

**Manchester City Council
Report for Information**

Report To: Audit Committee – 15 September 2016
Subject: External Audit Recommendations Monitoring Report
Report of: City Treasurer / Head of Audit and Risk Management

Summary

To provide assurance to the Audit Committee and Grant Thornton that recommendations arising from external audit work have been, or are being, implemented in a timely and satisfactory fashion.

Recommendations

Audit Committee is requested to consider and comment on the External Audit Recommendations Monitoring Report.

Wards Affected:

All

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Background documents (available for public inspection):

Implementation of External Audit Recommendations Monitoring Report – Audit Committee Report, March 2015

1. Introduction

1.1 Internal Audit have liaised with the external auditor Grant Thornton and designated responsible managers in order to provide an update on the position of agreed external audit recommendations.

1.1.1 We have obtained responses from the designated responsible officers and gained directorate agreement of the reported status of recommendations.

2. Progress of External Audit Recommendations

2.1 There are a total of six recommendations that have been followed up since the last progress report presented in March 2015. Of these six recommendations, one has been superseded, three were implemented and two are ongoing. The total number of recommendations made and their current status are shown in Appendix one.

3 Status Summary

Objections to the Audit of Accounts 2011/12 Summary Report (issued September 2013)

- There were seven recommendations agreed as a result of this audit, of which six have been recorded as implemented at the time of the report being presented to Audit Committee.
- The remaining recommendation concerned the division of cost allocation for the purpose of setting license fees (high priority).
- Management confirmed that a model has been adopted that allows taxi related fees to be set in a more robust manner. A new electronic system is being introduced which will see a transfer of Taxi Licensing work onto an enhanced platform, allowing the service to review the time recording process with legal services ensuring all necessary commitments are being fulfilled.

Audit Findings Report 2014/15 (issued September 2015)

- There were three recommendations agreed relating to the Children's Services Directorate, two of which had been recorded as implemented at the time of the report being presented to Audit Committee.
- The third recommendation concerned the development of Children's Services Improvement Programme Risk Register. (medium priority).
- The Children's Management Team has recently completed an exercise with the Councils risk and resilience team. This resulted in six key risk areas being identified and their impact and likelihood being assessed along with mitigating actions. The result of the exercise will be used to update the risk register which will be presented to the Children's

Management Team and reviewed in line with key milestones from the service plan.

4 Conclusion

- 4.1 Progress has been made on the implementation of External Audit recommendations since March 2015 when the previous monitoring report was issued. It is our opinion that progress is being made in implementing these actions. Although they are not yet fully implemented we are satisfied with the direction of travel and consider that the proposed management actions outlined above will result in them being fully addressed.
- 4.2 We intend to request an update in November 2016 in order to confirm either that these recommendations have been fully implemented or that satisfactory progress continues to be made. The next monitoring report will be presented to Audit Committee in January 2017.

5 Recommendations

- 5.1 Audit Committee is requested to consider and comment on the External Audit Recommendations Monitoring Report.

Appendix 1 – Recommendations and Exposure to Risk (September 2016)

Recommendations Made by External Audit Implementation Status					Assurance		
Audit	Total agreed	Implemented to date	Number of Recs now due for Review	Outstanding	Partially Implemented	Fully Implemented	% Fully Implemented
Objections to the Audit of Accounts 2011/12 Summary Report	7	6	1	0	0	0	87%
The Audit Findings for Manchester City Council 2015	3	2	1	0	0	0	67%
Totals	10	8	2	0	0	0	80%



The Audit Findings for Manchester City Council

Year ended 31 March 2016

September 2016

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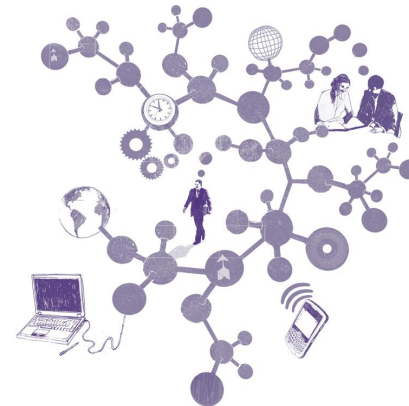
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9 September 2016
Dear Members of the Audit Committee

Audit Findings for Manchester City Council for the year ending 31 March 2016

This Audit Findings report highlights the key 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, the Local Audit and Accountability Act 2014 and the National Audit Office (NAO) Code of Audit Practice. Its contents have been discussed with officers.

