



Audit Committee Update for Manchester City Council

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July 2014

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Contents

Section	Page
Introduction	4
Progress at July 2014	5-8
Results of interim audit work	9 - 12
Emerging issues and developments	
Guide to local authority accounts	13
Local government guidance	14 - 17
Grant Thornton	18

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 including "Working in tandem, local government governance review 2014" our third annual review assessing local authority governance and "2016 tipping point?" summary findings from our third year of financial health checks of English 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 July 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>	March 2014	Complete	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 was presented at the March 2014 meeting of the Audit Committee.
<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. 	January – March 2014	Complete	Our interim audit is now complete and we provide a summary of our key findings on pages 9 – 12 of this update paper.

Progress at July 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. 	July – September 2014	On track	<p>We have received the Council and Group financial statements and have commenced our audit work on these.</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. 	January – July 2014	On track	<p>Our 2013-14 VfM audit work includes 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 later in July, 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 July 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. 	October 2014	On track	Our Annual Audit Letter will summarise the findings from our 2013-14 audit.
<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>	June – December 2014	On track	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.

Progress at July 2014

Work	Date	Comments
<p>Other activity undertaken</p> <p>Demonstration of Grant Thornton's "Place Analytics" capabilities.</p>	<p>June 2014</p>	<p>We gave a live demonstration of the capabilities of Grant Thornton's Place Analytics online research and intelligence platform to the Council's Deputy Chief Executive and colleagues in June. The Place Analytics software draws on a wide range of data sets including demographics, economic base data, land use strategy, local employment, earnings levels and deprivation indices and it enables this data to be presented from ward to national level using powerful mapping software. Comparison of trends over time and identification of comparable wards and local authorities for a given data set is possible, and this can be used to inform effective planning for the future and help ensure that resource and service plans are robust and resilient.</p>
<p>Meeting to discuss developments in relation to employment taxation.</p>	<p>July 2014</p>	<p>Duncan Groves, Grant Thornton's newly appointed Director – Public Sector Tax, recently met with officers in the Council's Employee Services team to share current experience in relation to a variety of matters including HMRC compliance activity and dispensations, managing employment status, travel and expenses related issues, termination payments and equal pay.</p> <p>Duncan will also be hosting a survey on taxation applicable to local government and we will share summary findings with the Council in due course.</p>

Results of interim audit work

Scope

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

- risk assessment procedures to inform the Audit Plan which we presented to the Audit Committee in March 2014
- the Council's accounting model for the Brunswick PFI scheme
- the Council's approach to commissioning valuations for the purpose of preparing the Group financial statements
- the Council's approach to estimating a provision for business rates appeals
- Internal Audit reports on the Council's key financial systems and detected frauds in excess of £10,000
- walkthrough testing to confirm whether controls are implemented in accordance with our understanding where we have identified risks of material misstatement
- a review of key Information Technology (IT) controls
- the Council's arrangements for the production of its 2013/14 Annual Governance Statement (AGS), and review of the draft AGS.

We set out our findings from the interim audit in the table on the following pages.

Results of interim audit work (continued)

	Work performed	Conclusion / summary
Brunswick PFI scheme	<p>We have:</p> <ul style="list-style-type: none"> engaged an audit specialist with expertise of PFI schemes to review key documentation relating to the Brunswick PFI scheme, including reports to the Executive and the Council's draft and final accounting model discussed key assumptions within the model with both Council finance officers and Deloitte who supported the Council in developing the accounting model compared the Council's accounting model with our expectations, based upon our own accounting model. 	<p>We have concluded that the Council's accounting model is consistent with our expectations and understanding of the Brunswick PFI scheme.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> As part of the final accounts audit will we undertake testing to obtain assurance that the Council's accounting model has been appropriately reflected within the financial statements.
Group financial statements	<p>We have:</p> <ul style="list-style-type: none"> discussed and agreed the group boundary for the Council's group financial statements liaised with the Council's finance officers and with the Council's appointed valuers to seek assurance that appropriate asset valuation bases are applied 	<p>We have concluded that the Council has determined an appropriate boundary for the group financial statements, and that valuers have been instructed in accordance with the requirements of the CIPFA Code on Local Authority Accounting.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> As part of the final accounts audit will we review the group consolidation calculations and check that the valuations undertaken have been reflected within the group financial statements.

