



The Audit Plan for Manchester City Council

Year ended 31 March 2014

March 2014

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities	Our response
<p>1. Budget settlement</p> <ul style="list-style-type: none"> In February 2013 the Council approved a Medium Term Financial Plan for 2013/15 following the Comprehensive Spending Review for this period. The impact for the Council was the need to deliver £80m savings across 2013/14 and 2014/15. The Government's provisional local government finance settlement for 2014/15 and 2015/16 was published in December 2013. The Council's current estimates are for a £59m budget gap in 2015/16 rising to £99m in 2016/17, presenting further significant challenges to be addressed. <p>2. Business rates localisation</p> <ul style="list-style-type: none"> In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth. However, local authorities also face a risk to their income as, where business rates reduce, authorities must bear a share of the reduced income, subject to the operation of a safety net. Local authorities will also bear half the cost of any appeals against business rates that were not settled at the date of introduction of the new scheme. 	<ul style="list-style-type: none"> We will review the Council's Medium Term Financial Strategy as part of our financial resilience work to inform our Value for Money conclusion. We will assess the Council's responsiveness to the local government financial settlement announcements, and the robustness of its financial planning. We will continue to liaise closely with the Council's finance team as guidance on accounting for the impact of business rates localisation emerges. In particular, we will consider: <ul style="list-style-type: none"> the Council's arrangements for estimating a provision for business rates appeals the Council's proposed accounting treatment for safety net payments.

Understanding your business (continued)

Challenges/opportunities

3. Brunswick PFI scheme

- The Council entered a 25 year PFI scheme for the refurbishment, redesign and selected demolition of existing council homes, provision of new build homes and wider redevelopment in the Brunswick area of the city in October 2013. The PFI contractor will be responsible for housing provision and neighbourhood management for the duration of the contract. As part of the scheme the Council will:

- transfer existing Council owned homes to the PFI contractor
- make capital contributions towards the costs of the scheme
- receive PFI credits from Government
- pay unitary charges to the contractor over the life of the scheme
- use powers for the compulsory purchase of property within the Brunswick neighbourhood.

The accounting requirements for PFI schemes are complex and it is important to establish an accounting model that complies with CIPFA's Code of Practice on Local Authority Accounting from the outset.

Our response

- We are currently reviewing key documentation relating to the Brunswick PFI scheme including reports to the Executive and the Council's draft accounting model.
- We have engaged an audit specialist with expertise of PFI schemes as part of the audit team for 2013/14. This specialist will engage with the Council's finance team at an early stage and throughout the audit as necessary to ensure audit considerations are taken into account in finalising the Council's accounting model and reflecting the new scheme within the 2013/14 financial statements.

Understanding your business (continued)

Challenges/opportunities

4. Valuation of assets

- The Council's 2012/13 group financial statements received a qualified audit opinion as consolidation adjustments had not been made to align Manchester Airport Holdings Limited's (MAHL's) accounting policies for the measurement of land and buildings with those of the Council.

The Council is working with MAHL to explore the feasibility of commissioning asset valuations as at 1 March 2013 and 31 March 2014 to address the issue giving rise to qualification in 2012/13 in time for the preparation of the Council's 2013/14 group financial statements.

- CIPFA has clarified the 2013/14 Code of Practice on Local Authority Accounting to make it clear that classes of assets (that is, groupings of assets of a similar nature and use e.g. Council dwellings) are to be re-valued simultaneously.

Our response

- We will continue to liaise with officers in relation to the expected commissioning of valuations of MAHL's land and building assets. In particular, we will liaise with officers and valuers as appropriate in relation to the appropriate valuation bases for the different categories of land and building assets held by MAHL.
- We will consider the consistency of accounting policies across significant components as part of our audit of the group financial statements.
- We are liaising with officers as they develop their proposals for the introduction of asset sub-classes (e.g. 'Schools' or 'Libraries' as sub-classes of the 'Other Land and Building' class of assets) and associated disclosure requirements and proposals for future asset valuation programmes. We will assess whether these comply with the requirements of the CIPFA Code.

Understanding your business (continued)

Challenges/opportunities

5. Better Care Fund

- The Better Care Fund (BCF) is a national initiative announced by the Government in the June 2013 spending round. Nationally the fund will divert £3.8 billion of existing resources into new pooled budget arrangements with the aim of securing a transformation in health and social care, integrating services to work more closely together in local areas. The Fund is an opportunity to improve the experience of care and outcomes for patients on the health and social care interface.
- In Manchester the BCF allocation, together with top-ups from the Council and three CCGs, totals £26.7m for 2014/15, rising to £42.1m in 2015/16. The Council is working with the Manchester CCGs to develop a joint health and social care plan that must meet certain requirements, including the protection of social care services and delivery of services 7 days a week to prevent unnecessary hospital admissions at weekends. Work in relation to BCF is within the context of the overall programme for the integration of health and social and BCF proposals were presented to the Council's Executive as part of the 2014/15 budget reports.
- The timetable for the agreement of the high profile BCF plan, at a time when both the Council's and the CCGs' resources are stretched, is challenging.