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 and giving a value for money conclusion. 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 issues affecting the results of Manchester City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report, if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated at the 14 July 2016 Audit Committee in our Audit Plan.

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

- determining an objection received on 11 August 2016;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- finalising our review of the Council's Whole of Government Accounts return.

Executive summary

We received draft financial statements and accompanying working papers broadly in accordance with the agreed timetable. We have received excellent co-operation and prompt responses to audit queries throughout the audit process.

Key audit and financial reporting issues

Financial statements opinion

We have not identified adjustments affecting the group and Council's reported financial position. We recommended a number of adjustments to improve the presentation and disclosure within the financial statements.

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

- the Council and Group draft accounts and working papers were of a good quality
- the Council's officers responded promptly to all audit queries during the course of our audit
- no adjustments have been made to the draft Council or Group financial statements that affect the reported financial position
- adjustments to improve presentation and disclosure have been made and further details are included on pages 22 to 25 of this report.

Further details are set out in section two of this report.

Objection to the Council's 2015/16 financial statements

On 11 August 2016 we received an objection to the Council's 2015/16 financial statements from a Manchester elector. The objection is concerned with the Council's portfolio of "Lender Option Borrower Option" (LOBO) loans, and requests that we issue a Public Interest Report and consider an application to the courts for a declaration that the LOBO borrowing is unlawful.

As at 31 March 2016, the principal outstanding on the Council's LOBO borrowing was £415m.

A number of councils across the country have received objections in relation to LOBO borrowing, and we are liaising with the NAO as we consider the objection to the City Council's financial statements.

Given the nature of the objection and the materiality of the Council's LOBO portfolio, we are unable to provide an audit opinion in respect of the financial statements, issue our value for money conclusion or conclude our audit until we have fully considered the objection.

We will communicate with the objector and with the Council at key stages, including to allow opportunity for comment on documents that we consider material in reaching our decisions in determining the objection.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have concluded that the Council's AGS meets the requirements of CIPFA/SOLACE guidance, and we are not currently aware of any misleading content or inconsistency with information we are aware of from our audit.

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.

Executive summary

Findings

Our work has not identified any control weaknesses to highlight to the Audit Committee's attention.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issue which will give rise to a qualified VFM conclusion:

- 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". We recognise that the Council has secured progress in improving Children's Services in a number of areas and that the Council's improvement plan is designed to ensure that the service continues to develop and raise its standards, however this report is based on the position in 2015/16 and
- the overall quality of social work intervention remained variable during 2015/16, with too much work judged below standard.

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

Other statutory powers and duties

To date we have not applied any of our statutory powers and duties under the Act.

We will give due consideration to the objection we have received that requests that we issue a Public Interest Report and consider an application to the courts for a declaration that the LOBO borrowing is unlawful.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions (DWP). At present our work on this claim is in progress and will be concluded in advance of DWP's 30 November 2016 deadline. We will report the outcome of this certification work through a separate report to the Audit Committee in early 2017.

The way forward

Matters arising from the financial statements audit and our 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.

The deadlines for preparation and audit of the Council's financial statements will be brought forwards for the 2017/18 financial year. We are working with the Council's finance officers and bringing forwards our respective timetables for 2016/17, in advance of the earlier statutory deadlines. We are also promoting networking amongst local authority finance professionals to facilitate the sharing of good practice in relation to early closure of accounts.

We have made a recommendation, which is set out in the action plan at Appendix A. This recommendation has been discussed and agreed with the City Treasurer and Strategic Director Children and Family Services.

Acknowledgement

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.

Section 2: Audit findings

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Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

In performing our audit we determined overall materiality to be £31.8m for the Council's financial statements (being 1.75% of 2014/15 gross revenue expenditure as reported at the 'deficit on provision of services' line of the Comprehensive Income and Expenditure Statement) and £36.7m for the Group financial statements (being 1.75% of 2014/15 gross revenue expenditure as reported at the 'group deficit on provision of services' line). We have considered whether these levels remained appropriate during the course of the audit, and have made no changes to our overall materiality levels.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.59m for the Council's financial statements and £1.84m for the Group financial statements. We have considered whether these levels remained appropriate during the course of the audit, and have made no changes to the levels.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made, we expect disclosures to be within the correct bandings.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made, we expect disclosures to be correct.

