p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> <li>the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and</li> <li>the valuation of the Council's net pension fund liability disclosed in the financial statements is reasonable</li> </ul> <p><b>Finalising query on the remeasurement of the net pension fund liability for Miocare.</b></p>

## Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p><b>5 Employee remuneration</b> Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p><b>Auditor commentary</b></p> <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 were in line with our documented understanding</li> <li>• tested a sample of employee expenses to staff records, pay rates and classification in the general ledger</li> <li>• reconciled total payroll costs from the payroll subsystem to the general ledger</li> <li>• performed a monthly trend analysis to identify any months with unusually high or low pay levels</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>6 Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls</li> <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 were in line with our documented understanding</li> <li>• tested a sample of expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement</li> <li>• tested a sample of payables and accrued expenditure including reviewing post year end invoices and payments</li> </ul> <p><b>Audit cut off error</b></p> <p>Our testing of a sample of 15 expenditure items in the first month of 2018/19 identified one item for £7,350 which should have been accrued for in 2017/18. This error was identified in a services department that has a net revenue expenditure of approximately £4.3m.and was due to the late receipt of the invoice in May 2018.</p> <p>The Council subsequently completed a further test on 20 additional after date items with a focus on similar expenditure to the initial incorrect posting. The Council found these were all correctly included in the appropriate period and after substantiating their results we are satisfied that there is not a wider issue with correct posting of invoices across the year end.</p>

## Reasonably possible audit risks (continued)

	<b>Risks identified in our Audit Plan</b>	<b>Commentary</b>
<b>7</b>	<b>Private finance schemes (PFI)</b> The Council has seven PFI schemes with various associated accounting complexities. We identified the accuracy of accounting for the PFI schemes as an area requiring particular audit attention.	<b>Auditor commentary</b> We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>• gained an understanding of the Council's systems for calculating, and accounting for its PFI schemes</li><li>• tested entries in the accounts to underlying supporting evidence</li></ul>

# Accounting policies

## Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>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.</p> <p>Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance that:</p> <ul style="list-style-type: none"> <li>• the Council will comply with conditions attached to the payment</li> <li>• the grants or contributions will be received</li> </ul> <p>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p>	<ul style="list-style-type: none"> <li>• The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting 2017/18</li> <li>• We have undertaken substantive testing of tax income, 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>	<p>Critical judgements include:</p> <ul style="list-style-type: none"> <li>• recognition of school assets</li> <li>• group boundaries</li> <li>• classification of Investment properties</li> </ul> <p>Major sources of estimation uncertainty include</p> <ul style="list-style-type: none"> <li>• business rates appeals provision</li> <li>• impairment of debt</li> <li>• valuation of the shareholding in Manchester Airport Holdings Ltd (MAHL)</li> <li>• Net pensions liability</li> <li>• PFI implied interest rate</li> <li>• PPE useful economic lives and depreciation</li> <li>• insurance provision</li> </ul>	<ul style="list-style-type: none"> <li>• The Council has appropriately disclosed its critical judgements and sources of estimation uncertainty in notes 36 and 37 respectively</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 MAHL.</li> </ul>	 <b>Green</b>
<b>Going Concern</b>	<p>The Director of Finance, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.</p>	 <b>Green</b>
<b>Other accounting policies</b>	<p>We have reviewed the Council's accounting policies against the requirements of the CIPFA Code of Practice.</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 <b>Green</b>

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period that affect our audit opinion and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council. The letter of representation is being presented at the Audit Committee on 16 July 2018.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Council's bank and year end investments. We received positive confirmations for these.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>The details of changes to disclosures are set out in the adjustments schedule in Appendix A. There were no significant amendments.</li> </ul>
⑦ <b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management were provided.</li> </ul>
⑧ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>We did not have any significant difficulties in completing our audit work. The accounts closedown and production of draft accounts were efficiently done in advance of the required deadline and supported with timely and detailed working papers.</li> </ul>

## Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect, a draft of our report is set out in Appendix D.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>if we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The work is not yet completed and this work is planned to be completed in August 2018.</p>
④ <b>Certification of the closure of the audit</b>	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Oldham Council in our auditor's report, as detailed in Appendix D as there is an outstanding objection to the 2016/17 financial statements that we are in the process of finalising. The objection relates to the Council's Lender Option, Borrower Option (LOBO) loan borrowing in the accounts.</p> <p>In addition we cannot certify completion of the 2017/18 audit until we have finalised our work on the WGA as noted at reference 3 above.</p>

# Value for Money

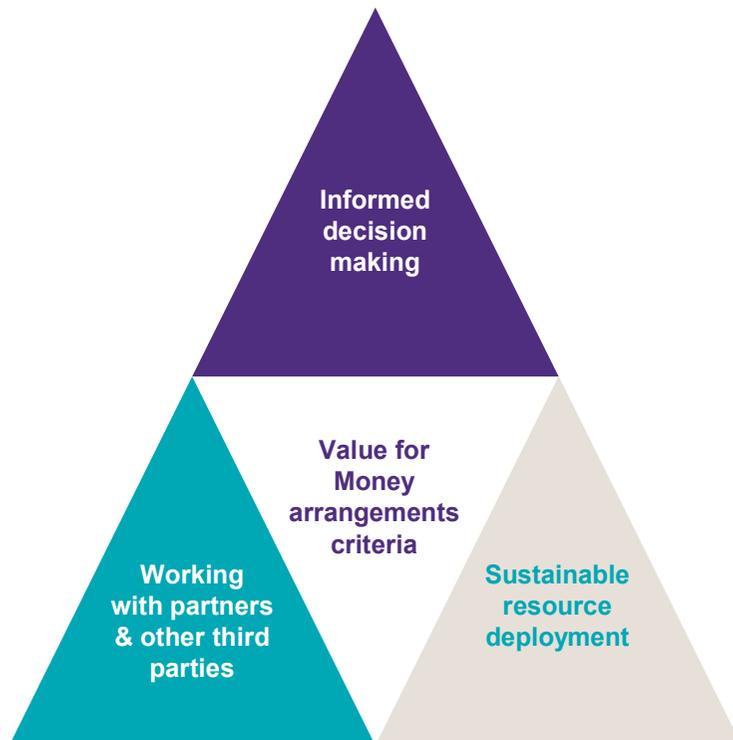
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified a significant risks in respect of health and social care integration using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

The significant risk is set out below.

### Health and social care integration: working with partners

Oldham Council and CCG continue to work together to redesign the way health and social care services are delivered across the borough. They are working with Pennine Care Foundation Trust and Pennine Acute Trust to establish joint commissioning arrangements through a Local Care Organisation.

The Council and CCG have introduced interim operating arrangements with the intention of creating a pooled budget with a Strategic Joint Commissioning Board.

Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements and also highlight our findings from other key considerations used to inform our VFM conclusion. In arriving at our conclusion, our main considerations were:

- emerging plans for the future of joint health and social care commissioning and development of integrated care across the Oldham borough
- the delivery and management of the Council's financial performance including medium term planning and future savings challenges.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

We reviewed the 2017/18 financial outturn and examined the Council's future financial position as set out in the Revenue Budget 2018/19 and Medium Term Financial Strategy (MTFS) 2018/19 to 2021/22. We have considered how the Council is working as part of its interim operating arrangements within its Integrated Commissioning Partnership to develop future plans to redesign the way health and social care services are delivered across the borough.

## Health and Social Care Integration

The Council and CCG's executive management teams have been developing the structures and processes to aim to successfully deliver the Oldham Locality Plan. The successful delivery of the Plan will ensure improved health and social care services for residents and patients and meet an initial forecast budget gap of £123 million over the period to 2020/21. Further details are outlined on the following page.

## Financial position

The Council achieved a £0.15 million underspend on revenue activity and has general fund and earmarked reserves of £106 million at 31 March 2018. The Council reduced its general fund reserve by £0.753 million as part of its budget strategy which is now £13.9 million, the Council's approved risk assessed recommended level. The general fund earmarked reserves balance has decreased by £2.83 million to £92.005 million, this includes movements in the schools balances and the revenue grant reserve (not available for general use). The Council has set aside earmarked reserves to support future budgets and provide financing for future expenditure plans.

