



# The Audit Findings for Manchester City Council

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**Year ended 31 March 2015**

16 September 2015

**Mark Heap**

Director

T 0161 234 6375

M 07880 456204

E [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)

**John Farrar**

Senior Manager

T 0161 234 6384

M 07880 456200

E [john.farrar@uk.gt.com](mailto:john.farrar@uk.gt.com)



Manchester City Council  
Albert Square  
Manchester  
M60 2LA

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

16 September 2015

T +44 (0)161 953 6900  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

Dear Members of the Audit Committee

### **Audit Findings for Manchester City Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Manchester City Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with management and the Audit Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mark Heap

**Chartered Accountants**

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Manchester Council's and Manchester City Council Group's financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council and Group financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2015.

Our audit is now substantially complete, although we are finalising our work in the following areas:

- finalising a small number of routine audit queries including completing sample testing of schools non-pay expenditure and sample testing of housing benefit awards;
- review of the final version of the financial statements;

- obtaining and reviewing the management letter of representation;
- obtaining and reviewing management's and the Audit Committee's responses to our enquiries relating to internal control, fraud and compliance with laws and regulations;
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the Council's Whole of Government Accounts return.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit Financial statements opinion

The key messages arising from our audit of the group and Council's financial statements are:

- we have identified one material adjustment affecting the Council and Group reported financial position (details are recorded in the adjusted misstatements of this report);
- we have identified a small number of adjustments to improve disclosures within the financial statements (details are recorded in the misclassifications and disclosure changes section of this report);
- we anticipate providing an unqualified opinion in respect of the Council and Group financial statements.

### **Value for Money conclusion**

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has concluded that a qualified "except for" VfM conclusion is appropriate in relation to the 2014/15 financial year. This conclusion reflects the fact that during the 2014/15 year, and as at 31 March 2015, further actions were necessary to address the findings that led to Ofsted's September 2014 assessment that the Council's Children's Services were "inadequate".

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

#### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the City Treasurer and Deputy Chief Executive (People).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the City Treasurer and Deputy Chief Executive (People).

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**16 September 2015**

## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 11 June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 11 June 2015.

## Audit opinion

Our proposed audit opinion is set out in Appendix B.



# Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	<b>Risks identified in our audit plan</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Identification of the significant revenue streams at the Council and consideration of the applicability of revenue fraud risk to each cycle.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We have maintained appropriate professional scepticism throughout the course of the audit.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management override of controls</p>	<p>Review of accounting estimates, judgements and decisions made by management.</p> <p>Testing of journal entries.</p> <p>Review and testing of unusual significant transactions.</p>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against significant risks (continued)

	<b>Risks identified in our audit plan</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
3.	Accounting implications arising from the CIPFA Code of Practice on Local Authority Accounting 2014/15 and LAAP Bulletin 101 (Accounting for non-current assets used by local authority maintained schools).	<p>We have reviewed the Council's accounting policy for Schools (1.3.7) and the Council's Critical Judgement note relating to Schools' non-current assets (2.1).</p> <p>We have considered the facts available concerning the Council's rights and obligations in relation to Schools' non-current assets, and the substance of the arrangements.</p> <p>We have tested the Prior Year Restatements presented in Note 4 to the financial statements.</p>	<p>We have concluded that the Council's accounting policy for Schools and the related critical judgement to be appropriate and consistent with the requirements of the Code.</p> <p>Our testing of the Prior Year Restatements, as presented in Note 4, has provided assurance that these are materially accurate and consistent with the Council's updated accounting policy.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	We have undertaken the following work	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated or not recorded in correct period.	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• substantively tested a sample of operating expenses.</li> </ul>	Subject to completion of testing a small sample of schools non-pay expenditure, our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• sample tested payables and accrued expenditure, including reviewing post year end invoices and payments.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	We have undertaken the following work	Assurance gained & issues arising
<b>Employee remuneration</b>	Remuneration expenses not correct.	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• performed substantive testing in relation to a sample of employees to confirm that they were employed by the Council during 2014/15 and that pay costs and associated deductions have been calculated accurately.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed.	<ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed Academy system parameters, undertaken a high level analytical review and completed detailed testing of a sample of housing benefit awards.</li> </ul>	Subject to completion of testing a small sample of housing benefit awards, our audit work has not identified any significant issues in relation to the risk identified.


## Group audit scope and risk assessment

ISA (UK&I) 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	Work completed	Assurance gained & issues raised
Manchester Airport Holdings Limited (MAHL)	Yes	Comprehensive	Investments carrying value	Review of the outcome of the full scope UK statutory audit performed by non-GT member firm KPMG on Manchester Airport Holdings Limited's 2014/15 financial statements.	Our audit work has not identified any issues we wish to report in relation to either KPMG UK LLP's audit of MAHL's 2014/15 financial statements, or our audit of the consolidation of these statements into the Council's group financial statements.
Destination Manchester Limited	No	Analytical	N/a	Desktop review.	Our audit work has not identified any issues in respect of the consolidation of Destination Manchester Limited.