Audit findings

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.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Manchester City Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • tested samples of journal entries • reviewed significant accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

Audit findings

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the Council. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of significant estimates in relation to the valuation of PPE. • considered the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • communicated with valuers about the basis on which valuations are carried out and considered the appropriateness of the key assumptions. • reviewed the information used by valuers to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the Council's fixed asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>We have concluded that the Council has engaged and properly instructed appropriately competent expert valuers to provide valuation reports that comply with the requirements of the Code.</p> <p>We have communicated with the Council's valuers and considered key assumptions underpinning valuations of the Council's PPE, and concluded that these are appropriate to the Council's circumstances.</p> <p>We are satisfied that information used by the Council's valuers is consistent with our understanding of the Council's PPE portfolio.</p> <p>Our testing of the Council's fixed asset register has not identified any matters in relation to the accuracy of recording revaluations performed.</p> <p>Management performed appropriate procedures to satisfy themselves of the material accuracy of carrying values for those assets not revalued during the year.</p>

Audit findings

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation and gained an understanding of the basis on which the valuation is carried out. • used the work of an auditor's expert to gain assurance that methods and assumptions used in the valuation are reasonable and appropriate. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We have concluded that the Council has established and implemented appropriate controls to ensure that the local government pension fund liability reported in the Balance Sheet is not materially misstated and that the required disclosures have been made within Note 41 of the financial statements.</p>

Audit findings

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p>Better Care Fund</p> <p>The Council is party to significant pooling of resources with the Manchester Clinical Commissioning Groups, under NHS Act 2006 Section 75 agreements. The Better Care Fund (BCF) has increased the amount pooled from 1 April 2015 and there is a risk that transactions are not accounted for in accordance with the requirements of the Code and accounting standards.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> obtained an understanding of the nature of the BCF arrangements in place reviewed the Council's proposed accounting treatment completed tests of detail on accounting entries and disclosures within the financial statements. 	<p>We have obtained an understanding of the Council's arrangements in relation to the Better Care Fund and concluded that the 'joint operation' accounting treatment adopted, disclosed as a critical accounting judgement at Note 2.8, is appropriate and in accordance with the requirements of the Code and applicable accounting standards.</p> <p>There were no matters arising in relation to our testing of BCF accounting entries and disclosures.</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	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses or creditors understated or not recorded in correct period.	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • updated our accounting system and key controls documentation and undertaken system walkthroughs • completed substantive testing of expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement • sample tested payables and accrued expenditure, including reviewing post year end invoices and payments • reviewed control account reconciliations. 	Subject to completion of testing of a small sample of non-pay expenditure at one school, our audit has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct (remuneration accruals understated).	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • updated our accounting system and key controls documentation and undertaken system walkthroughs • reviewed the payroll accrual processes • reviewed key payroll reconciliations • sample tested employee expenses to staff records, pay rates and classification in the nominal ledger 	Our audit work has not identified any significant issues in relation to the risk identified.

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	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefits improperly computed.	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> • updated our accounting system and key controls documentation and undertaken system walkthroughs • completed "HB Count" testing modules 2 (system parameter updating), 4 (analytical review), 5 (software diagnostic and overall reconciliation) • in line with our audit approach, partially completed "HB Count" module 3 (detailed testing of HB cases) – the remainder of our testing will be completed as part of our work on the Council's 2015/16 Housing Benefit grant claim. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our initial module 3 testing has identified two errors, neither of which is expected to have anything other than a trivial impact on the overall Housing Benefit grant claim, but additional testing will be undertaken as part of our certification audit to further understand their nature and impact.</p>

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-Grant Thornton firm KPMG UK LLP on Manchester Airport Holdings Limited's 2015/16 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 2015/16 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 performed by Grant Thornton UK LLP.	Our audit work has not identified any issues in respect of the consolidation of Destination Manchester Limited.