The Council has set a balanced revenue budget for 2018/19 which forms the first year of medium term planning through to 2021/22 using latest economic projections on funding and cost pressures. The MTFS identifies that after use of reserves of £7.2 million to balance the 2018/19 budget there is a significant budget gap of £17.9 million in 2019/20 and total cumulative budget gap of £33.27 million from 2019/20 to 2021/22.

The final capital outturn for 2017/18 was £25.8 million against a planned spend of £69.78 million. The underspend was mainly due to re-phasing of several schools schemes and some re-profiling of regeneration projects.

The MTFS is continuously refined as forecasting estimates become clear and the 2018/19 budget recognises ongoing expenditure pressures in Adults (£9.1million) and Children's Social Care (£8 million).

The Council recognises there is clearly a lot to do to ensure financial balance over the medium term and has developed a number of medium term strategies designed to contribute to the required budget reductions. It is working on several key service developments including health and social care devolution, working with partners to build on existing collaborative working arrangements and improvements to information technology.

The Council continues to develop future opportunities for Oldham in the context of the challenging financial landscape. It has a track record of meeting its revenue budget and identifying areas of budget reductions to secure the delivery of public services.

## Overall conclusion

Based on the work we performed to address the significant risk, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The draft text of our report, which confirms this can be found at Appendix D.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p><b>Health and Social Care Integration: working with partners</b></p> <p>Oldham Council and CCG continue to work together to redesign the way health and social care services are delivered across the borough. They are working with Pennine Care Foundation Trust and Pennine Acute Trust to establish joint commissioning arrangements through a Local Care Organisation.</p> <p>The Council and CCG have introduced interim operating arrangements with the intention of creating a pooled budget with a Strategic Joint Commissioning Board.</p> <p>Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p>	<p>Oldham Council and CCG jointly developed the Oldham Locality Plan covering the period 2016/17 to 2020/21. The Plan sets out the vision to improve services and health outcomes for patients in the borough whilst closing an original £123 million forecast financial gap over the period.</p> <p>The Council and CCG's executive management teams have been developing the structures and processes to aim to successfully deliver the Plan. During 2017/18 finance officers across the Council, CCG and other NHS colleagues have jointly worked to drive forward the financial benefits of integrated working.</p> <p>The securing of £21.4 million Greater Manchester (GM) transformation funding with the GM Health and Social Care Partnership during 2017 is a key development in increasing the pace and scale of delivery. Work is progressing between the Council, CCG and key health providers as part of interim operating arrangements to finalise the structure of a Local Care Organisation which will be core to future delivery.</p> <p>The Council and CCG will work initially under an alliance arrangement 'Oldham Cares' with a pooled budget and s75 agreement and with a Strategic Joint Commissioning Board.</p> <p>The Interim Commissioning Partnership have agreed an Oldham Cares outcome framework to inform commissioning priorities and work is underway to test areas for early integrated commissioning in 2018/19. Work to date has also included a comprehensive review of the health, care and wellbeing estate as a key enabler of change.</p> <p>We concluded from our review that the Council is developing comprehensive plans to facilitate the health integration agenda.</p>	<p><b>Auditor view</b></p> <p>The Council has proper arrangements for working with partners effectively to support the delivery of its strategic priorities.</p>

# Independence and ethics

## 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

## Audit and Non-audit services

The independence safeguards for those non-audit and audited related services undertaken for the Council are set out in the table below.

Service	£	Potential threats	Safeguards
<b>Audit related</b>			
Certification of Teachers Pension Return	tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is in the region of £4,600 (to be confirmed for 2017/18) in comparison to the total fee for the audit of £135,621 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
Miocare Group CIC accounts preparation	19,540	Self review	The work is being completed by a separate commercial audit team who have no input into the audit of the Council's accounts.
Provision of place analytics research and intelligence on socio-economic data.	20,000	Self review	The work is being completed by a separate Place Analytics team with no impact on the audit of the Council's accounts.