Our response

- As part of our work to inform our Value for Money Conclusion we will assess the Council's preparations for the BCF, in particular whether
 - the BCF plan meets national conditions
 - the Council has engaged effectively with the providers that will be affected by the plan
 - the governance arrangements surrounding the BCF are defined and understood
 - key performance indicators have been agreed to monitor the outcomes

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements	Our response
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice on Local Authority Accounting are relatively minor for 2013/14, but include a clarification of requirements around property, plant and equipment valuations. • Transfer of assets to Academy schools. The Council's financial statements should clearly identify where material assets are to be transferred out of its control. <p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare Reform Act 2012 <p>3. Corporate governance</p> <p>The Council will include within its financial statements an:</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) and • Explanatory foreword 	<p>We will assess whether:</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance. <p>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and the Audit Committee, providing a view where appropriate.</p> <p>We will consider:</p> <ul style="list-style-type: none"> • the arrangements the Council has in place for the production of the AGS • whether the AGS and the explanatory foreword are consistent with our knowledge of the Council.

Developments relevant to your business and the audit (continued)

Developments and other requirements

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans.

5. Pensions

- The impact of the 2013/14 changes to the Local Government Pension Scheme (LGPS).

6. Other requirements

- The Council is required to submit a 'Whole of Government Accounts' (WGA) pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required.

Our response

We will:

- review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan
- undertake a review of the Council's financial resilience as part of our work on the value for money conclusion.

We will:

- review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management.

We will:

- carry out work on the WGA pack in accordance with requirements
- certify grant claims and returns in accordance with Audit Commission requirements.

Our audit approach

Our audit approach follows the requirements of the International Auditing Standards (ISAs). We have summarised below the key stages involved:

Initial audit planning

At the initial planning stage of our audit we update our understanding of the Council. Our work at this stage includes a combination of:

- meeting with the Council's senior officers
- meeting with Internal Audit and taking account of IA's work programme
- reviewing minutes of Council meetings
- reviewing financial information, including budget monitoring reports
- taking account of any changes in the financial reporting framework.

We set out on pages 4 and 5 of this Audit Plan a high level summary of our understanding of the Council and the key challenges and opportunities it faces.

Risk assessment

Our audit is risk-based and we develop an Audit Plan that responds to the risks and issues we have identified at the initial planning and control evaluation stages. We consider different types of risks including inherent risks, significant risks and other risks such as those arising from system changes and issues identified in prior years. Our audit focuses on risks of material misstatement of the financial statements, and we prioritise identified risks and determine the nature and extent of audit work necessary to address them. Pages 8 to 15 of this Audit Plan provide more detail on our risk-based approach to the audit.

Control evaluation

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. We consider an item as being material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view. We focus our control evaluation work on the high risk areas of the financial statements. In order to assess whether controls have been implemented as intended, we conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs.

Our audit approach - continued

Financial statements audit

As part of the financial statements audit we undertake detailed testing on material income, expenditure, balances and disclosures within the Council's financial statements.

Conclusion and reporting

After completion of our audit testing we consider the impact of any misstatements and omissions we have identified, both individually and in aggregate, on the financial statements. We then assess whether the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year. We take into account significant events that have taken place after the balance sheet date as well as representations from senior officers and those charged with governance. We summarise the findings and conclusions from our audit in our Audit Findings Report.

Throughout the course of our audit we document our work using Grant Thornton's "Voyager" audit software. Voyager is an intelligent software program that stores audit evidence and creates tailored audit testing programmes that ensure compliance with International Standards on Auditing (ISAs).

Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions.	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification of the significant revenue streams at the Council and consideration of the applicability of revenue fraud risk to each cycle <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of attribute testing* on material revenue streams. <p>* Attribute testing focuses on testing, for a sample of transactions, processes within financial systems that those transactions have gone through. For example, testing a sample of rent payments to tenancy documentation or testing a sample of items of expenditure to invoices authorised for payment.</p>
Management over-ride of controls.	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Planned audit work:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of expected unusual significant transactions • Tests of detail on unusual significant transactions.

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Accounting implications arising from the introduction of the localisation of Business Rates.	There is a risk that Council's provision for business rate appeals is significantly misstated.	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed the Council's arrangements for preparing an estimate of the provision required in relation to business rate appeals, including the associated complexities such as the availability of information and the potential for appeals to have knock-on implications. <p>Further work planned:</p> <ul style="list-style-type: none"> We will continue to work closely with the Council's finance officers as they finalise the Council's accounting proposals and we will assess the reasonableness of the estimated provision included in the financial statements.

Other risks

'The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures' (ISA 315).