Results of interim audit work (continued)

	Work performed	Conclusion / summary
Business rates appeals	<p>We have:</p> <ul style="list-style-type: none"> discussed the Council's arrangements for preparing an estimate for 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>We agree with the Council's assessment that it is appropriate to estimate a provision for the potential impact of both lodged appeals and appeals that may subsequently arise.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> We will audit the calculation of the provision for the estimated settlement value of appeals against business rates, based upon the Council's documented methodology for estimation of this provision.
Internal Audit work	<p>We have:</p> <ul style="list-style-type: none"> reviewed and discussed Internal Audit reports on the Council's key financial systems and frauds in excess of £10,000 reviewed Internal Audit's documentation of key financial system controls liaised with Internal Audit in relation to the Council's draft Annual Governance Statement. 	<p>Based on the work examined, we are satisfied that Internal Audit has undertaken good quality audit reviews of Council key financial systems. There are no issues arising from the findings of Internal Audit's work that impact on the work we will need to perform to complete the audit of the Council's financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusion / summary
Walkthrough testing	<p>We have:</p> <ul style="list-style-type: none"> completed walkthrough tests in relation to the specific areas which we considered to present a risk of material misstatement to the financial statements. 	<p>Our testing has not identified any significant issues and in-year internal controls in relation to employee remuneration, welfare benefit expenditure, operating expenses and housing rent income were observed to have been implemented in accordance with our documented understanding.</p>
Review of information technology (IT) controls	<p>We have:</p> <ul style="list-style-type: none"> engaged an information systems specialist to perform a high level review of the Council's general IT control environment, as part of our review of the overall internal control system. 	<p>Our review has not identified any significant issues. IT controls were observed to have been implemented in accordance with our documented understanding.</p>
Annual Governance Statement	<p>We have:</p> <ul style="list-style-type: none"> discussed with officers the Council's arrangements for the preparation of the Annual Governance Statement (AGS) and reviewed draft versions of the 2013/14 AGS attended the SMT Sub Group for the Use of Resources and Audit Committee meeting at which the draft AGS was reviewed. 	<p>We have concluded that the Council has robust arrangements in place for the preparation of the AGS. We have provided feedback on draft versions of the AGS, making suggestions for minor improvements.</p>

Emerging issues and developments

This section of the Audit Committee update paper provides a summary of some of the emerging national issues and developments that Grant Thornton is aware of. It includes emerging finance, accounting and audit issues as well as a summary of recent Grant Thornton reports. We will continue to work closely with officers to understand the Council's approach in key areas and we will reflect any significant issues in future reports to the Audit Committee.

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the:

- **explanatory foreword** – which should include an explanation of key events and their effect on the financial statements
- **annual governance statement** – providing a clear sense of the risks facing the authority and the controls in place to manage them
- **movement in reserves statement** – showing the authority's net worth and spending power
- **comprehensive income and expenditure statement** – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- **balance sheet** – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures.

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VfM Profiles

Using data from the VfM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said:

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Challenge questions

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?;
- spending on different components of waste management compares with authorities that have similar or better performance?

Blue Badge fraud prosecutions double in three years

Local government guidance

Fraud prevention

The Local Government Association has reported that Blue Badge fraud prosecutions have doubled in three years as councils crackdown on dishonest motorists' impact - hindering disabled peoples' independence and their right to easier parking - see more at: http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/6186329/NEWS#sthash.Pllm4374.dpuf

Stoke-on-Trent City Council, Plymouth Council and Hull City Council recently secured their first prosecutions against fraudsters while **Manchester City Council** has a 100 per cent conviction rate with more than 500 prosecutions in the past five years. Councils are also using new powers to seize and confiscate badges suspected of being used illegally and some have set up specific enforcement teams to tackle Blue Badge fraud.

Cllr Peter Box, Chair of the LGA's Economy and Transport Board, said:

"Councils are determined to do everything in their power to protect the quality of life for our disabled and vulnerable residents and will not hesitate to take legal action against anyone caught abusing the scheme. With more of these fraudsters being brought to justice than ever before by councils, this is sending a strong message that we will come down hard on drivers illegally using Blue Badges."

Priority School Building Programme

Local government guidance

The Schools minister David Laws announced on 2 May 2014 that the government will spend £2bn on a second phase of its Priority School Building Programme in the six years from 2015.

Under the Priority School Building Programme, which replaced the last government's Building Schools for the Future scheme, the government has announced its commitment to spending £18bn on school buildings over the course of this parliament, including £2.4bn targeted at the schools in worst condition. Overall, this funding is set to build around 300 new schools and provide improvements to nearly 600 others.

In announcing this targeted initiative was on course to improve 261 schools with buildings in the worst condition in England by the end of 2017 and that it would now be extended into a second phase, with a further £2bn allocation over the next spending review period to 2021 the minister stated:

"the original Priority School Building Programme worked on the basis of the condition of the whole school site. We will now refine this to look at targeting individual school buildings, as well as whole school rebuilds where this is appropriate, so that the department can focus much more tightly on addressing specific issues in the estate."

Challenge question

Has the Council considered the implications of the Priority School Building Programme for its schools building and refurbishment programme?

Assessing the costs and benefits of local partnerships

Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority, and stemmed from the City Council's community budget work. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.



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