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue is measured at the fair value of the consideration received or receivable.</li> <li>Where the Council is acting as agent of another organisation the amounts collected for the other organisation are excluded from revenue.</li> <li>Revenue for Council Tax and Business Rates is recognised when the amount of revenue can be reliably measured and it is probable the revenue will be received by the Council.</li> <li>Government grants and contributions are not credited to the Comprehensive Income and Expenditure Statement unless there is reasonable assurance that the conditions relating to the grant or contribution will be complied with and the grant or contribution will be received</li> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul>	<p>The Council's revenue recognition policies are appropriate to its circumstances.</p> <p>Disclosure of the Council's revenue recognition policies is consistent with the requirement of the Code.</p>	 <b>Green</b>

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators disclosure

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved

# Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p><b>Estimates and judgements</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– PFI arrangements</li> <li>– useful life of capital equipment</li> <li>– revaluations and impairments</li> <li>– pension fund valuations</li> <li>– the provision for business rate appeals</li> <li>– accounting for schools' property, plant and equipment</li> <li>– recognition of Heritage Assets</li> <li>– the composition of the Council's group for financial reporting purposes</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Council has disclosed appropriately its accounting policies relating to PFI arrangements, property, plant and equipment (including that of schools), investment properties, and pension schemes. The accounting policy for Heritage Assets (1.3.5) has been expanded to explain that where valuations are not available, and cannot be obtained at a cost commensurate with the benefits to the users of the financial statements, assets are not recognised in the Balance Sheet. These policies are consistent with the requirements of the Code and adequately disclosed.</li> <li>• The Council operates a five year rolling programme of asset valuation. In addition, the Council has commissioned a valuer to assess the potential valuation movements, by type of asset, since the most recent valuations were undertaken. The Council has applied the results of this exercise in determining fair values included in the accounts as at 31 March 2015. The Council has also provided disclosure of asset classes and dates of last valuation in Note 23. We discussed the proposed approach to updating fair values with Council finance officers and we are satisfied that the approach taken does not give rise to risk of material misstatement. We also note the practical difficulties of obtaining valuations as at 31 March for inclusion in the accounts. However, in our view, this approach does not fully meet the requirements of the Code paragraph which requires that revaluations are made with sufficient regularity to ensure that carrying amounts do not differ materially from that which would be determined using fair values at the end of the reporting period. The Council has disclosed that its approach is not strictly compliant with the Code in Note 23.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>


**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators disclosure

● Accounting policy appropriate but scope for improved

● Accounting policy appropriate and disclosures sufficient

## Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p><b>Estimates and judgements</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– PFI arrangements</li> <li>– useful life of capital equipment</li> <li>– revaluations and impairments</li> <li>– pension fund valuations</li> <li>– the provision for business rate appeals</li> <li>– accounting for schools' property, plant and equipment</li> <li>– recognition of Heritage Assets</li> <li>– the composition of the Council's group for financial reporting purposes</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Council has relied appropriately on the work of experts in forming key estimates and judgements, particularly in relation to accounting for pensions and non-current assets.</li> <li>• We have considered the Council's judgement that the publication of the business rate valuation list, rather than the submission of an appeal, is the relevant past event on which to base its estimate of the provision for business rate appeals and concluded that this is consistent with the requirements of the Code and International Accounting Standard 37.</li> <li>• We have reviewed the Council's judgements in relation to the inclusion of undertakings within the group and concluded that these are appropriate and result in materially complete group financial statements.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

### Assessment

● Marginal accounting policy which could potentially attract attention from regulators disclosure




● Accounting policy appropriate but scope for improved

● Accounting policy appropriate and disclosures sufficient




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## Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements - local authority maintained schools premises</b>	The Council has assessed the legal framework underlying each school. The Council controls the non-current assets of community schools and foundation schools vested with the governing body as trustee and therefore the land and buildings of these schools are valued and included in the Council's Balance Sheet. The land and buildings of voluntary aided, voluntary controlled and foundation schools, where the trust is not the governing body, are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the Council's Balance Sheet.	We have considered the information obtained by the Council in relation to maintained schools and concluded that the accounting policy for schools, and the related critical judgement, to be appropriate and consistent with the requirements of the Code.	 <b>Green</b>
<b>Going concern</b>	The Council's accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.	We have reviewed the senior officers' assessment and are satisfied with the assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

### Assessment

-  Marginal accounting policy which could potentially attract attention from regulators disclosure
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period that resulted in a change to our planned audit procedures and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our work has found no material disclosure omissions.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Note 46 has been expanded to include transactions with three related parties - Northwards Housing Limited, Enterprise Manchester Limited and Manchester Working Limited - on the basis that the Council's transactions with these entities were material to those entities.</li> <li>We are not aware of any undisclosed related party transactions.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested direct confirmations from various third parties covering non-current asset valuations and year end balances on loans, investments and bank accounts as part of our audit of the Council and Group financial statements. The majority of these requests have now been received, all with positive confirmations. We are pursuing the outstanding requests and expect that these will be received well in advance of the conclusion of the audit.</li> </ul>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through key internal controls for employee remuneration, operating expenses and welfare benefit expenditure. Controls were found to be operating effectively and we have no matters to report to the Audit Committee.

