



Audit Committee Update for Manchester City Council

Year ending 31 March 2015

November 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 including "2020 Vision" a thought leadership piece that considers how the local government sector can develop towards 2020 if it is to have a sustainable future, "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 November 2014

Work	Planned date	Complete?	Comments
<p>2013-14 audit Our audit for the year ended 31 March 2014 is now complete.</p>	October 2014	Yes	Our Annual Audit Letter, included on the Committee's agenda, summarises the key findings, conclusions and recommendations arising from the audit work we have undertaken at the Council in respect of the financial year 2013-14.
<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>	December 2014	On track	Our certification work on 2013-14 claims and returns is nearing completion and we will report the findings from our work to the Audit Committee in January 2015. There are no matters arising to date that we wish to report to the Audit Committee.
<p>2014-15 Audit Plan We will prepare an audit plan, setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements and a Value for Money Conclusion.</p>	March 2015	On track	We will present our 2014-15 Audit Plan to the Audit Committee meeting on 26 March 2015. We will be pleased to introduce Mark Heap, the new Engagement Lead for the Manchester City Council audit, at the Audit Committee meeting.
<p>Interim accounts audit Our interim fieldwork visit will include 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 to March 2015	On track	<p>We are currently planning our interim audit and we will report any significant findings and conclusions within the Accounts Audit Plan to be presented to the Audit Committee in March 2015.</p> <p>As part of our early planning work will we provide officers with 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>A representative of the Council's finance team attended a Grant Thornton workshop on schools' and infrastructure accounting on 24 November and we will continue to invite officers to events that we believe will be of interest.</p>

Progress at November 2014

Work	Planned date	Complete?	Comments
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2015	On track	Our Annual 'Audit Findings Report' to the Audit Committee will summarise the findings from our final accounts audit and will be presented in September 2015.
<p>Value for Money (VfM) conclusion</p> <p>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 to July 2015	On track	<p>We will undertake initial risk assessment procedures to inform our 2014-15 VfM audit work and discuss our proposed work with officers. Our VfM work programme, which will include consideration of the Council's progress in responding to the Ofsted inspection of Children's Services, will be summarised in our 2014-15 Audit Plan.</p> <p>Our VfM conclusion will be presented alongside our opinion on the Council's accounts.</p>

Progress at November 2014

Work	Planned date	Complete?	Comments
<p>2014-15 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 2015	On track	Our Annual Audit Letter will summarise the findings from our 2014-15 audit.
<p>Other activity undertaken We are currently undertaking work to enable us to provide an accountants report relating to 2013-14 expenditure funded by HCA Decent Homes grant.</p> <p>We are also currently undertaking work to enable us to provide an accountants report relating to the Council's 2013-14 Teachers' Pensions return.</p> <p>Our public sector PFI accounting expert, Bob Anderson, recently met with members of the Council's finance team to discuss the Council's accounting model for the Brunswick PFI scheme.</p>	November – December 2014	On track	<p>This is non-audit work that is additional to our external audit and undertaken at the Council's request. We have agreed a fee of £4,750 +VAT with officers.</p> <p>This work, formerly part of the Audit Commission certification framework, is now undertaken as non-audit work, at the Council's request. We have agreed a fee of £4,200 +VAT with officers.</p> <p>Early dialogue on accounting for the Brunswick PFI scheme in future years is welcome, and will help ensure the Council's financial statements remain compliant with the requirements of the CIPFA Code of Practice on Local Authority Accounting.</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.

CIPFA LAAP updates

Accounting and audit issues

CIPFA have issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge question

- Has your Council started to implement a project plan for accounting for transport infrastructure assets?

"2020 Vision"

Grant Thornton

Our national report "2020 Vision" is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Protecting the Public Purse 2014

Audit Commission

On 23 October 2014 the Audit Commission released its national report, *Protecting the Public Purse 2014, Fighting Fraud against Local Government*.

"Protecting the Public Purse", the final one being issued before the Commission closes at the end of March 2015, looks at the landscape of fraud against councils and how this has changed since 1990, when the Audit Commission first turned the spotlight on to local government fraud with its 'Protecting the Public Purse' reports. The report highlights that:

- In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.
- In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.
- Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.
- Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.
- Councils are detecting more housing tenancy fraud and more fraud in schools.

The report includes a number of recommendations for all Local Government bodies and a self assessment checklist to review the counter fraud arrangements in place.

Managing council property assets

Audit Commission

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?



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