

Audit Committee
Manchester City Council
Progress Report and Update
Year ending 31 March 2017

November 2016

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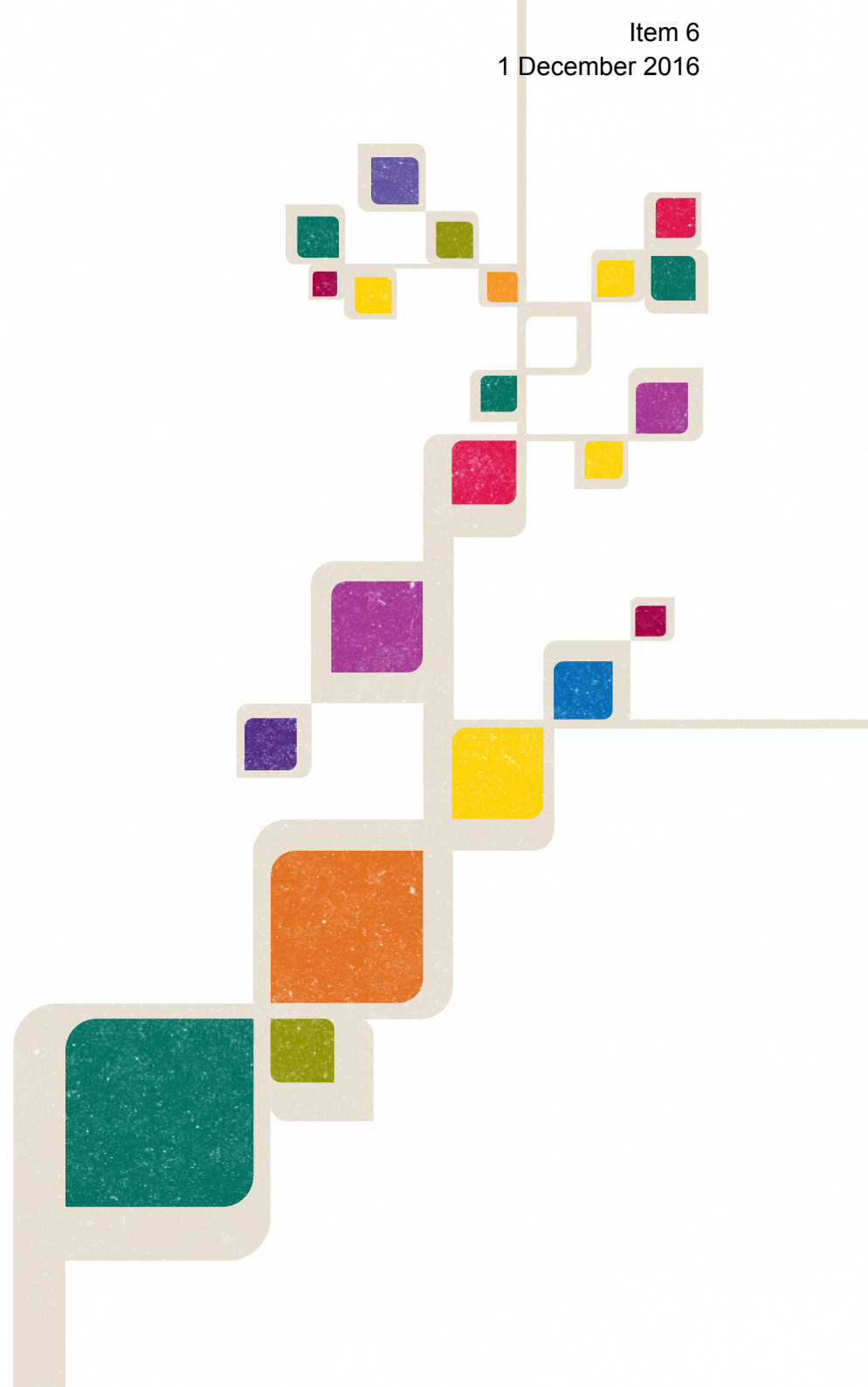
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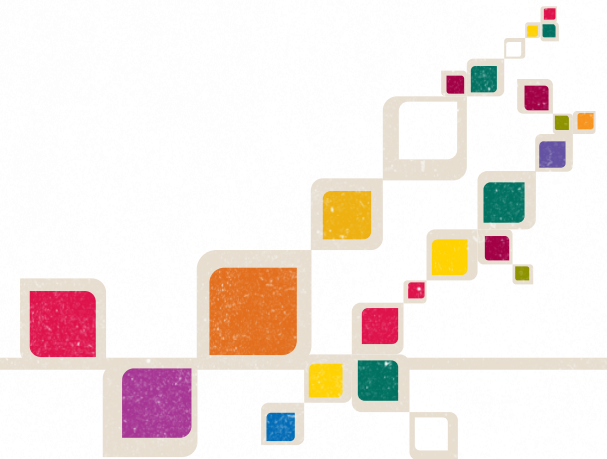
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.



Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

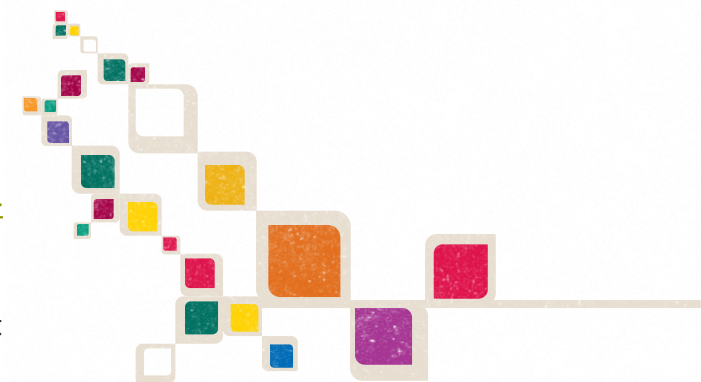
- Vibrant Economy Index – a new way to measure the success of our nation (November 2016)
- <http://www.grantthornton.co.uk/insights/vibrant-economy-index/>
- Advancing Closure – accelerated financial reporting (July 2016)
- <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Innovation in public financial management (December 2015);
- www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Reforging local government: Summary findings of financial health checks and governance reviews (December 2015)
- <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>,
- Making devolution work: A practical guide for local leaders (October 2015)
www.grantthornton.co.uk/en/insights/making-devolution-work/

You may also be interested in our recent webinars:

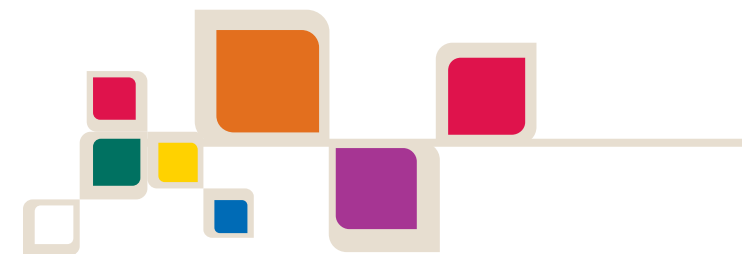
Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

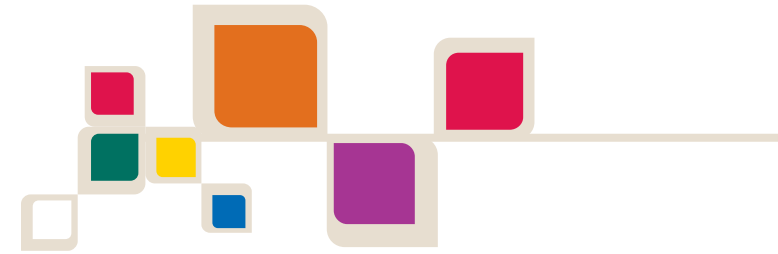


Progress at November 2016



2015/16 work	Planned Date	Complete?	Comments
<p>2015/16 audit</p> <p>Our audit of the Council's 2015/16 accounts and our 2015/16 Value for Money Conclusion work is now complete.</p>	September 2016	Yes	Our 2015/16 Annual Audit Letter summarises the key findings, conclusions and recommendations arising from the audit work we have undertaken at the Council in respect of the financial year 2015/16.
<p>Objection related to the Council's portfolio of 'Lender Option Borrower Option' (LOBO) loans.</p>	By May 2017	No	<p>As previously reported to the Committee, we received an objection to the Council's 2015/16 accounts, concerned with the Council's portfolio of LOBO loans, in August 2016. The objector requested that we issue a Public Interest Report and that we consider an application to the courts for a declaration that the Council's LOBO borrowing is unlawful.</p> <p>Council officers have provided us with information and documentation relating to the LOBO portfolio to assist us in considering the objection. We remain in dialogue with officers in relation to certain aspects of the objection, and further documentation is being collated for our consideration. We will communicate with both the objector and the Council at key stages in determining the objection, including to allow opportunity for comment on documents that we consider material in reaching our decisions.</p>