Audit findings

Accounting policies, estimates and 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
Revenue recognition	<ul style="list-style-type: none"> Revenue is measured at the fair value of the consideration received or receivable. Where the Council is acting as agent of another organisation the amounts collected for the other organisation are excluded from revenue. 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. 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 Revenue from the sale of goods is recognised when the amount of revenue can be measured reliably, it is probable that the revenue will be received by the Council and the risks and rewards of ownership have passed to the purchaser. Revenue from the provision of services is recognised when the amount of revenue can measure reliably, it is probable the revenue will be received by the Council and the stage of completion of the service can be reliably measured. 	<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 requirements of the Code.</p>	 Green


Assessment

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

Audit findings

Accounting policies, estimates and 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	Key estimates and judgements	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – PFI arrangements – useful life of capital equipment – revaluations and impairments – pension fund valuations – the provision for business rate appeals – accounting for schools' property, plant and equipment – recognition of Heritage Assets – accounting for the Better Care Fund – the composition of the Council's group for financial reporting purposes 	<p>The Council has appropriately disclosed its accounting policies relating to PFI arrangements, property, plant and equipment (including that of schools), investment properties, heritage assets and pension schemes. These policies are consistent with the requirements of the Code and adequately disclosed.</p> <p>The Council has appropriately relied on the work of experts in forming key estimates and judgements, particularly in relation to accounting for pensions and non-current assets.</p> <p>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.</p> <p>We have reviewed the Council's judgement that its Better Care Fund arrangements constitute a joint arrangement and concluded that this is appropriate and in accordance with the requirements of the Code.</p> <p>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.</p>	 Green

Assessment

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

Audit findings

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The City Treasurer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice and relevant accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

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

Audit findings

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any material instances of fraud. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bankers and a number of the Council's loan and investment counterparties. This permission was granted, and the requests were sent. The vast majority of responses have been received, all with positive confirmations. We have satisfactorily performed alternative audit procedures where responses have not been received, and we are continuing to pursue the outstanding confirmations.
6.	Disclosures	<ul style="list-style-type: none"> We report on pages 24 and 25 the disclosure changes agreed with officers during the course of our audit.

Audit findings

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> • We have substantially completed our work on the Council's Whole of Government Accounts consolidation pack and have no issues which we wish to highlight for your attention. However, we are unable to conclude our work in this area until we have determined the objection we have received as outlined on page 6 of this report.

Audit findings

Adjusted misstatements – Council and Group financial statements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Impact on total net expenditure
<p>1 Classification of the Bridgewater Hall within the Balance Sheet</p> <p>In prior years the Council has classified the Bridgewater Hall as an investment property within the Balance Sheet. Following adoption of a new accounting standard on fair value (IFRS13), the Council has revisited the classification of its non-current assets. The exercise identified that the Bridgewater Hall did not meet the Code definition of an "investment property", and should properly be accounted for as an operational building and this reclassification was made within the draft Balance Sheet 31 March 2016 position. Following further discussion with officers, the reclassification has now been accounted for as a prior period adjustment, and there are a number of consequential amendments including to the Movement in Reserves Statement, Cash Flow Statement and to various of the Notes to the financial statements. The reclassification also impacts upon the equivalent Group statements and Notes.</p>	<p>Dr Financing and investment income and expenditure £6.2m (2014/15)</p> <p>Cr Other comprehensive income and expenditure £6.2m (2014/15)</p>	<p>Dr Property, plant and equipment £60.7m 2014/15 (£54.5m 1/4/14)</p> <p>Cr Investment properties £60.7m 2014/15 (£54.5m 1/4/14)</p> <p>Dr CAA £6.2m (2014/15)</p> <p>Cr Revaluation Reserve £6.2m (2014/15)</p>	NIL
Overall impact	NIL	NIL	NIL

Unadjusted misstatements

We have not identified any misstatements, other than of a clearly trivial nature, of the Council or Group financial statements during the audit which have not been made within the final set of financial statements.

