



# The Audit Findings for Oldham Metropolitan Borough Council

**Year ended 31 March 2013**

29 May 2013

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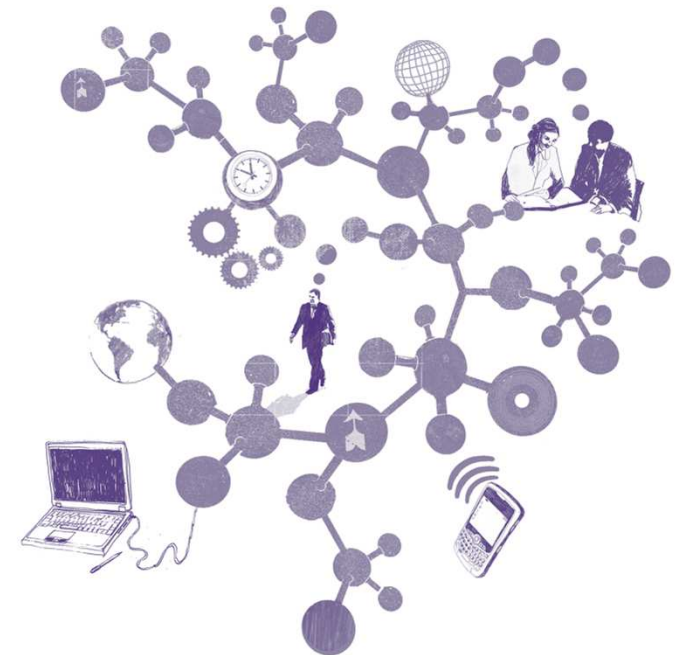
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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.

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key issues affecting the results of Oldham Metropolitan Borough Council (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2013. 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 (UK & Ireland) 260.

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. 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 dated 26 April 2013.

Our audit of the Council's financial statements is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation; and
- 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 does not have a material effect on the financial statements or on my value for money conclusion.

We received the draft financial statements and accompanying working papers on 26 April, in accordance with the challenging timetable set by the Council. The financial statements submitted for audit were yet again of very good quality, delivered by an effective closedown process and supported by comprehensive working papers.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's Comprehensive Income and Expenditure outturn (details of the audit are recorded in section 2 of this report). The draft accounts recorded Total Comprehensive Income and Expenditure as net expenditure of £147,810k.

We have identified a small a number of adjustments to enhance disclosures and the presentation of the accounts, together with one non-material classification error.

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 audit did not identify any material misstatements
- the audited financial statements contain one non material unadjusted misstatement
- finance staff responded promptly to all audit queries, facilitating the prompt completion of the audit

Further details 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**

Our work on Council's submission has not yet started as the Whole of Government Accounts (WGA) consolidation pack is not yet available from the Department for Communities and Local Government. We plan to carry out our work as soon as the Pack has been completed by the Council.

## **Controls**

### **Roles and responsibilities**

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.

### **Findings**

Whilst our work has not identified any control weaknesses within the Council's financial systems that we wish to highlight for your attention, our preliminary work assessing the Council's IT controls did identify some weaknesses regarding access controls.

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 Borough Treasurer.

We have made a small number of recommendations, which are set out in the action plan. Recommendations have been discussed and agreed with the Borough Treasurer and the finance team.

### **Acknowledgement**

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.

**Grant Thornton UK LLP**  
**May 2013**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Overview of 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.

## Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you.

| Account  | Transaction cycle             | Material misstatement risk? | Description of risk                  | Change to the audit plan | Audit findings |
|--|-------------------------------|-----------------------------|--------------------------------------|--------------------------|----------------|
| Cost of services - operating expenses              | Operating expenses            | Other                       | Operating expenses understated       | No                       | None           |
| Cost of services – employee remuneration           | Employee remuneration         | Other                       | Remuneration expenses not correct    | No                       | None           |
| Costs of services – Housing & council tax benefit  | Welfare expenditure           | Other                       | Welfare benefits improperly computed | No                       | None           |
| Cost of services – Housing revenue                 | HRA                           | None                        |                                      | No                       | None           |
| Cost of services – other revenues (fees & charges) | Other revenues                | None                        |                                      | No                       | None           |
| (Gains)/ Loss on disposal of non current assets    | Property, Plant and Equipment | None                        |                                      | No                       | None           |
| Payments to Housing Capital Receipts Pool          | Property, Plant & Equipment   | None                        |                                      | No                       | None           |
| Precepts and Levies                                | Council Tax                   | None                        |                                      | No                       | None           |