One adjustment to the draft financial statements - affecting both the Council and Group Balance Sheets - has been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. We are not aware of any significant unadjusted misstatements.

**Impact of adjusted misstatements**

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £m	Balance Sheet £m
<p>1 With certain exceptions (for example in accounting for infrastructure, community assets, assets under construction and certain heritage assets) the Code requires that Property Plant and Equipment (PPE) assets are valued at fair value. Fair value of PPE assets is usually determined by a qualified valuer, with reference to market conditions. Our testing of the Council's PPE balance identified a small number of assets with high carrying values that had not been valued in recent years. These assets were instead reported at cost, being the cost of acquiring the assets and the subsequent capital expenditure related to the assets. The assets concerned are now mainly pieces of land awaiting development as part of the Council's regeneration plans - for example land in the Toxteth Street area of Higher Openshaw. The Council has now obtained internal valuations of the most significant assets and these valuations give rise to material impairments within the financial statements. These accounting impairments have been treated as prior year adjustments with reductions to the PPE and Capital Adjustment Account (CAA) balances in the earliest Balance Sheet position presented (as at 1 April 2013). We understand that the remaining assets will be included within the Council's valuation programme, for valuation in future years. Consequent amendments have been made to the Council and Group Movement in Reserves Statement, Group Balance Sheet, Council Notes 4, 19, 40 and Group Notes 7 and 13.</p>	<p>NIL</p>	<p>Dr Capital Adjustment Account (CAA) £78.3m</p> <p>Cr PPE £78.3m</p>
<p><b>Overall impact</b></p>	<p><b>£NIL</b></p>	<p><b>£78.3m</b></p>

# Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance / Note	Impact on the financial statements
1 Misclassification	13,852 / 13,575 / 277	Collection Fund – Apportionment of Previous Year Business Rates Deficit	The apportionment of the 2013/14 Business Rates deficit had been misclassified between Greater Manchester Fire and Rescue Authority, Central Government and the Council within the Collection Fund. The reclassification has no impact on the Collection Fund balances carried forward.
2 Disclosure	N/a	Accounting Policy for Heritage Assets 1.3.5	The Council's accounting policy for Heritage Assets has been expanded to note that where a valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements the assets are not recognised on the balance sheet.
3 Disclosure	N/a	Note 38 – Financial Instruments	The disclosure in Note 38 has been expanded to provide enhanced disclosure in relation to financial liabilities at amortised cost, in addition to that necessary to comply with the Code.
4 Disclosure	N/a	Note 46 – Related Party Transactions	The disclosures in Note 46 have been expanded to include three further related parties - Northwards Housing Limited, Enterprise Manchester Limited and Manchester Working Limited - on the basis that the Council's transactions with these entities were material to those entities.

## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council is performing well in securing financial resilience, despite continuing to operate in a challenging financial environment. This will assist the Council in managing the significant financial challenges that will be faced over the next two to three years.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity
- the work of other regulators

Overall our work highlighted that the Council has well established and effective arrangements for prioritising resources and increasingly sophisticated arrangements for challenging efficiency and seeking to improve productivity.

We note that the Council has taken a variety of actions designed to reduce instances of sickness absence, improve the health and well being of the workforce and improve productivity, but that in common with many other local authorities in the North West actual absence rates increased during 2014/15.

We also note that the Council is making good progress in redesigning its Children's Services and in addressing the findings from Ofsted's September 2014 report on the effectiveness of the Council's Children's Services, although more work remains to be done in this key area.

### Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that with the exception of certain matters relating to effective arrangements for Children's Services, 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 ended 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	<b>Inadequate arrangements</b>

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>Our review of key financial performance indicators shows that the Council remains in a strong position, which will assist in managing the significant financial challenges that are to be faced over the next two to three years.</p> <p>Our review of indicators relating to liquidity, borrowing, performance against capital and revenue budgets, reserves balances and schools balances all rated the Council as "green".</p> <p>The Council delivered an underspend of £1.2m for 2014/15, against a revised revenue budget of £563m. The General Fund reserve was £27m at 31 March 2015, a level risk-assessed as the prudent minimum by the City Treasurer. The Council's capital outturn for 2014/15 was £192.5m, 85% of the amount forecast in February 2015. This level of capital outturn against forecast is comparable with recent years, with the variance primarily relating to the re-profiling of budgets into future years. The Housing Revenue Account outturn was a surplus of £7.9m against the 2014/15 budget, arising from additional rental income, improved rent collection rates and lower than budgeted revenue contribution to fund capital works. The Council continues to monitor its financial position and performance closely, and at the end of July 2015 the Council was forecasting a marginal (0.1% or £0.8m) overspend against its 2015/16 revenue budget.</p>	<b>Green</b>



