



Audit Committee Update for Manchester City Council

Year ended 31 March 2014

March 2014

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Reaping the benefits? – first impressions of the impact of welfare reform', 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', and 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at March 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We have prepared an accounts audit plan, setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	<p>March 2014</p>	<p>Complete</p>	<p>Our audit plan highlights risks identified from our audit planning and interim audit work to date and sets out the work we propose to address those risks. Our audit plan is included on the Committee's agenda.</p>
<p>Interim accounts audit Our interim fieldwork visit includes the following:</p> <ul style="list-style-type: none"> • updating our understanding of the Council's control environment • updating our understanding of the Council's financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early Value for Money conclusion work. 	<p>January – March 2014</p>	<p>On track</p>	<p>We are currently undertaking our interim audit, and have reflected our work to date in the 2013/14 Audit Plan. We will report any significant findings arising from the interim audit to the next meeting of the Audit Committee.</p> <p>As part of our early planning work we have agreed with officers a schedule of working paper requirements and we will continue to hold regular liaison meetings with the key officers involved in the preparation of the Council's accounts.</p> <p>Representatives of the Council's finance team have attended Grant Thornton Local Government Accountants' Workshops held in Manchester in February and March.</p>

Progress at March 2014

Work	Planned date	Complete?	Comments
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	<p>July – September 2014</p>	<p>On track</p>	<p>Our Annual 'Audit Findings Report' to the Audit Committee will summarise the findings from our final accounts audit and will be presented in September.</p>
<p>Value for Money (VfM) conclusion We will give our statutory VfM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness based on two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and • challenging how the Council secures economy, efficiency and effectiveness – focusing on whether resources are being prioritised within tighter budgets. 	<p>January – July 2014</p>	<p>On track</p>	<p>Our 2013-14 VfM audit work will include review of the Council's:</p> <ul style="list-style-type: none"> • preparations for the introduction of the Better Care Fund • progress in delivering its Looked After Children (LAC) strategy and the associated financial savings* • arrangements to secure financial resilience. <p>Our VfM work will be completed in July 2014 and our VfM conclusion will be presented alongside our opinion on the Council's accounts.</p> <p>* We will take into account the work that we have performed following DCLG identifying the Council's LAC Strategy as a possible best practice example for a study into local government financial savings.</p>

Progress at March 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Annual Audit Letter On completion of the audit we will prepare an Annual Audit Letter to summarise our work, including:</p> <ul style="list-style-type: none"> • the accounts audit; and • our VfM work. 	<p>October 2014</p>	<p>On track</p>	<p>Our Annual Audit Letter will summarise the findings from our 2013-14 audit.</p>
<p>2013-14 Certification of claims and returns We will complete a programme of work to certify those of the Council's 2013-14 grant claims and returns requiring auditor certification.</p>	<p>June – December 2014</p>	<p>On track</p>	<p>We will liaise with the Council's grant claims and returns co-ordinator in relation to the claims and returns that will require certification and the timetable for their preparation and audit.</p>
<p>Other activity undertaken Liaison meeting with the Council's City Treasurer, Assistant Chief Executive (Finance and Performance), Head of Internal Audit and Risk Management and Corporate Finance Lead.</p>	<p>March 2014</p>		<p>As part of a recent liaison meeting with this group of key officers, we invited Grant Thornton colleagues with specialisms in employment taxation, VAT and local government advisory work to discuss their recent experiences of work with the local government sector.</p> <p>The round table discussion explored a variety of issues including the Council's m-People strategy, salary sacrifice arrangements and the trust status of leisure services provision. We will be pleased to follow-up these discussions with a meeting to share experience with 'Place Analytics'. Typically this includes the use of demographics, economic base data, land use strategy, local employment, earnings levels and deprivation indices to inform effective planning for the future and help ensure that resource and service plans are robust and resilient.</p>

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman, said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent).

Challenge question:

How have members satisfied themselves that the medium term strategy has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

Councils keep New Homes Bonus

Local government guidance

Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training
- allowing councils outside London to keep all of their New Homes Bonus and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.

Challenge question:

- Has the Council assessed the implications and potential financial impact of the help for housing building measures announced in the Autumn statement?

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? "Challenging the current"

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggests some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Issues to consider:

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks.
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control.

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Issues to consider:

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models.
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model.

First impressions of the impact of welfare reform

Grant Thornton

"Reaping the benefits": first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report 'Reaping the benefits' focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Have officers kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Council carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Council have a plan in place or in development for the introduction of universal credit?

How do you recognise a PFI?

Accounting and audit issues

Private Finance Initiative Schemes and Service Concessions

The Government financial reporting manual (FReM) and the Local Government CIPFA Code of Practice have now adopted IPSAS 32 (International public sector accounting standards) – Service Concession Arrangements.

Previously under IAS 17 (International Accounting Standards – Leases), the recognition point for an asset and a liability in the financial statements for such a scheme was at the commencement date of the contract, when the asset was handed over to the public sector and ready for use.

Now under IPSAS 32, the recognition point is when:

- it is probable that future economic benefits associated with the asset will flow to the organisation
- the cost of the asset can be measured reliably.

This suggests that some authorities may need to consider recognising service concession assets during the construction phase as assets under construction. In reaching a judgement as to whether to recognise an asset under construction, we would expect authorities to consider the extent to which they bear construction risk and whether they can get reliable information on the cost of construction from the operator.

Challenge question:

- Have officers considered whether IPSAS 32 is relevant to the Council?

Reporting the costs of public health

Accounting and audit issues

Changes to 'SeRCOP' – new public health line

CIPFA's Service Reporting Code of Practice ('SeRCOP') for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Challenge question:

- Are finance officers confident they can provide accurate information and a robust audit trail for the new public health line within cost of services?

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Challenge question:

- Are finance officers confident of getting the information from the Council's actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?

Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards, and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

(continued overleaf)

Changes to the public services pension scheme

Accounting and audit issues

Changes to Local Government Pension Scheme continued

Challenge questions

- Is the Council aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the Council taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the Council liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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