## Audit findings

| Account  | Transaction cycle           | Material misstatement risk? | Description of risk                  | Change to the audit plan | Audit findings |
|--|-----------------------------|-----------------------------|--------------------------------------|--------------------------|----------------|
| Interest payable and similar charges   | Borrowings                  | None                        |                                      | No                       | None           |
| Pension Interest cost  | Employee remuneration       | None                        |                                      | No                       | None           |
| Interest & investment income   | Investments                 | None                        |                                      | No                       | None           |
| Return on Pension assets   | Employee remuneration       | None                        |                                      | No                       | None           |
| Impairment / Revaluation of Investments  | Investments                 | Other                       | Revaluation measurements not correct | No                       | None           |
| Investment properties: Income expenditure, valuation, changes & gain on disposal | Property, Plant & Equipment | None                        |                                      | No                       | None           |
| Income from council tax  | Council Tax                 | None                        |                                      | No                       | None           |
| NNDR Distribution  | NNDR                        | None                        |                                      | No                       | None           |
| PFI revenue support grant & other Government grants                              | Grant Income                | None                        |                                      | No                       | None           |
| Capital grants & Contributions (including those received in advance)             | Property, Plant & Equipment | None                        |                                      | No                       | None           |

## Audit findings

| Account  | Transaction cycle           | Material misstatement risk? | Description of risk                  | Change to the audit plan | Audit findings |
|--|-----------------------------|-----------------------------|--------------------------------------|--------------------------|----------------|
| (Surplus)/ Deficit on revaluation of non current assets        | Property, Plant & Equipment | None                        |                                      | No                       | None           |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Employee remuneration       | None                        |                                      | No                       | None           |
| Other comprehensive (gains)/ Losses                            | Revenue/ Operating expenses | None                        |                                      | No                       | None           |
| Property, Plant & Equipment                                    | Property, Plant & Equipment | Other                       | PPE activity not valid               | No                       | None           |
| Property, Plant & Equipment                                    | Property, Plant & Equipment | Other                       | Revaluation measurements not correct | No                       | None           |
| Heritage assets & Investment property                          | Property, Plant & Equipment | None                        |                                      | No                       | None           |
| Intangible assets  | Intangible assets           | None                        |                                      | No                       | None           |
| Investments (long & short term)                                | Investments                 | None                        |                                      | No                       | None           |
| Debtors (long & short term)                                    | Revenue                     | None                        |                                      | No                       | None           |
| Assets held for sale   | Property, Plant & Equipment | None                        |                                      | No                       | None           |
| Inventories  | Inventories                 | None                        |                                      | No                       | None           |
| Cash and Cash Equivalents                                      | Bank & Cash                 | None                        |                                      |                          |                |

## Audit findings

| Account                        | Transaction cycle     | Material misstatement risk? | Description of risk   | Change to the audit plan | Audit findings |
|--------------------------------|-----------------------|-----------------------------|---|--------------------------|----------------|
| Borrowing (long & short term)  | Debt                  | None                        |   | No                       | None           |
| Creditors (long & Short term)  | Operating Expenses    | Other                       | Creditors understated or not recorded in the correct period | No                       | None           |
| Provisions (long & short term) | Provision             | None                        |   | No                       | None           |
| Pension liability              | Employee remuneration | None                        |   | No                       | None           |
| Reserves                       | Equity                | None                        |   | No                       | None           |

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental 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>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</p>         | <p>Our work to address this presumed risk included:</p> <ul style="list-style-type: none"> <li>– review and testing of revenue recognition policies</li> <li>– testing of material revenue streams</li> <li>– review of unusual significant transactions</li> </ul>                 | <p>Our audit work has not identified any issues in respect of revenue recognition.</p>   |
| 2. | <p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p> | <p>Our work to address this presumed risk included:</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> |