Theme	Summary findings	RAG rating
<p><b>Strategic financial planning</b></p>	<p>The Council has set out a strategic framework, including the Council's strategic priorities for growth, service improvement and a better quality of life for Manchester residents. The Council's vision is to reduce dependency and demand for high cost services that would otherwise become increasingly unaffordable. By tackling dependency the Council plans to secure resources to fund universal services to help the City's economy to grow and places to prosper. The Council's plans have been formulated within the context of the Greater Manchester Strategy, the Community Strategy and the priorities for growth, people-based reform and place. The Council recognises that it needs to act to increase the skills of the workforce, help create jobs and equip residents to access these jobs and it has set out and is acting on its priorities for reform.</p> <p>The business planning and budget setting process is embedded throughout the Council, with good member involvement and engagement with residents, businesses and partner organisations has taken place. The assumptions underlying the Medium Term Financial Strategy are reasonable and scenario planning has been used where appropriate.</p>	<p><b>Green</b></p>
<p><b>Financial governance</b></p>	<p>The Council has effective financial governance arrangements in place which we have rated "green".</p> <p>Through the business planning and budget setting process, the Council understands its financial environment at all levels, including members, who are actively engaged in the process. Clear and comprehensive reports are produced at all levels covering capital and revenue budgets, treasury management and savings plans.</p> <p>The MTFs for 2015/17 was approved by Executive and Council, with savings of £91m to be achieved in this two year period. The Council is so far on track to achieve this target, and understands the financial pressures it will face in the 2015-17 period.</p> <p>The Council's Risk Management Strategy is well developed and embedded throughout the organisation. This includes financial risks and is monitored by SMT and Audit Committee.</p> <p>The Annual Governance Statement, which the Council has reviewed and improved in year, outlines actions taken and those needed to address current concerns. It underpins the risk management culture of the organisation. The Audit Committee provides effective scrutiny of the Council's governance arrangements.</p>	<p><b>Green</b></p>

Theme	Summary findings	RAG rating
<p><b>Financial governance (continued)</b></p>	<p>The Council's Senior Management Team receives monthly finance reports including information on the delivery and achievability of savings targets. Savings plans are risk-rated to allow attention to be focussed on high risk areas. The Council's reporting of progress against revenue and capital budgets is considered robust and comprehensive. Monthly reporting to the Senior Management Team includes information on original and revised budgets, and the forecast outturn position as well as a detailed narrative on budget variances directorate by directorate.</p> <p>Regular budget monitoring reports are presented to the Council's Executive during the financial year, including Global Revenue Budget Monitoring reports and Capital Programme Monitoring reports. These reports provide a good balance between financial information and accompanying narrative and draw members' attention to significant budget variances. In addition to reports on revenue and capital budgets, reports are provided on treasury management and savings plans as well as ad hoc reports providing financial information on Council projects and sector developments.</p> <p>Reports received by the Executive include both current and forward-looking financial information to help promote longer-term financial planning.</p>	<p>Green</p>
<p><b>Financial control</b></p>	<p>Recent internal and external audit work programmes have provided assurance that the Council has generally sound internal financial controls in place across all key financial systems. The Council's assurance framework in relation to financial control, including an effective Audit Committee, works well.</p> <p>The Council's finance staff are experienced and appropriately qualified and the Council uses its financial system, SAP, to ensure effective financial reporting throughout the year. Good arrangements are in place to meet year-end statutory financial reporting requirements. The Council has an effective Internal Audit function in place.</p> <p>We also note that the Council has a good track record of delivering performance in line with agreed budgets. The Council has a robust framework in place for budget setting and monitoring, for both revenue and capital budgets. The budget preparation process involves the consideration of alternatives and it takes place early enough to allow meaningful consultation to take place before final budgets are approved.</p>	<p>Green</p>

