



# Audit Committee Update for Manchester City Council

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**Year ended 31 March 2016**

November 2015

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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; and
- 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](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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 Audit Manager.

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Work	Planned date	Complete?	Comments
<p><b>2014-15 audit</b>                      Our audit for the year ended 31 March 2015 is now complete.</p>	<p>October 2015</p>	<p>Yes</p>	<p>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 2014-15.</p>
<p><b>2014-15 certification of claims and returns</b>                      We are undertaking a programme of work to certify those of the Council's 2014-15 grant claims and returns requiring auditor certification.</p>	<p>December 2015</p>	<p>On track</p>	<p>Our certification work on the Council's 2014-15 grant claims and returns requiring external auditor certification is in progress. We will report the findings from our work to the Audit Committee in January 2016. There are no matters arising to date that we wish to report to the Audit Committee.</p>
<p><b>2015-16 Accounts Audit Plan</b>                      We will prepare a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements and a Value for Money Conclusion.</p>	<p>March 2015</p>	<p>On track</p>	<p>We will present our 2015-16 Audit Plan to a future meeting of the Audit Committee.</p>
<p><b>Interim accounts audit</b>                      Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of the Council's financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• early Value for Money conclusion work.</li> </ul>	<p>December 2015 to March 2016</p>	<p>On track</p>	<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 the first quarter of 2016.</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>

## Progress at November 2015

Work	Planned date	Complete?	Comments
<p><b>2015-16 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June to August 2016	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 2016.
<p><b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2015-16 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• an initial risk assessment</li> <li>• audit work in relation to any significant risks identified at the initial risk assessment stage that present a risk to us reaching an appropriate VfM conclusion.</li> </ul>	November 2015 to July 2016	On track	<p>We will undertake initial risk assessment procedures to inform our 2015-16 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 Childrens' Services, will be summarised in our 2015-16 Audit Plan.</p> <p>Our VfM conclusion will be presented alongside our opinion on the Council's accounts.</p>
<p><b>2015-16 Annual Audit Letter</b></p>	September 2016	On track	Our Annual Audit Letter will summarise the findings from our 2015-16 audit.

## Progress at November 2015

Work	Planned date	Complete?	Comments
<p><b>Other activity undertaken</b></p> <p>We are currently undertaking work to enable us to provide an accountants report relating to the Council's 2014-15 Teachers' Pensions return.</p>	November 2015	On track	This work is undertaken as audit-related non-audit work at the Council's request. We have agreed a fee of £4,600 +VAT with officers.
<p>We are also undertaking work to enable us to provide an accountants report relating to the Council's 2014-15 Pooling of Housing Capital Receipts return.</p>	November 2015	On track	This work is undertaken as audit-related non-audit work at the Council's request. We have agreed a fee of £2,750 +VAT with officers.
<p>Our public sector accounting specialist, Paul Spinks, recently met with members of the Council's finance and highways teams to discuss the Council's preparations for implementation of the Transport Infrastructure Code and share his experience on this subject. A further meeting with Council officers is scheduled for 27 November.</p>	Ongoing		Dialogue on accounting for the Council's Transport Infrastructure is welcome, will help ensure the Council's financial statements remain compliant with the Local Authority accounting framework, and will also assist other practitioners within the sector.

## Emerging issues and developments

# George Osborne sets out plans for local government to gain new powers and retain local taxes

### Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

### Challenge question

Have members:

- been briefed on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

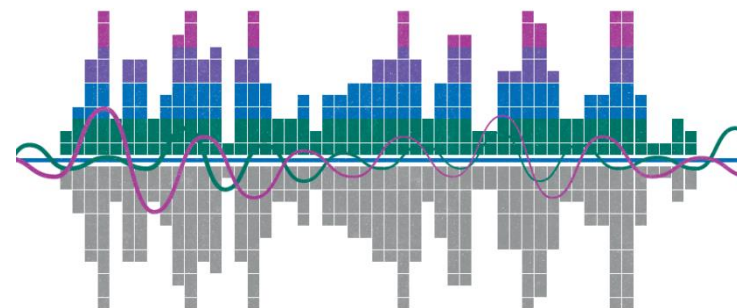


# Turning up the volume: The Business Location Index

## Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

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

# Knowing the Ropes – Audit Committee Effectiveness Review

## Grant Thornton

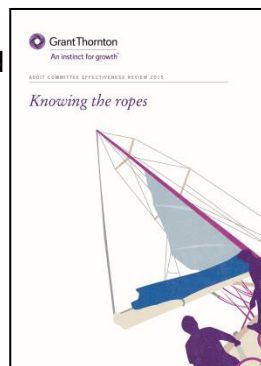
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



# Code of Audit Practice

## National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015 and we will update officers on the finalised guidance once this is available to us.

# Early close of local government accounts

## Local government issues

The Accounts and Audit Regulations 2015 require local government bodies to prepare their statement of accounts for the 2017/18 financial year by 31 May 2018, and for those accounts to be audited by 31 July 2018.

This presents a significant challenge to council finance teams and auditors alike, and a collaborative approach will be needed to deliver against this significantly earlier timetable.

We are pleased to note that the Council has already set out proposals that bring forwards the Council's accounts preparation and audit timetable progressively over the period to 31 July 2018.

We are holding free of charge workshops on the subject of early closure and audit of local government accounts in Manchester, Liverpool and Leeds between November 2015 and January 2016. These workshops will be a good opportunity for finance officers to hear first hand from practitioners that have already made a reality of the early closure of accounts, to share best practice and to network with colleagues from other bodies facing the same challenges. We are pleased that the Council has already accept an invitation, and we look forward to welcoming officers to the Manchester event on 26 November.



## Workshop on Early Closure and Audit of Local Government Accounts



The Accounts and Audit Regulations 2015 that came into force in April require local government bodies to prepare their statement of accounts for the 2017/18 financial year by 31 May 2018, and for those accounts to be audited by 31 July 2018.

There is now less than three years' time to make the transition to this significantly earlier timetable.

We will be holding workshops for practitioners in our Manchester, Liverpool and Leeds offices giving you a unique opportunity to:

- hear from colleague practitioners who have already achieved early closure of public sector accounts, what challenges they faced and what has worked in practice;
- hear an audit perspective on earlier closure
- explore the challenges and benefits of earlier closure;
- discuss what preparations can be made now and in the run up to 2018

We do hope you can join us and look forward to seeing you on the day.

26 November 2015  
3 December 2015  
19 January 2016

**Manchester**  
**Liverpool**  
**Leeds**

For further information please contact:

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### Local Government Workshop on Early Accounts Closure and Audit

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### Timings (all locations)

12.00pm Registration & Lunch  
1.00pm Presentation begins  
3.30pm Close



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