Other reasonably possible risks	Description	Planned audit work
Operating expenses	Operating expenses understated or not recorded in correct period.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Attribute test expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement.
Operating expenses	Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Sample test payables and accrued expenditure, including reviewing post year end invoices and payments.
Employee remuneration	Remuneration expenses not correct.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Sample test employee expenses to staff records, pay rates and classification in the nominal ledger.
Welfare expenditure	Welfare benefits improperly computed.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Completion of "HB Count" testing Module 2 (uprating), Module 3 (detailed testing), Module 4 (analytical review) and Module 5 (software diagnostic tool).

Other risks (continued)

Other reasonably possible risks	Description	Planned audit work
Housing rent revenue account	Revenue transactions not recorded.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Sample test rent revenues • Undertake predictive analytical review.
Property, plant & equipment	PPE activity not valid.	<ul style="list-style-type: none"> • Update our accounting system and key controls documentation and undertake system walkthroughs • Sample test additions and review the appropriateness and consistency of application of capitalisation policies • Test existence and ownership of assets to title deeds.

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Manchester Airport Holdings Limited	Yes	Comprehensive	<ul style="list-style-type: none"> Alignment of group accounting policies Adequacy of disclosures within the group financial statements. 	<p>Early audit engagement with the Council's finance team.</p> <p>Review of outcome of full scope UK statutory audit to be performed by non-GT member firm KPMG on MAHL's financial statements.</p>
Destination Manchester Ltd	No	Analytical	N/A	Desktop review.

Interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- risk assessment procedures to inform our audit plan and the work we need to perform on the Council's financial statements.

In completing our interim audit work, we will consider:

- the Council's arrangements for estimating a provision for business rates appeals
- Internal Audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls
- the Council's arrangements for the production of its 2013/14 Annual Governance Statement (AGS) and review a draft of the AGS.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2013/14 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to address high risk areas as set out opposite.

The results of all our local VfM audit work and key messages will be reported in a Financial Resilience report, our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources.

We will consider whether the Council is prioritising its resources with tighter budget.

Work to be undertaken

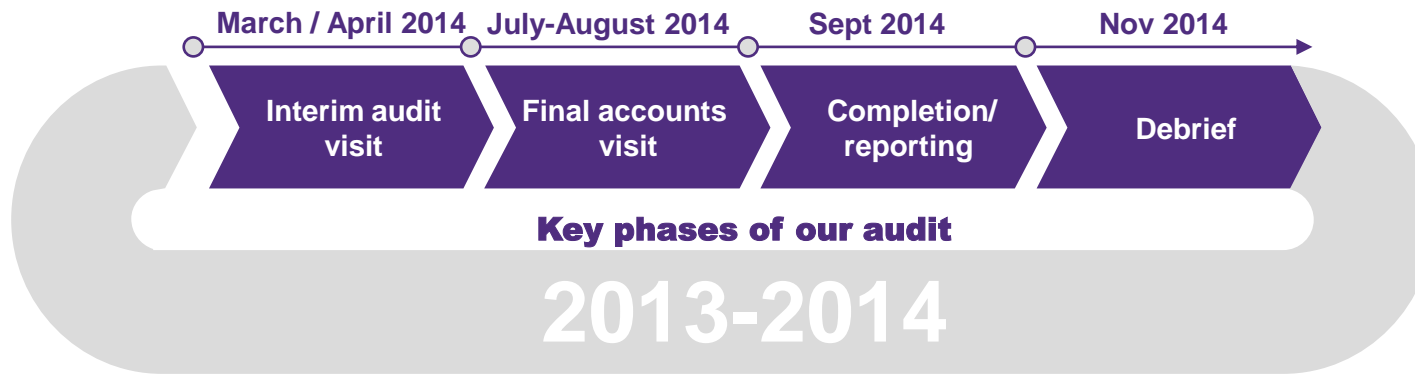
Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review the Council against financial resilience assessment criteria and understand any changes from the prior year
- analyse and comment on key performance indicators of financial resilience
- carry out a review of the Council's savings plans for 2014/15 to 2015/16 with suitable stress testing
- consider the Council's preparations for use of the Better Care Fund
- take account of the Council's structural and transformational changes.

Logistics and our team

The audit cycle



Date	Activity
Feb 2014	Planning meeting
March 2014	Interim site work
March 2014	The audit plan presented to Audit Committee
1 July 2014	Year end fieldwork commences
Sept 2014	Audit findings clearance meeting
Sept 2014	Audit Committee meeting to report our findings
Sept 2014	Sign financial statements and VfM conclusion
Sept 2014	Issue Annual Audit Letter

Our team

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Fees and independence

Fees

	£
Council audit	274,752
Grant certification (estimate)	25,200
Total	299,952

Our fee assumptions include:

- our fees are exclusive of VAT
- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Council and its activities, have not changed significantly
- the Council will make available management and accounting staff to help us locate information and to provide explanations.

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with 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 on the following page.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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).

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.

Communication of audit matters with those charged with governance (continued)

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



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