Theme	Summary findings	RAG rating
<p><b>Financial control (continued)</b></p>	<p>Budgets are monitored throughout the year, at both officer and member level, and this takes place at an appropriate level of detail and at an appropriate frequency to allow action to be taken where necessary.</p> <p>The Council has a good track record of achieving savings targets and meeting its budget. The Council delivered savings of £29.3m in 2013-14 and a further £25.8m as part of its 2014-15 budget.</p> <p>The Council has a sound and appropriate finance structure in place, with experienced senior managers and staff within the finance department. The resourcing of the finance department reflects the scale and complexity of the Council's financial affairs, and we note that due priority and importance is given to emerging issues, for example in relation to the devolution of powers and responsibilities to the Greater Manchester area.</p> <p>Staff responsible for the production of the accounts, monthly finance reports and global revenue monitoring reports are all suitably experienced.</p> <p>Internal Audit plans are approved by the Audit Committee annually and the Committee is regularly updated on progress, findings and any significant changes to the audit plan. Action plans are followed up and monitored through regular reporting to the Audit Committee. Internal Audit's work programme is comprehensive in its coverage and contributes to an effective control environment at the Council.</p> <p>Management has established a robust process to track external audit recommendations and regular reports on the implementation status of such recommendations are presented to the Audit Committee.</p>	<p><b>Green</b></p>
<p><b>Prioritising resources</b></p>	<p>In the context of ongoing financial austerity at a national level, large reductions to public spending, and a growing local population with a fast changing demography, the prioritising of resources is a more important consideration than ever for the Council.</p> <p>The Council has identified and communicated its strategic priorities which centre around the three themes of "growth", "reform" and "place" and these priorities have provided a clear framework within which difficult choices can be made.</p> <p>The Council's 2015/17 budget setting process commenced at an early stage with the Senior Management Team meeting to consider budget strategy in August 2014, followed by meetings with members in September and October 2014 ahead of a well established cycle of Committee and Executive meetings, which included the Council's six scrutiny committees considering the business plans for the Council's directorates. The Council approved the 2015/17 budget at its meeting on 6 March 2015.</p>	<p><b>Green</b></p>

Theme	Summary findings	RAG rating
<p><b>Prioritising resources (continued)</b></p>	<p>Commencing the budget setting process early allowed time for considered saving options to be developed and assessed by officers for deliverability and impact prior to being debated by members and consulted on. To assist members in prioritising resources, officers identified options using two or three tiers, with progressively higher financial savings and service impact.</p> <p>The Council conducted an extensive consultation process as part of the 2015/17 budget setting process, involving consultation with residents, partners and businesses. The main budget consultation, including plain English narrative, was launched on 26 November 2014 via the Council's website and ran until 18 February 2015. In addition a series of public consultation events also took place and new communication activity and channels included films, social media and live streaming of meetings. The Council has also carried out specific consultations in relation to savings proposals where statutory consultation is required.</p>	<p><b>Green</b></p>
<p><b>Improving efficiency &amp; productivity</b></p>	<p>The Council has a track record of identifying and delivering savings to deliver financial balance and stability. Savings and budget plans in recent years have taken account of the need for service reform, efficiency and effectiveness, not simply the need to reduce budgets. In particular, we note:</p> <ul style="list-style-type: none"> <li>• collaborative work with partners to redesign services with the aim of reducing dependency and improving the quality of targeted services;</li> <li>• the development of "Centres of Excellence", bringing together specialist skills to provide internal support and challenge;</li> <li>• the increasing use of IT and digital solutions to improve efficiency whilst also reducing cost;</li> <li>• working collaboratively with partners to create the right conditions for private-sector led growth;</li> <li>• an increasing focus on income generation to support and deliver services;</li> <li>• targeted investment and "invest to save" programmes designed to improve services and unlock future savings;</li> </ul>	<p><b>Amber</b></p>

Theme	Summary findings	RAG rating
<p><b>Improving efficiency &amp; productivity</b></p>	<p>The Council's performance monitoring framework is increasingly sophisticated and includes dashboard reporting on Community Strategy indicators, workforce, finance and risk related indicators, as well as contextual indicators on the state of the economy and the impact of welfare reform. Detailed monitoring of complaints received by the Council compliments the suite of information that officers are increasingly using to inform management actions to improve efficiency, productivity and service.</p> <p>We have assessed the Council's performance in relation to sickness absence as "amber" in the last two years, reflecting the relatively high levels of absence compared to available public and private sector averages. The Council is working with other local authorities to establish consistency in sickness absence benchmarks and we note that a variety of actions have been taken and are being taken, consistent with the management response to our 2013/14 Annual Audit Letter recommendation on reducing the incidence of sickness absence. In particular, we note:</p> <ul style="list-style-type: none"> <li>• detailed reports setting out corporate and directorate absence trends and management actions to improve attendance are being presented to senior officers and members</li> <li>• managers are being both supported and challenged in relation to attendance management</li> <li>• an increasing emphasis is being placed on compliance with corporate policies, for example the Return to Work policy, supported by investment in online reporting tools</li> <li>• additional guidance and training has been made available to line managers</li> <li>• continuing promotion of the benefits of regular physical activity</li> <li>• the use of low cost rewards to incentivise 100% attendance rates.</li> </ul> <p>Despite the positive actions being taken by the Council, sickness absence rates increased by around 9% compared to 2013/14, with a similar average increase observed across the Greater Manchester area.</p> <p>The Council has quantified the opportunity cost, in terms of lost productivity, and the direct cost arising from engaging agency staff to cover periods of absence as approximately £6.5m and £0.7m per annum respectively. The Council should continue to identify and challenge areas of poor sickness absence performance, informed by its increasingly sophisticated management information in this area.</p> <p>Despite progress in improving efficiency and productivity in other areas including those outlined above, because of the opportunity to improve productivity and efficiency through reducing sickness absence we have rated this area "amber".</p>	<p><b>Amber</b></p>

## Ofsted inspection

In September 2014 a report by Ofsted concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Board in the Manchester City Council area were judged to be inadequate. Ofsted's conclusion followed a three week inspection process, conducted in June and July 2014. The focus of the inspection was on case tracking and the journey and experience of Manchester's children and young people from being identified as needing services to their receipt of services.