Audit findings

Misclassifications and disclosure changes – Council financial statements

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 £m	Account balance	Impact on the financial statements
1 Misclassifications	Cost of services (HRA) £13.6m Not reported to management £5.5m Not in CIES £8.1m	Note 7 – Segmental reporting analysis	Reclassification of IAS19 (pensions) and related entries from "not included in the comprehensive income and expenditure statement" to "not reported to management" within Note 7. These amendments have no impact on the reserves of the Council. Elimination of Housing Revenue Account related entries from both "not reported to management" and "not in Comprehensive Income and Expenditure Statement"
2 Disclosure	Fair value of debt understated £15.3m Interest Expense £9.2m	Note 37 Financial Instruments	Our audit work identified that fair value disclosures were based on an incomplete fair value report, resulting in the understatement of the fair value of government debt held by £12.1m and the understatement of the fair value of market debt held by £3.2m. We also noted the interest expense disclosed in Note 37 incorrectly excluded £9.2m of interest associated with PFI unitary payments. Narrative has been added to Note 37 to explain the basis for the calculation of the fair value of PFI liabilities.
3 Disclosure	£2.6m	Note 42 – Teacher's Pension Scheme	The disclosure of anticipated contributions to the Teachers' Pension Scheme in 2015/16 has been updated to include contributions in relation to teachers at schools that do not utilise the Council's payroll service. The comparator figure has also been increased, by £2.1m.
4 Disclosure	£17.2m	Note 42 – Teachers' Pension Scheme	Additional disclosure, of anticipated contributions to the Teachers' Pensions Scheme in 2016/17, has been provided.
5 Disclosure	£7.3m	Note 44 – Contingent Liabilities	The amount drawn down in relation to the Housing Investment Fund has been restated from £11m to £18.3m.

Audit findings

Misclassifications and disclosure changes – Group financial statements

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 £m	Account balance	Impact on the financial statements
1 Disclosure	£2m	Group financial statements Note 11	Note 11, short-term creditors, has been updated to ensure consistency with Destination Manchester Limited's financial statements.
2 Disclosure	N/a	Group financial statements Note 15	Note 15, related party transactions, has been updated as Cllr Bernard Priest is no longer a non-executive director of Manchester Airport Holdings Limited.

Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in June 2016 and identified the following significant risks:

- the Council's progress in responding to Ofsted's 'inadequate' findings, following their review of Children's Services and the Local Safeguarding Children Board, is insufficient to enable us to remove our "except for" qualification of the VFM conclusion
- the Council's response to continuing financial austerity is insufficient, placing the Council's medium term financial plans in jeopardy

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council has continued to invest in securing improvement in Children's Services and progress has been made in a number of areas during 2015/16; further work is required to embed consistent quality social work and improve outcomes for children.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 29 to 33.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the improvement of children's services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed a recommendation for improvement as follows:

- we recommend that management further develops the Children's Services improvement tracker reported to the Improvement Board to include a narrative Executive Summary, trajectories between current and target performance and a summary of improvements already secured.

Management's response can be found in the Action Plan at Appendix A.

Value for Money

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.

Value for Money

We have monitored the Council's progress in delivering improvements in its children's services during the course of our 2014/15 and 2015/16 audits.

The Council has articulated a clear vision for Children's Services in Manchester, and has stated that there is no higher priority for the Council than protecting vulnerable children and ensuring that children and their families receive good help and, when required, good care.

We note a strong commitment to improving all aspects of Children's Services at the Council, not just those areas rated as 'inadequate' or 'requires improvement' by Ofsted in September 2014. The Council has well established governance arrangements in place in relation to the service's improvement, including an independently chaired Improvement Board, the Children and Young People Scrutiny Committee, the Ofsted sub-group Overview and Scrutiny Committee as well as assurance reporting via the Audit Committee.

We reported in September 2015 that the Council had previously recognised it had issues to address in relation to the service's:

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

and we comment on these areas below.

Leadership and management

Council Members have continued to exercise 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, front-loaded, 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.

A key priority for 2015/16 was securing permanent appointments to the service's senior management team. Despite some challenges in recruiting an experienced and resilient team to drive the necessary service improvements, a permanent team was in place following the Director of Children's Services taking up position in April 2016.

The service's senior management team progressed a number of initiatives during the year, with the aim of transforming the service and securing improved outcomes for children and families. In particular:

- refreshing the levels of need and response framework and developing an Early Help Strategy, including a new delivery model with three Early Help Hubs going live from September 2015;
- developing a more proactive, rolling recruitment programme to secure new social workers and team managers and operating a time-limited retention payment scheme to stabilise the workforce;
- engaging with external parties to assess progress and learn from good practice from elsewhere – in particular, Ofsted's January 2016 additional monitoring visit focussed on the 'front door' of children's services and the Multi-agency Safeguarding Hub and work with Leeds City Council, whose children's services are recognised as amongst the best performing in the country;
- signing up to a Regional Fostering Recruitment Hub with six other North West local authorities and working with other authorities to develop a Regional Adoption agency;
- launching a new model of practice, 'Signs of Safety', in March 2016

Value for Money

- undertaking a considerable amount of audit activity of social work cases and developing more robust performance management arrangements; and
- identifying and developing plans to address areas of performance that still require improvement.