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Note 24 Creditors	The Council has reclassified some of the analysis between other entities and individuals (£1,400k) to central government bodies (£715k) and other local authorities (£685k).	✓
Note G4 Group defined benefit pension schemes Pension scheme assets	The Council updated the figures within the analysis of pension scheme assets for 31 March 2018 to correct this to a value of £989,855k (previously incorrectly included as £946,786k)	✓
Various	A small number of minor presentational and disclosure amendments have been made to the final financial statements	✓

## Fees

We confirm below our final fees charged for the audit

### Audit Fees

	Proposed fee	Final fee
Council Audit	£135,621	£135,621
Grant Certification	£13,361	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£148,982</b>	<b>TBC*</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

\* The 2017/18 certification fees are indicative. We will agree this once PSAA confirms this as final.

### Non Audit Fees

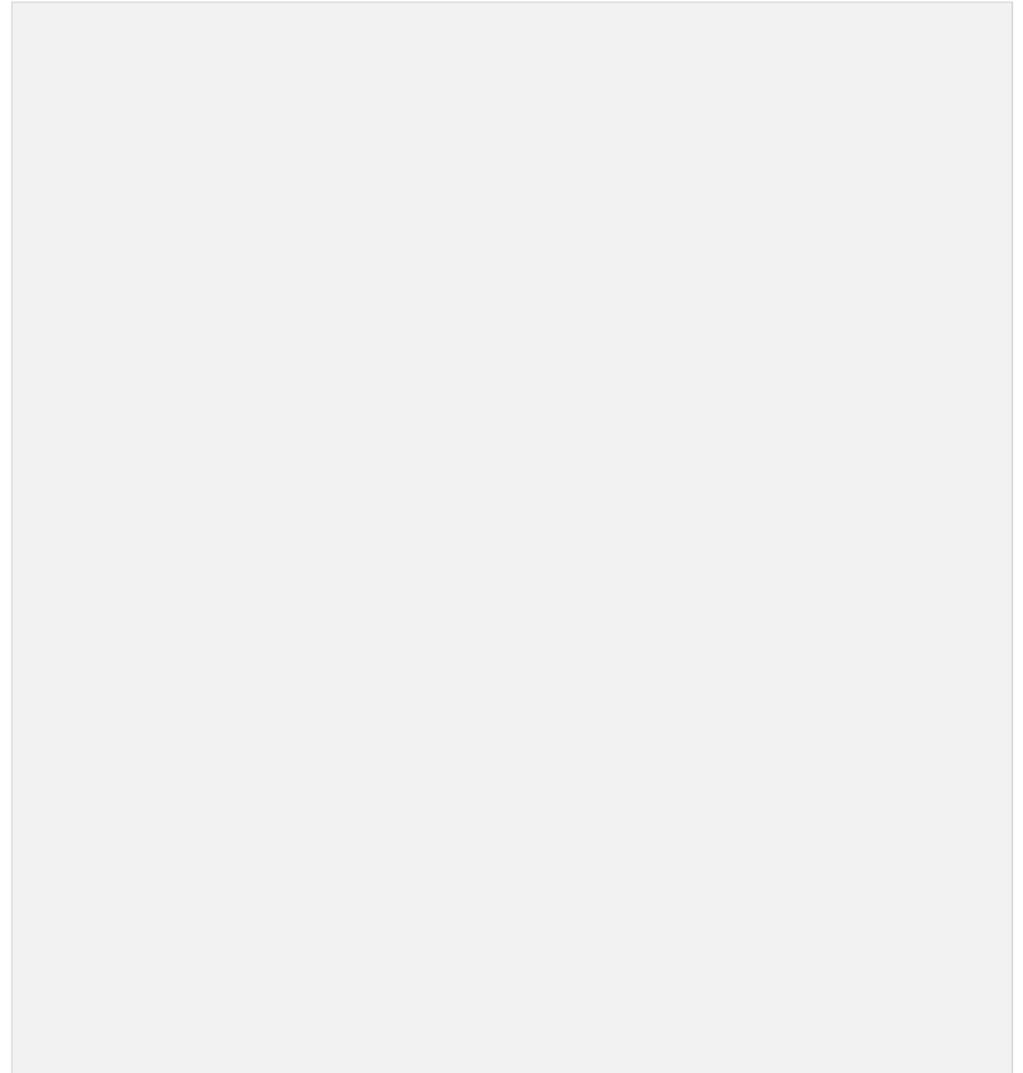
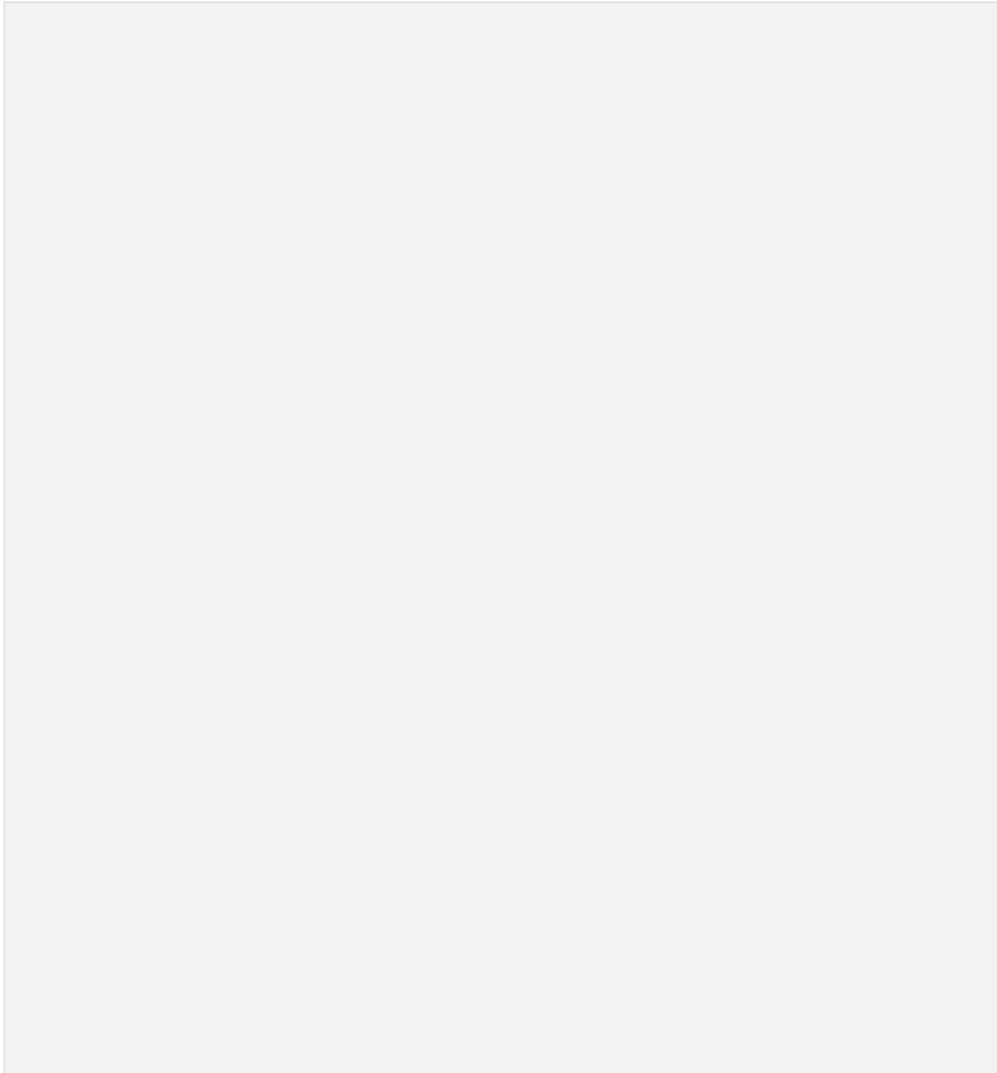
Fees for other services	Fees £'000
<b>Audit related services:</b>	Tbc**
• Teachers pensions return certification	
<b>Non-audit services</b>	19,540
• Miocare Group CIC and it subsidiaries audit	
• Place Analytics socio-economic research data	20,000
	<b>£39,540</b>

\*\* the fees for 2016/17 were £4,600. We will confirm the fee for 2017/18 once the Teachers Pensions Agency provide updated certification guidance.

# Audit opinion

We anticipate we will provide the Group with an unmodified audit report

To follow





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