Progress at November 2016



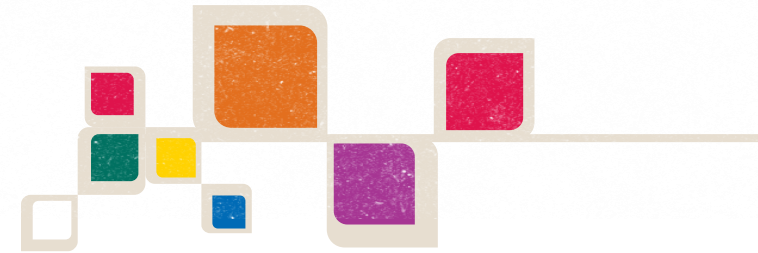
2015/16 work	Planned Date	Complete?	Comments
<p>2015/16 certification work</p> <p>We are undertaking a programme of work to certify the following of the Council's 2015/16 grant claims and returns:</p> <ul style="list-style-type: none"> • Housing Benefit Subsidy claim • Teachers' Pensions End of Year Return • Pooling of Housing Capital Receipts Return 	30 November 2016	No	<p>Our certification work on the Council's 2015/16 grant claims and returns requiring external auditor certification is currently in progress. We will prepare a report summarising our work in this area for presentation to the Audit Committee in January 2017.</p> <p>We currently anticipate that the Council's Housing Benefit Subsidy claim will be certified subject to a qualification letter as our 'discovery' testing of rent allowance claims identified two small errors. We are currently finalising our extended testing that will allow us to extrapolate the potential impact of the identified errors. Further information on the approach to Housing Benefit certification audit work is included on page 12 of this update report.</p> <p>We also anticipate issuing a qualification letter in relation to the Council's Teachers' Pensions End of Year Return as the Council does not have independent assurance over the completeness and accuracy of data provided by schools where payroll services are provided by an external party.</p>

Progress at November 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Accounts Audit Plan</p> <p>We will prepare a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements and a Value for Money Conclusion.</p>	March 2017	On track	We issued a 2016/17 Fee Letter in April 2016 advising the scale fee for the 2016/17 external audit as £207,167 (2015/16 core audit fee £207,167). We will present our 2016/17 Audit Plan to a future meeting of the Audit Committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of the Council's financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early for Money conclusion work. 	December 2016 to March 2017	On track	<p>As part of our early planning work we will discuss and agree a schedule of working paper requirements and we will continue to hold regular liaison meetings with officers. We will report any significant findings and conclusions from our interim work within the Audit Plan.</p> <p>We will invite finance officers to our local government Chief Accountants' Workshop to be held in early 2017, free of any charge to the Council.</p> <p>The CIPFA Code of Practice on Local Authority Accounting for 2016/17 (the Code) introduced new measurement requirements at depreciated replacement cost for Highways Network Assets, based on the methodologies in the CIPFA Code of Practice on Transport Infrastructure Assets. On 14 November 2016 CIPFA announced a decision to defer implementation for the 2016/17 year, and an Update to the Code is anticipated. The decision will be reviewed by CIPFA in March 2017, with a view to implementation in 2017/18. We will continue to liaise with Council officers on developments in this area.</p>
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion 	June to July 2017	On track	Our Annual "Audit Findings Report" to the Audit Committee will summarise the finding from our final accounts audit.

Progress at November 2016



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • an initial risk assessment • audit work in relation to any significant risk identified at the initial risk assessment stage that present a risk to us reaching an appropriate VfM conclusion. 	December 2016 to July 2017	On track	<p>We will undertake initial risk assessment procedures to inform our 2016/17 VfM audit work and discuss our assessment with officers prior to undertaking any detailed VfM work.</p> <p>We will undertake work to enable us to understanding the Council's progress on its Children's Services improvement journey and we will continue to engage with the Children's Services management team and Improvement Board.</p> <p>Our VfM conclusion will be presented alongside our opinion on the Council's accounts.</p>
2016/17 Annual Audit Letter	September 2017	On track	Our Annual Audit Letter will summarise the findings from our 2016/17 audit.