Workforce

The Council has continued to make progress in addressing key children's services workforce challenges during 2015/16, although more remains to be achieved.

The Children's Services Investment Plan has enabled investment in new working arrangements, designed to improve the quality and consistency of social work practice as well as safely reduce the number of looked after children. A time-limited retention payment scheme and intensive recruitment activity have helped to stabilise the workforce. In turn, average social worker caseloads reduced, from 27 in March 2015, to 24 in March 2016. The level of staff turnover has reduced, but there is scope for further improvement as too many changes in social workers negatively impact on outcomes for children.

Whilst caseloads have reduced on average during the year, the ratio of newly qualified social workers to experienced social workers remains high. During the year the service recognised that the levels of demand being experienced, capacity within the team and caseload levels were inhibiting the ability to sustain the pace of improvement required. Further social workers and team managers are being recruited, with the aim of reaching an average caseload of 18 as soon as possible.

A new learning and development framework was launched in March 2016, with social workers attending a series of two day training sessions following the launch of the 'Signs of Safety' model of practice.

Further training, learning and development events are to be led by the service's management team. The service is also embracing the use of technology to increase productivity and allow some flexibility in working arrangements.

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 continued 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 Manchester's new models of practice.

The level of demand for statutory services remains high, with high referral rates and a high proportion of cases received being closed without the need for further action after assessment. Despite this, the numbers of children looked after by the Council continues to reduce as a result of a variety of actions taken as part of the Looked After Children (LAC) Strategy. As at March 2016, the service had a total caseload of 1,237 looked after children, a 10% reduction on August 2014, and a 4% reduction on March 2015. The number of LAC is still high relative to the national average and comparable core cities, and indicates there are likely to be children in care that could be cared for in other settings. The Council performs relatively well in terms of the number of children with three or more placements in a year, but wishes to improve still further.

Value for Money

The service has been successful in increasing the number of looked after children with Personal Education Plans (PEP) in place. The Council's 'Virtual School' has a quality assurance role in relation to PEPs, and action is being taken in relation to missing and incomplete PEPs. The use of an electronic PEP system, and briefings for school staff from other local authorities, has contributed to the proportion of LAC educated outside of Manchester with a PEP increasing from 65% to 89% in 2015/16, similar to the proportion for those LAC educated in Manchester.

The proportion of children returning from being missing from home or care receiving an independent return interview (IRI) improved during the final quarter of 2015/16, following investment in additional capacity to undertake interviews. In March 2016, 89% of children returning from an episode of being missing received an IRI, compared to only 50% earlier in the year. There remains work to be done to embed and sustain good practice, and provide IRIs to all returning children.

However, despite these successes, the service has continued to face challenges during the year. In particular, Internal Audit reviews, the findings of which were reported in October and November 2015, concluded that only 'limited assurance' could be given on the service's compliance with Council policies and procedures. In particular, the Internal Audit team's review of a sample of LAC casework found evidence of late recording of social work activity, insufficient evidence of management oversight and review, missing documentation and inaccuracies. The Internal Audit team also reported on a need to address shortcomings around the management of missing children.

Developments in early 2016/17

We note that much activity has continued to take place in the early part of 2016/17 to secure further improvement to Children's Services.

The Children's Service management team has recognised that the key challenge being faced is to increase the pace and effectiveness of improvements already being made to provide a service that is consistently safe, effective and efficient. Management and Members have responded positively to a Local Government Association (LGA) letter received in May 2016, detailing findings from a Care Practice Diagnostic undertaken in March 2016, highlighting 'variable and inconsistent quality of practice'.

An updated five-year investment strategy has been developed to enable a rapid transition to a caseload of 18 per social worker, and to support the service to become more sustainable moving forwards.

The substantial progress made by the service from September 2014 to July 2016 in laying sound foundations for further improvement, and the strength of the investment strategy, gave the Council confidence to approve, at its 13 July 2016 meeting, a net additional £10m investment in the period 2016/17 to 2020/21, with much of this investment being front-loaded in the period to 2019. The service plans to deliver further improvement at pace through continued focus on:

- reducing and managing demand within the service
- implementing more manageable workloads
- improving performance and practice management
- achieving and maintaining a stable, confident and competent workforce.