Ofsted delivered four key judgements, on a four point grading scale of 'outstanding', 'good', 'requires improvement' and 'inadequate'. These key judgements relate to:

Area of assessment	Ofsted assessment
1. The experiences and progress of children who need help and protection	Inadequate
2. The experiences and progress of children looked after and achieving permanence	Requires improvement
2.1 Adoption performance	Inadequate
2.2 Experiences and progress of care leavers	Requires improvement
3. Leadership, management and governance	Inadequate
4. The Local Safeguarding Children Board – the arrangements in place to evaluate the effectiveness of what is done by the Council and board partners to safeguard and promote the welfare of children	Inadequate

The inspection found no evidence of widespread or serious failings that left children harmed or children at risk; however, Ofsted concluded that children could potentially have been left at risk.

The inspection noted that:

- political support for children's services and looked after children is well evidenced
- all looked after children that were interviewed said they felt safe
- frontline staff, in particular social workers, generally do a difficult job well in challenging circumstances

but that:

- there are issues of timeliness in dealing with contacts and referrals, with little or no triaging of domestic abuse referrals
- a significant number of assessments of children in need were outside the 45 day standard
- social work caseloads are too high
- the turnover of social workers is too high
- children are waiting too long to be placed or adopted, and black and minority ethnic children wait longer
- the proportion of children not in employment, education or training ('NEET') is getting worse
- management oversight is not consistently robust
- change is implemented too slowly
- the Local Safeguarding Children Board is slow in responding to actions in serious case reviews, and there is insufficient partner engagement to drive changes required.

We reported in our 2013/14 Annual Audit Letter that:

the Council was unequivocal in its acceptance of the Ofsted judgements, and the Council's commitment to an improvement programme was given to the Department for Education (DfE) at a meeting held on 8 September 2014.

The Council took immediate action following headline feedback from Ofsted, received on 16 July 2014. In particular:

- a senior multi-agency Improvement Board was established, chaired by the Council's Chief Executive
- a sub-group of the Council's Executive was established to oversee improvements
- a sub-group of the Council's Young People and Children Scrutiny Committee was established, again to oversee improvements
- the backlog of assessments was removed
- caseloads for social workers in North Manchester were reduced, with plans being progressed for reductions in South and Central Manchester
- a new domestic abuse triage service was introduced
- work to accelerate the matching of children to adopters was commenced; and
- work commenced towards introducing a multi-agency hub, with plans for co-location of police, NHS and social care staff.

During the course of our 2014/15 audit we have monitored the Council's progress in delivering improvements in its children's services.

The Council has articulated its Vision for Children's Services in Manchester as follows:

"Children and families will be:

- at the heart of our vision for Manchester
- living in families connected to growth
- supported by excellent universal services

Intervention will be done at the right time, in the right way. Children will thrive at school, achieve good outcomes, become good parents themselves.

As an organisation we will:

- be a learning organisation – creative and innovative
- work in partnership and demonstrate good practice
- contribute to the corporate priorities of people, place and growth."

Following interviews held by a multi-agency panel an independent Chair of the Improvement Board, was appointed in October 2014. The new Chair is a former Director of Children's Services and was appointed on the basis of her skills and ability to provide robust challenge to the Council and its partners.

The Council appointed an experienced leader of Children's Services, to the position of Interim Strategic Director of Children's Services in October 2014.

Following the Interim Director's appointment, an internal review of the Council's Children's Services was undertaken and this review, together with the findings from Ofsted's inspection, informed the development of a Children's Services Improvement Action Plan. This is an action plan to deliver that part of the wider Children's Services Improvement Plan which was established in the light of the Ofsted report and which focuses on:

- getting the basics of services to children in the City right;
- Children's Services as part of public service reform;
- reducing demand, and therefore cost, within Children's Services.

Progress against this Action Plan is transparently monitored on a monthly basis at the Improvement Board, with individual actions colour-coded according to progress with delivery.

The Council recognised that it had issues to address in relation to the service's:

- leadership and management
- workforce
- quality of social work practice

and we comment on these areas below.