## 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 & issues arising   |
|------------------------------|--|---|---|
| <b>Operating expenses</b>    | Operating expenses understated   | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Re-performance of Internal Audit's testing of controls to determine whether assurance on the operation of those controls can be obtained from their testing</li> <li>• Substantive testing of sample of expenses</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified |
| <b>Operating Expenses</b>    | Creditors understated or not recorded in the correct accounting period | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Substantive testing of creditors including post year end payment for cut-off</li> </ul>   | Our audit work has not identified any significant issues in relation to the risk identified |
| <b>Employee remuneration</b> | Remuneration expenses not correct                                      | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Substantive testing of sample of 60 items of salary payments to employees</li> </ul>  | Our audit work has not identified any significant issues in relation to the risk identified |




## 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 & issues arising  |
|--|--------------------------------------|--|--|
| <b>Welfare expenditure</b>             | Welfare benefits improperly computed | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Re-performance of Internal Audit's testing of controls to determine whether assurance on the operation of those controls can be obtained from their testing</li> <li>• Substantive testing of a sample of benefit payments to individual claimants</li> <li>• Substantive testing of IT access to 'Academy' Benefits System</li> <li>• Testing of payment rates used in 'Academy'</li> </ul> | Our audit work has not identified any significant issues in relation to the risk identified  |
| <b>Revaluation of Investments</b>      | Revaluation measurements not correct | We have reviewed the work of the Council's expert on the valuation of the Council's non voting minority shareholding in the Manchester Airport Group   | Our audit work has not identified any significant issues in relation to the risk identified. |
| <b>Property, Plant &amp; Equipment</b> | PPE activity not valid               | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to determine if those controls are designed effectively</li> <li>• Substantive testing of samples of additions and disposals</li> </ul>   | Our audit work has not identified any significant issues in relation to the risk identified  |
| <b>Property, Plant &amp; Equipment</b> | Revaluation measurement not correct  | <ul style="list-style-type: none"> <li>• We have reviewed the work of the Council's expert property valuer</li> </ul>  | Our audit work has not identified any significant issues in relation to the risk identified  |

# Accounting policies, Estimates & 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>Revenue from the provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Council.</li> <li>Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments</li> </ul> | <ul style="list-style-type: none"> <li>The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>Minimal judgement is involved</li> <li>Accounting policy is properly disclosed</li> </ul>   | <br><b>Green</b>   |
| <b>Judgements and estimates</b>  | <ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of capital equipment</li> <li>pension fund valuations and settlements</li> <li>Revaluations</li> <li>impairments</li> <li>Provisions</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>Reliance on experts is taken where appropriate</li> <li>Accounting Policy is properly disclosed</li> <li>We are not minded to challenge the Council's view that a PPA for the revaluation of MAG investments at 31 March 2012, is impractical with reference to recognised valuation standards as the Council was aware that the nature of the company in which the shareholding was held might change fundamentally</li> </ul> | <br><b>Green</b>   |
| <b>Other accounting policies</b> | <ul style="list-style-type: none"> <li>The council has adopted accounting policies in accordance with the Local Government Code of Accounting Practice</li> </ul>   | <ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the Local Government Code of Accounting Practice and do not have any comments to make.</li> </ul>  | <br><b>Green</b> |

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

## Misclassifications & 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. This excludes amendments of a narrative or typographical nature.

| Adjustment type     | Value<br>£'000             | Account balance                             | Impact on the financial statements  |
|---------------------|----------------------------|---|---|
| 1 Misclassification | £15,000                    | Cash Flow Note<br>Note 28                   | Understatement of both purchase and proceeds in Short Tem Investments   |
| 2 Disclosure        |                            | Change in Accounting<br>Policies<br>Note 56 | Disclosure note omits the change in accounting policy in the revaluation of the Council's investment in shareholding in Manchester Airport Group  |
| 3 Disclosure        |                            | Related Parties<br>Note 41                  | Omission of 'Positive Steps as a Related Party, together with its transactions and balances.  |
| 4 Disclosure        | £97,985                    | Leases<br>Note 43                           | Disclosure note overstates prior period figure for future minimum lease payments receivable from operating leases   |
| 5 Disclosure        | £192                       | External Audit Costs<br>Note 38             | Disclosure note understates Total Audit Fee, due to automated casting error   |
| 6 Disclosure        | £7,236<br>£4,072<br>£4,348 | Grant Income<br>Note 40                     | Disclosure note uses incorrect disclosure income headings for <ul style="list-style-type: none"> <li>• Private Finance initiative as New Deal for Communities</li> <li>• Other Government Grants as Private Finance Initiative; and</li> <li>• Other Grants and Contribution as Regional Housing Board</li> </ul> |
| 7 Disclosure        | £19,086                    | Unusable Reserves<br>Note 26                | Omission of disclosure note on Available Sale Financial Instruments Account   |
| 8 Disclosure        |                            | Note 4 Estimation<br>Uncertainties          | Omission of disclosure on estimation uncertainty relating to valuation of Investments in shareholding of Manchester Airport Group.  |
| 9 Disclosure        | £24,740                    | Housing Revenue<br>Account – Note H4        | Omission of disclosure on Impairments   |



## Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:


| Detail  | Statement of Comprehensive income £'000 | Statement of Financial Position £'000 | Reason for not adjusting   |
|---|---|---------------------------------------|--|
| 1 <b>Overstatement of both Cash and Creditors through not recognising a number of payments on 26 March 2013</b> | -                                       | £1,631                                | Not material - payments processed on last working day of financial year. |
| <b>Overall impact</b>   |   | <b>£NIL</b>                           |  |

# Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

|    | Assessment  | Issue and risk  | Recommendations   |
|----|---|---|---|
| 1. |  | Our work on reviewing high level IT controls identified some weaknesses in IT access controls, in particular the lack of reviews of access to General Ledger and Housing Benefit and Council Tax Systems. | IT Controls should be improved by: <ul style="list-style-type: none"> <li>• Periodic acknowledgement of IT Security Policy by all staff</li> <li>• Regular review of user accounts with full system access rights</li> <li>• Periodic testing and verification of rights of system access</li> <li>• Prompt deactivation of leavers from network though provision of HR leavers information.</li> </ul> |

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we, as auditors, 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>We have previously discussed the risk of fraud with the Audit Committee and been made aware of one potential instance of employee fraud and a number of instances of potential benefits claimant fraud. We are satisfied that these have no impact on our opinion.</li> <li>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>Our work on related party transactions identified one related party had been omitted from the appropriate disclosures, management have amended the disclosure and this is included in the relevant preceding section</li> </ul>  |
| 3. | <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>  |
| 4. | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>  |
| 5. | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>Our work identified a few instances where disclosures in the financial statements could be improved. These are included in the relevant preceding section.</li> </ul>  |
| 6. | <b>Going concern</b>                               | <ul style="list-style-type: none"> <li>Our work has not identified any indication that the accounts should not be prepared on a going concern basis.</li> </ul>   |

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## 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; and
- 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; and
- Financial control

Our overall conclusion is that whilst the Council faces challenges, particularly from 2014/15 onwards, its current arrangements for securing financial resilience are good.

### **Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work concentrated on how the council has delivered its £24.5m saving plan for 2012/13 and its plans for delivering savings of £38.2 million over the next two years.

Our overall conclusion is that the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively.

## 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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

## Value for Money

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

| Residual Risk identified  | Assurances obtained  | Conclusion on residual risk   |
|---|--|---|
| <p><b>The Council currently has a relatively high financial indicator for long term borrowing against fixed assets and council tax revenue when compared to other similar councils. This is partly due to fixed asset transfers to new Academies and the fact that PFI schemes are financed by credits from sponsoring government departments rather than council tax revenues.</b></p> <p><b>The receipt of significant PFI credits means that the servicing of long term debt is currently sustainable but the guarantee of payment of future PFI credits from the sponsoring Government Departments will need to be monitored carefully to ensure that they remain secure.</b></p> | <p>The Council has extensive financial management expertise in the area of PFI and applies a great deal of financial and service expertise in managing its PFI contracts in a very pro active manner. This includes regular liaison where needed with Government Departments and detailed review of the financial models, payment mechanisms and contracts which underpin the receipt of PFI credits</p> | <p><b>We are satisfied that the risks are being addressed and there is no adverse impact on our VfM conclusion.</b></p> |

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

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## Fees, non audit services and independence

We confirm below our final fees charged for the audit .

