

The Annual Audit Letter for Rochdale Borough Council

Year ended 31 March 2016

26 October 2016

Graham Nunns

Engagement Lead

T 0113 200 2538

E graham.nunns@uk.gt.com

Gareth Mills

Engagement Manager

T 0113 200 2535

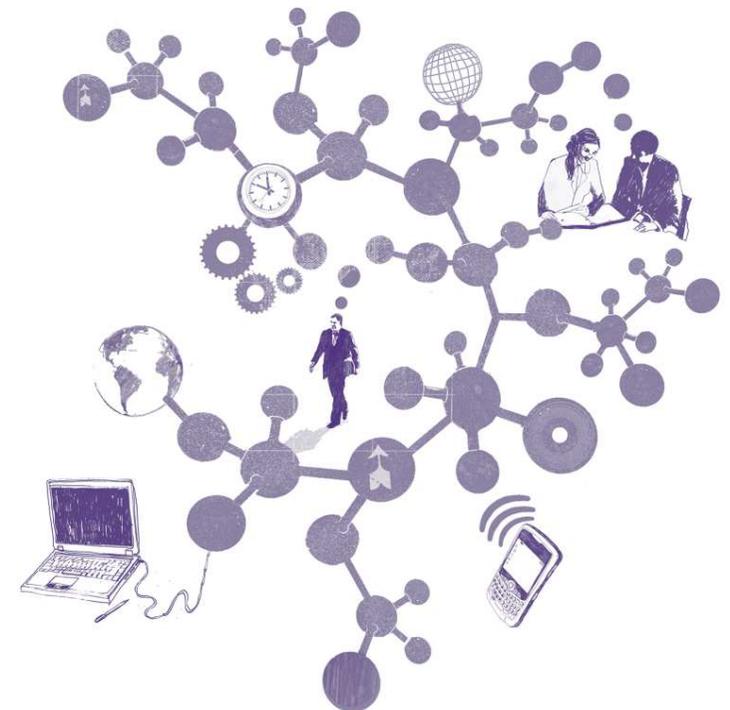
E gareth.mills@uk.gt.com

Daniel Watson

Assistant Manager

T 0161 234 6344

E daniel.watson@uk.gt.com



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rochdale Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance, in our Audit Findings Report, on 8 August 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 8 August 2016. The audit completion has been brought forward by almost two months in the past two years (from 29 September in 2014 and 9 September in 2015, to 8 August in 2016).

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 8 August 2016.

Whole of government accounts

We completed work on the Council consolidation return following guidance issued by the NAO and issued an unqualified report on 18 October 2016.

Certificate

On completion of the whole of government accounts, we certified that we had completed the audit of the Council in accordance with the requirements of the Code on 19 October 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016.

We will report the results of this work in our Grant Certification Letter, due to be issued to officers in December 2016 and presented to the Audit and Governance Committee in early 2017.

Working with the Council

We continue to have a professional and constructive relationship with the Council. The shared commitment and approach to the accounts and audit process by the Council and ourselves, coupled with appropriate discussion and challenge throughout the year, helped to bring forward the completion of the accounts audit.

This was a significant achievement by the Council and we would like to place on record our thanks to all officers involved in supporting the improvements in the efficiency of the accounts and audit process.

Both the Council and ourselves are committed to further enhancing the accounts and audit process in 2016-17. We will be working closely with the senior finance team in our joint aim to achieve a 31 July sign off by 2018, one year in advance of the anticipated move of the statutory deadline to this date.

As we look ahead to 2016-17, we will be providing the Council with access to our CFO insights and Place Analytics offerings and our online analysis tools providing insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Acknowledgement

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
26 October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £11,523k, which was 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and Members' allowances as these are deemed material by nature rather than size.

We set a lower threshold of £576k, above which we reported misstatements to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property plant and equipment (PPE)</p> <p>The Council revalues its assets on a rolling basis over a four year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. These assets are valued at an estimated c£707m by property valuation experts.</p> <p>This represents a significant estimate by management in the financial statements.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> ● reviewed management's processes and assumptions for the calculation of the estimate ● reviewed the instructions issued to the Valuer and the scope of their work ● held discussions with the Valuer about the basis on which the valuation was carried out and challenged key assumptions ● reviewed the competence, expertise and objectivity of the Valuer used ● reviewed and challenged the information used by the Valuer to ensure it was robust and consistent with our understanding ● tested additions and revaluations made during the year to ensure they were input correctly into the Council's asset register. <p>Our audit work on PPE did not identify any material issues. We highlighted a small number of recommendations, which did not impact on the financial statements, to enhance controls over the Council's asset register.</p>
<p>Valuation of surplus assets and investment properties:</p> <p>The Council changed the basis on which it values surplus assets and investment property in 2015-16 because of the introduction of a new international financial reporting standard (IFRS 13). These assets are valued at an estimated c£22m by property valuation experts.</p> <p>The Council also needed to make changes to the disclosures for items valued at fair value under the new financial reporting standard.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> ● reviewed management's processes and assumptions for the calculation of the estimate ● reviewed the competence, expertise and objectivity of any management experts used ● reviewed the instructions issued to valuation experts and the scope of their work ● discussed with the Valuer the basis on which the valuation was carried out and challenged the key assumptions ● reviewed and challenged the information used by the Valuer to ensure it was robust and consistent with our understanding ● tested revaluations made during the year to ensure they were input appropriately into the Council's asset register and 2015-16 accounts ● reviewed the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. <p>Our audit work did not identify any material issues.</p>