### **Leadership and management**

Council Members have exercised strong leadership in relation to the improvement of Children's Services in Manchester, with both pre-existing and newly-established governance structures providing oversight, challenge and support. A two year 2015/17 £14m Investment Plan - funded from reserves on an invest to save basis - was approved as part of the 2015/16 budget setting process. An Investment Board, Chaired by the Council's Chief Executive with the City Treasurer as Deputy Chair, meets on a monthly basis to challenge and approve the release of phased investments.

The Council has put in place a new Children's Service leadership team. Following the appointment of an Interim Strategic Director of Children's Services in October 2014, a permanent Deputy Director of Children's Services took up post in June 2015.

The Council's Personnel Committee has approved a new senior management structure and external appointees are expected to take up positions in September 2015. The appointment of a permanent Strategic Director of Children's Services, to take up position around May 2016, will be key to continuing the pace and scale of change needed to deliver on the Improvement Plan.

A culture of performance management is starting to become embedded, with managers being held to account for the performance of their teams. A service level performance tracker is used to report performance against a variety of metrics on a monthly basis and work is in progress to refresh the metrics that are monitored to take account of progress achieved to date and key targets moving forwards.

### **Workforce**

Progress has been made in addressing key workforce challenges. In particular, the reduction of caseloads for both newly qualified and experienced social workers has been a priority and - whilst caseload targets were not achieved during 2014/15 - improved recruitment processes have led to the position where staffing vacancies were filled by July 2015, and filled with permanent staff by August 2015. This has allowed for reductions in average caseloads, although further work will be needed to reduce newly qualified social workers' caseloads to target levels. Weekly meetings are being held to monitor and manage social worker caseloads.



The Council recognises the challenges presented by high staff turnover. During the year to March 2015, staff turnover rates were between 15% and 25% across children's social work teams, compared to an average of 5% staff turnover within adults' social work teams. In June 2015 the Council's Personnel Committee approved one-off and staged retention payments of up to £3,000 per employee to improve retention rates in the short term. The Council recognises that stronger leadership and management, improved commitment to continuing professional development, caseload reductions, exit interviews and forward workforce planning will all help to improve staff retention in the medium and long term.

### **Quality of social work**

The quality of social work practice will ultimately determine whether the Council improves outcomes for children referred to Children's Services.

As noted above, there has been a focus on reducing average social worker caseloads and on stabilising teams, as this will allow for further professional development whilst improving stability of relationships for children referred to the service. New staff training arrangements have been put in place in relation to the professional requirements of social work practice and on the basics of the management of people, operations, performance and budgets.

An improvement in the proportion of children in need assessments completed within the 45 day standard was achieved during 2014/15, with this moving from a position where some 46% of assessments were outside of the 45 day timescale in July 2014 to 11% of assessment being outside of this timescale in March 2015. A new system has been introduced that ensures all locality managers track assessments on a weekly basis and agree with workers any assessments that can go out of timescale, and record the reasons why. All other cases are expected to be assessed within the required timescales. Some further work needs to be done to achieve compliance with the 45 day standard, but we consider the progress achieved to date to be encouraging.

The numbers of children looked after by the Council are beginning to reduce as a result of a variety of actions taken as part of the Looked After Children Strategy. Detailed case reviews have been undertaken in order to understand and improve the quality of practice, decision making, care planning and the appropriateness of placements. Demand management remains a key risk to delivery of the Improvement Plan and whilst referrals are on a reducing trend they remain significantly higher than the Core City average and the level of re-referral also remains high.

Performance in relation to the number of looked after children reviews attended by allocated social workers or team managers is on an improving trend. An escalation policy for non-compliance with this key service expectation was introduced from May 2015; in March 2015 attendance stood at 84% against a target of 100%, and attendance now stands at 98%.

Audit arrangements are in place, involving a cohort of some 85 auditors, including members of the Council's senior management team. Auditors are paired with social workers and a 'walkthrough' of a child's journey through the service is undertaken on one of the social worker's cases. These audit arrangements have been established to promote learning and quality in decision making. Learning events are taking place at the end of each audit cycle to share the key findings from audits and to develop strategies for improving practice.

### **Partnership working**

The Council recognises that it cannot achieve the required improvements to its Children's Services acting in isolation and much work has taken place to engage partners in the improvement journey.

The Children's Services Improvement Board is attended by senior Council officers, the Executive Member for Children's Services, the independent Chair of the Manchester Safeguarding Children Board and representatives of a wide range of partner organisations.

We consider this multi-agency representation to be a real strength, and an effective way of securing both constructive challenge and the commitment of partners to working with the Council to deliver on the Improvement Plan.

The Improvement Board is action-focussed, and a detailed action log is maintained and reported to each meeting of the Board. A risk register is also in place for the improvement programme, although this could be further developed in order to be fully effective.

A multi-agency safeguarding hub ("MASH") has been operational as a research and analysis hub and multi-agency domestic violence triage service since December 2014, staffed by Council, NHS and Police employees. A MASH Strategic Group is in place, consisting of senior leadership representation across the statutory partners, and there is commitment to the MASH becoming the single triage point for cases that meet the threshold for statutory intervention.