### Fees

|                         | Per Audit plan<br>£ | Actual fees*<br>£ |
|-------------------------|---------------------|-------------------|
| Council audit           | 191,700             | 192,450           |
| Grant certification     | 28,600              | TBA               |
| <b>Total audit fees</b> | <b>220,300</b>      | <b>TBA</b>        |

\*Estimated

Additional fee of £750 (exc VAT) for solicitors fees on providing advice on implications of section 15 date.

### Fees for other services

| Service | Fees £ |
|---------|--------|
| None    | Nil    |

### 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.



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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

International Standards 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.

|  | Audit Plan | Audit Findings |
|--|------------|----------------|
| <b>Our communication plan</b>  |            |                |
| 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.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>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 unmodified auditor's report   |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |
| Delay in certification of completion of audit  |            | ✓              |

# Appendices

## Appendix A: Action plan

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

| Rec No. | Recommendation  | Priority | Management response   | Implementation date & responsibility |
|---------|---|----------|---|--------------------------------------|
| 1       | IT Controls should be improved by: <ul style="list-style-type: none"> <li>Periodic acknowledgement of IT Security Policy by all staff.</li> </ul> | M        | <ul style="list-style-type: none"> <li>Agreed - this is being implemented as part of the Council's response to the consensual audit by the Information Commission Officer (ICO).</li> </ul>   | Underway                             |
|         | <ul style="list-style-type: none"> <li>Review of General Ledger user accounts with full system access rights</li> </ul>                           | M        | <ul style="list-style-type: none"> <li>Agreed. - Full system access accounts have been reviewed for Accounts Payable, Accounts Receivable and Credit Control staff so that they only have the specific access required to do their jobs.</li> </ul> | Complete                             |
|         | <ul style="list-style-type: none"> <li>Periodic testing and verification of rights of system access</li> </ul>                                    | M        | <ul style="list-style-type: none"> <li>Agreed. – This is being considered as part of the programme of activity currently underway.</li> </ul>   | Underway                             |
|         | <ul style="list-style-type: none"> <li>Prompt deactivation of leavers from network through provision of HR leavers information.</li> </ul>        | M        | <ul style="list-style-type: none"> <li>Agreed. to explore options to automate the process to remove access to the network and systems as soon as an individual is classed as a leaver in the system.</li> </ul>                                     | Underway                             |

## 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 Authority financial statements

We have audited the financial statements of Oldham Metropolitan Borough Council for the year ended 31 March 2013 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 Statement, the Movement on the Housing Revenue Account Statement, 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 2012/13.

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 Borough Treasurer and auditor

As explained more fully in the Statement of the Borough Treasurer's Responsibilities, the Borough Treasurer 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 Borough Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. 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 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report 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 Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Council and the auditor**

The Council 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 Council 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.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council'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 November 2012, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Council 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 November 2012, we are satisfied that, in all significant respects, Oldham Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

**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.

Mark Heap  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

31 May 2013

# Appendix C: Management Letter of Representation

[ To be placed on Council letter headed paper]

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

31 May 2013

Dear Sirs

**Oldham Metropolitan Borough Council**  
**Financial Statements for the Year Ended 31 March 2013**

This representation letter is provided in connection with the audit of the financial statements of Oldham Metropolitan Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements.

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable..

- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- viii. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- ix. We have not adjusted the misstatement brought to our attention on the audit summary of unadjusted differences, attached to the ISA 260 Report to those charged with governance, for the reasons stated. The issue is immaterial to the results of the Council and financial position at the year-end.
- x. Except as stated in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council have been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

xiii We have provided you with:

- d. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- e. additional information that you have requested from us for the purpose of your audit; and
- f. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

xiv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xv We have communicated to you all deficiencies in internal control of which management is aware.

xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:

- g. management;
- h. employees who have significant roles in internal control; or
- i. others where the fraud could have a material effect on the financial statements.

xviii We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xix We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xx We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

**Other statements**

xxii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

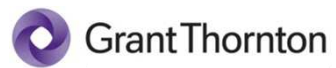
**Approval**

The approval of this letter of representation by the Audit Committee at its meeting on 31 May 2013.

Signed on behalf of Oldham Metropolitan Borough Council.

|                |                |
|----------------|----------------|
| Name .....     | Name.....      |
| Position ..... | Position ..... |
| Date .....     | Date .....     |





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