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and is valued at c£288m.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> ● identified and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated ● reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation, including review of the basis on which the valuation was carried out ● reviewed the reasonableness of the actuarial assumptions made ● reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary. <p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> ● reviewed entity controls in relation to journal transactions ● tested journals entries ● reviewed accounting estimates, judgements and decisions made by management ● reviewed unusual significant transactions. <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 did not identify any significant issues.</p>
Additional risk identified in our final accounts visit	
<p>Prior period adjustment (PPA)</p> <p>The draft accounts included a prior period adjustment in relation to a material increase in the value of schools, sports centres and cultural buildings since their last valuation in 2013-14.</p> <p>The Council's Valuer noted an increase in valuation of these assets of £47.8m since 2013-14, with the increase in valuation split across the 2014-15 (£25.3m increase) and 2015-16 (£22.5m increase) financial years.</p> <p>The PPA of £25.3m (ie an understatement of property values) arose as a result of a material error in the 2014-15 accounts caused by the Valuer using incorrect build cost factor rates to inform his assessment of whether there had been a significant movement in the valuation in 2014-15. This came to light when the finance team queried the significant uplift in the 2015-16 property valuation figures.</p>	<p>Based on the evidence we obtained, we confirmed our agreement with the Council's accounting treatment for the PPA as follows:</p> <ul style="list-style-type: none"> ● the information that resulted in the PPA was available to the Valuer at the time of the 2014-15 accounts and audit process. Therefore, the PPA was appropriate ● we were satisfied with the split of the increase in valuation between 2014-15 and 2015-16 for the assets concerned ● both the finance team and ourselves challenged the Valuer on his assumptions, and evidence available, to ensure the valuation of the Council's remaining asset base was fairly stated as at 31 March 2016. We confirmed that correct build cost rates had been used for 2015-16. <p>Finally, we noted that the Council has introduced additional procedures, when engaging with the Valuer, in order to reduce the likelihood of a PPA arising in future years.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 8 August 2016, significantly in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a high quality set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Governance Committee on 8 August 2016.

In addition to the key audit risks previously reported on pages six and seven, our audit identified a small number of minor presentational changes which were processed by the Council. We noted a small number of recommendations to further enhance the Council's controls from our follow up of prior year IT findings and review of property, plant and equipment.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. These documents were included on its website alongside the draft accounts in line with the national requirements.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not identified any issues that have required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2015-16 accounts. There have been no circumstances that required us to issue a public interest report in respect of our 2015-16 audit.

Value for Money conclusion (VFM)

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in the table below and overleaf.

As part of our Audit Findings report, agreed with the Council in August 2016, we reported our conclusions arising from our VFM work. This was presented to the Audit and Governance Committee on 8 August 2016.

Overall VFM conclusion

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 2016.

Risk identified	Work carried out	Findings and conclusions
<p>Health & Social Care Integration The Council is seeking to deliver wide-ranging changes and greater integration to ensure the financial sustainability of adult health and social care services.</p> <p>Working with partners from different organisations and service areas with potentially conflicting priorities, can be complex and high profile.</p>	<p>We considered the Council's arrangements for working with other parties as part of the Better Care Fund, its processes for managing risks arising from this, and how it monitors the effectiveness of the partnership working in delivering improvements to services.</p>	<p>The Council and CCG established a shadow Integrated Commissioning Board (ICB) in November 2015 with delegated powers relating to the BCF and management of S.75 agreements. The Board includes representation from both the Council and the CCG. The Council and CCG through the ICB, are working towards further integration of commissioning services including Adults and Children's health and social care, primary care and prescribing over the coming years.</p> <p>The successful integration and reconfiguration of these services in the coming years will be crucial to the future sustainability of both the Council and CCG. Our review noted the sound foundations that have been put in place in 2015-16 and the commitment of both the Council and its partners to ensure integration continues and is successful in the future. We will be monitoring the Council's health and social care integration as part of our 2016-17 audit planning.</p> <p>On this basis, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>