Greater Manchester Police (GMP) has committed significant resource to reducing the use of Police Protection Powers (PPP), and has delivered staff briefing sessions to raise awareness of alternatives to PPP and to illustrate the correct use of the powers. There was a step change in the percentage of looked after children admissions due to PPP from 31% in March 2015 to 13% in April 2015, and to date this has been a sustained reduction. GMP is also now sharing 'missing from home / care' data with a senior MASH social worker on a daily basis.

The Council's NHS partners have contributed to the development of clear and consistently applied thresholds with the aim that children will receive the help or protection that they need in a timely manner. This includes health professionals' input to child protection plans, timely initial health assessments of children entering care and commitment to early intervention and the MASH.

The proportion of looked after children with an up to date Personal Education Plan (PEP) has improved significantly from a baseline position of 46% in November 2014 to 79% in March 2015. There is still some way to go to achieve the target of 100%, particularly in relation to looked after children in education outside of the Manchester area. Since February 2015 PEPs for looked after children educated within Manchester have been completed via a new online system, and subjected to quality assurance by a 'Virtual School'.

The Council has made much progress in responding to the findings of Ofsted's inspection and is committed to further improvement in order to complete the redesign of Children's Services and fully respond to Ofsted's findings. The Council plans to take further actions, in particular:

- the planned introduction of Early Help Hubs from September 2015, including an associated performance framework
- participating in further collaborative work on Fostering and Adoption at a regional level
- the development of reports and plans in relation to Fostering and Adoption for consideration by the Investment Board
- introducing a weekly tracker report on the number of looked after children referrals, including analysis of referrals by source
- continuing to seek external support where appropriate, for example from the LGA improvement adviser for the North West

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters

# Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provisional fees for non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit	276,222	276,222
Grant certification on behalf of Audit Commission	15,050	TBC
<b>Total audit fees</b>	<b>291,272</b>	<b>TBC</b>

## 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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
Provision of an accountant's report in relation to the Council's 2014/15 Teachers' Pensions Return	4,600
<b>Non audit related services</b>	Nil

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

24 September 2015

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report 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](http://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.

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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

# Appendices

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should give priority to securing an appropriate permanent appointee to the position of Strategic Director of Children's Services, to sustain improvements in leadership and management and to ensure the pace and scale of change is maintained following the anticipated departure of the Interim Strategic Director in May 2016.	High	The tendering process is underway to secure a recruitment partner to progress this appointment.	October 2015
2	Continue to take action to deliver on the Children's Services Improvement Plan and monitor the effectiveness of actions taken through the use of refreshed performance metrics. Particular attention should be given to: <ul style="list-style-type: none"> <li>• further development of the Multi Agency Safeguarding Hub</li> <li>• improving compliance with allocated social worker or team manager attendance at looked after children case reviews</li> <li>• securing Personal Education Plans for all looked after children</li> <li>• Improving fostering, adoption and leaving care services</li> </ul>	High	We are continuing to work on our improvement plan and have robust governance and accountability arrangements in place.  The MASH is being further strengthened as part of our plans for a fully integrated full door.  Attendance by social workers at reviews and case conferences is now almost at 100%.  All Looked After Children now have a PEP and we are now working on the implementation of PEPs for 16-18 year olds.  An improvement plan for fostering and adoption is now in place.	Ongoing          Ongoing



## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Develop the Children's Services Improvement Programme Risk Register to include likelihood and impact assessments, risk scores, proposed actions and review dates for all risks identified for inclusion on the Register.	Medium	The current improvement plan and tracker have recently been updated and a revised risk register is in development.	Ongoing

**Priority**  
*High, Medium or Low*

## Appendix B: Audit opinion

We anticipate we will provide the Council with a modified audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER CITY COUNCIL

We have audited the financial statements of Manchester City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Manchester City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Annual Statement of Accounts, the City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to the Annual Accounts and the Introduction to the Manchester City Council Group Accounts and the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:  
give a true and fair view of the financial position of Manchester City Council as at 31 March 2015 and of its expenditure and income for the year then ended;  
give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and  
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the Explanatory Foreword to the Annual Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We are required to report to you if:  
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or  
we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or  
we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or  
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Council and the auditor**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Council has proper arrangements for:

securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Basis for qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

The publication of an inspection report by Ofsted dated September 2014 concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Children Board in the Manchester City Council area were judged to be "inadequate".

The judgement is evidence of weaknesses in the Council's arrangements for prioritising resources. The Council has developed an Improvement Plan to address Ofsted recommendations. Section 6 of the Council's Annual Governance Statement provides a progress update under the heading "External Inspectorate Ratings".

### **Qualified Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Manchester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

### **Certificate**

We certify that we have completed the audit of the financial statements of Manchester City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Heap

Director, for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

XX September 2015



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