Value for money

Key to achieving these plans is a substantial increase in the front line social work workforce and team management capacity.

To achieve an average caseload of 18 by November 2016, and to strengthen the management of the service, the Council has committed to a 40% increase in social worker numbers and a 60% increase in team manager posts. The model to be operated will have a maximum 1:8 ratio of team managers to social workers to facilitate improved standards of practice, with all case work to be routinely monitored for accuracy, activity and timely outcomes.

The service's improved recruitment procedures are such that over 50 employment offers had been made by early August 2016, a significant proportion of the 86 social workers required to reduce average caseload sizes.

Conclusion

The Council has secured progress on a number of fronts during 2015/16, including:

- securing a permanent senior management team
- developing new models of practice
- reducing average caseloads and reducing staff turnover
- improving compliance with processes, for example completion of PEPs and IRIs.

The Children's Services management team recognises that the overall quality of social work intervention remained variable during 2015/16, with too much work judged below standard. As noted in the 'Leadership and management' and 'Developments in early 2016/17' sections above, a number of initiatives are being progressed, at pace, to secure further improvements across the service. We will continue to monitor the Council's progress through our 2016/17 audit.

A Children's Services improvement performance tracker document has been reported to the Improvement Board on a regular basis throughout 2015/16, and to date. We recommend this tracker is developed further, with consideration given to:

- including a narrative Executive Summary, drawing attention to key indicators and trends and to significant management actions being taken
- developing trajectories between current and target performance for key indicators such that attention can be focussed, and timely action taken, where performance improvement is at risk
- including a summary of performance improvements secured (and rated 'green') as an appendix, together with some assurance that improvements have been embedded within the service.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties**
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> To date we have not identified any matters that would require a public interest report. As noted on page 6 of this report, we have received an objection to the Council's 2015/16 financial statements requesting us to prepare a public interest report in relation to the Council's portfolio of LOBO borrowing. We will consider this request in determining the objection.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> To date we have not identified any matters that would require us to make an application to the court for a declaration that an item of account is contrary to law. As noted on page 6 of this report, we have received an objection to the Council's 2015/16 financial statements requesting us to consider an application to court in relation to the Council's portfolio of LOBO borrowing. We will consider this request in determining the objection.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty in connection with our 2015/16 audit.
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty in connection with our 2015/16 audit.

Section 5: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
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- 05. Fees, non-audit services and independence**
- 06. Communication of audit matters

Fees, non-audit services and independence

We disclose below our proposed fees for the audit and actual fees for the provision of non-audit services.

Fees

	Proposed fee £	Final fee £	2014/15 fee £
Council audit	207,167	TBC	276,222
Grant certification – Housing Benefit claim	11,625	TBC	15,050
Total audit fees (excluding VAT)	218,792	TBC	291,272

The final fee for the Council's audit has yet to be determined, pending completion of our work to consider the objection received.

The final fee for certification of the Council's 2015/16 Housing Benefit claim will be determined following completion of our work in this area in November 2016.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	2,750 (excluding VAT)
• 2014/15 Pooling Housing Capital Receipts Return (finalised January 2016)	

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 6: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters**

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table 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 Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant 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

Appendices

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>We recommend that management further develops the Children's Services performance improvement tracker reported to the Improvement Board, with consideration given to:</p> <ul style="list-style-type: none"> including a narrative Executive Summary, drawing attention to key indicators and trends and to significant management actions being taken developing trajectories between current and target performance for key indicators such that attention can be focussed, and timely action taken, where performance improvement is at risk including a summary of performance improvements secured (and rated 'green') as an appendix, together with some assurance that improvements have been embedded within the service. 	M	<p>The Improvement Board is independantly chaired and there are plans to review the Performance Improvement Tracker which does have a RAG rating against all activity; therefore this recommendation can be considered within that review. Notwithstanding this there are robust arrangements within Children's Services that track performance/quality assurance across a wide range of activity; that is greater than that of the Improvement Board/tracker. This arrangement/system gives due regard on a monthly basis to trends, trajectories, management action and is summarised in a number of annual reports/returns that are reported to SMT/O&S for children and informs future target setting for the service.</p>	<p>Strategic Director, Children and Family Services</p> <p>Ongoing</p>



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