Risk identified	Work carried out	Findings and conclusions
<p>Future budgetary pressures The medium term financial plan depends on its investment programme delivering radical changes to the way in which services are delivered. The programme includes a number of key projects and investments, which are significant both in scale and financial terms.</p> <p>The Council's future budgets remain challenging with further anticipated funding reductions coupled with increasing demand and costs. The Council estimated that, in the period to 2017-18, it needed to address a gross budget gap of c£37m.</p>	<p>We continued to monitor the Council's budgetary performance. We considered the processes established by the Council to identify, manage and monitor the savings proposals to address the budget gap.</p> <p>During our year-end audit, we held meetings with senior members of the finance team and reviewed various financial and budgetary documents.</p>	<p>The Council has set a balanced revenue budget for 2016-17. To achieve its balanced budget, savings of c£23m are required to be achieved. As 2016-17 has progressed, an additional £7m of savings have been identified principally to offset the potential risks arising from Adult and Children's social care pathway redesign not delivering the planned efficiencies during 2016-17.</p> <p>The Council has sufficient contingency balances to offset any issues regarding the possible non-delivery of social care service efficiencies in 2016-17 and is currently projecting a balanced position on its overall revenue budget for 31 March 2017.</p> <p>However, this only transfers the challenge into a future year and the Council's ability to provide 'one-off' mitigations will reduce year-on-year. The Council acknowledges this and is actively working to ensure the service redesign is progressed in order to deliver the required efficiencies, and improved outcomes, for service users in the future.</p> <p>We do not have any significant concerns arising from our review of the Council's budget outturn or future financial planning processes which form part of its arrangements for delivering economy efficiency and effectiveness.</p> <p>On that basis, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>
<p>Risk Management arrangements:</p> <p>The Council implemented new risk management arrangements in response to our recommendations from our prior year value for money conclusion work.</p> <p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.</p>	<p>During our interim audit, we met with the Risk Manager to discuss the arrangements he had implemented since his appointment in September 2015.</p> <p>We continued to monitor the implementation of his action plan, reviewing relevant documentation, and met with him again in July during our year-end audit.</p>	<p>Risks are now routinely reported to the Audit and Governance Committee, the Governance Board and to the Leadership Team, enhancing the awareness, ownership and actions to mitigate the risks, as a result of these discussions. Risk management training has been provided to members of the Audit and Governance Committee and a number of risk champions have been appointed across all Council directorates.</p> <p>Whilst there remains on-going areas to enhance the Council's risk management arrangements, the arrangements are in a stronger position compared to our findings in the prior year.</p> <p>On that basis, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>

Working with the Council

Our work with the Council in 2015-16

We continue to enjoy a positive and constructive relationship with the Council.

An efficient audit – the Council played its full part in us successfully bringing forward the accounts audit completion by a month, signing off on 8 August 2016. This means that the audit timetable is almost in line with the proposed statutory deadline of 31 July two years ahead of its introduction in 2018. This is a real achievement by the Council.

We delivered the accounts audit in line with the timescale we agreed with you, releasing the Council's finance team for other important work.

Improved financial processes – during the year we reviewed the Council's financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We liaised with the Council to enable it to streamline its working papers and processes including, journals, receivables and payables, fixed assets and related parties and made comments to further enhance controls in relation to the fixed asset register.

Understanding the Council's operational health – through the value for money conclusion we provided the Council with assurance on its operational effectiveness. We highlighted the challenges and opportunities arising from its health integration work, the processes put in place to manage its in-year and medium financial position, and acknowledged the improvements made in relation to the Council's risk management arrangements.

Our value for money review provided the Council with external assurance over the economy, efficiency and effectiveness of the appropriate use of resources in 2015-16.

Sharing our insight – we provided regular updates to management and the Audit and Governance Committee updates covering best practice. Our publications shared with the Council included:

- Innovation in public financial management
- Knowing the Ropes – Audit Committee Effectiveness Review
- Making devolution work
- Re-forging local government.

We will continue to provide the Council with our insights and publications into 2016-17.

Thought leadership – We have shared with the Council our publication on 'Building a successful joint venture' and will continue our liaison as the Council considers greater use of alternative delivery models for its services.

Providing training – we provided representatives of the Council's finance team with training on financial accounts and annual reporting. The session was well received and helped support the production of the accounts. We will be running equivalent training workshops to support the 2016-17 accounts and audit process.

Working with the Council

Working with the Council in 2016-17

Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016.

The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historical cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016-17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting, values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may, therefore, have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with their colleagues in the Highways department and potentially also to engage other specialists to support this work, and we are aware that this is already happening at the Council.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. This accounting development is likely to be a significant risk for our 2016-17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

Our discussions with Council Officers to date has highlighted that good progress is being made to date. We will continue our engagement with the Council on this issue to ensure this significant change in accounting is introduced in as smooth and efficient manner as possible.

The audit risks associated with this new development and other issues, and the work we plan to carry out to address them, will be reflected in our 2016-17 audit plan.

Non-audit support

In 2016-17, we will also be providing support outside of the audit. Our advisory team are in the process of providing you with access to CFO insights and Place Analytics, our online analysis tools furnishing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

We hope these tools will help support the Council in challenging its financial and operational performance across a number of areas and in comparison with other local authorities.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Fees

	Planned £	Actual fees £	2014-15 fees £
Statutory audit of Council	136,373	136,373	181,830
Housing Benefit Grant Certification	24,065	24,065	24,800
Total fees (excluding VAT)	160,438	160,438	206,630

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pension Return – reasonable assurance report	4,200
Non-audit services:	
• None	Nil

Reports issued

Report	Date issued
Audit Fee Letter	April 2015
Audit Plan, including interim findings	April 2016
Audit Findings (ISA260) Report	August 2016
Annual Audit Letter	October 2016
Grants Certification Letter	due December 2016



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