Sector Issues



Brexit: What happens next and what does it mean for you?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Emerging issues

How is the Council responding to the outcome of the EU referendum?

Grant Thornton Technical update





Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Challenge questions:

- Are you aware of this new direction?



Housing Benefit Subsidy Claim certification

"HB COUNT" ("collect once, use numerous times") is the approach to be followed by auditors undertaking certification work on councils claims for housing benefit subsidy from the Department for Work and Pensions.

Manchester City Council's year end claim in 2015/16 totals £269.6m, and comprises a caseload of over 75,000 individual claims.

The HB COUNT approach is modular and consists of guidance and five modules:

Module	Approach details
1: The approach	Auditors are provided with detailed guidance setting out the required approach, including guidance on testing, error types, amendments and qualification letters.
2: Up-rating	This module involves testing to ensure the Council's system is using the correct benefit parameters to calculate benefit entitlement and to claim subsidy.
3: Workbooks	<p>This module involves completion of testing workbooks and includes step by step guidance and a test result summary. Initial or 'discovery' testing covers 20 claims for each type of housing benefit:</p> <ul style="list-style-type: none"> • rent allowances for privately rented properties; • HRA rent rebates for claimants in council dwellings; and • non-HRA rebates for claimants housed by the Council to discharge its statutory homeless function or prevent homelessness. <p>Where an error is found in the initial testing a targeted sample of at least 40 additional cases must be tested to enable the auditor to evaluate the extent of the error.</p>
4: Analytical review tool	This module involves year on year comparisons and key ratios for analytical review purposes. Explanations are sought for key variances.
5: Software diagnostic tool	This module provides a tool to help ensure the subsidy claim form has been completed using the appropriate software version and that benefit granted has been reconciled to benefit paid in accordance with the software supplier's instructions.
6: Certification instruction	The certification instruction summarises the work required in the HB COUNT modules and includes further specific tests related to the completion of the claim form, reconciled payments and the subsidy payable on modified schemes.

Grant Thornton Publications and events



Grant Thornton Vibrant Economy Index

A new way to measure the success of our nation

We believe a vibrant economy is one that goes beyond financial returns and takes into account the wellbeing of society and everybody's ability to thrive.

With this purpose – and input from the Vibrant Economy Commission – we sought a new way to measure the success of the economy. Our Vibrant Economy Index not only considers prosperity, but also dynamism and opportunity; inclusion and equality; health, wellbeing and happiness; resilience and sustainability; and community, trust and belonging.

The index provides:

- policy-makers and place-shapers with an overview of the strengths and opportunities, challenges and weaknesses of individual places as well as the dynamic between different areas
- businesses with an understanding of their local economy and the issues that will affect investment decisions both within the business and externally
- citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

To read insight articles, see how places perform, learn more about the methodology, or contribute your ideas, visit our website:

<http://www.grantthornton.co.uk/insights/vibrant-economy-index/>

Partnership working in mental health

Joining up the dots, not picking up the pieces

Mental ill health costs the economy over £100 billion each year and affects one in four people. However, responding to issues related to an underlying mental illness does not solely sit within the remit of health professionals. With many parts of the public sector needing to respond, and each facing significant financial pressures, collaboration around this issue is essential if savings are to be found and the best care provided.

This paper draws together examples of successful collaboration between public services and feedback from a Midlands round table discussion – where the West Midlands Combined Authority has set up a mental health commission – to look at how different services have overcome some of the traditional barriers and demarcation lines between organisations

There are four key messages:

The unpredictable nature of mental health symptoms can mean that the first point of contact is via emergency services, with ambulance, fire and rescue or police officers being present. The cost of services not being available at the right place at the right time can be huge, in terms of the personal suffering of individuals and costs to the wider system.

Often relatively modest amounts of money targeted at specific initiatives such as street triage or community cafes can make a huge difference in improving the availability of important services.

An impact can be made without the need for expensive structural change. Most importantly, it requires a genuine approach to collaboration and a culture of putting the patient first.

Investing in collaborative initiatives that focus on the needs of mental health patients were undoubtedly resulting in savings elsewhere to the public purse. Examples include:

- 92% reduction in detentions under section 136 of the Mental Health Act in Cheshire and Wirral; 50% reduction in Birmingham and Solihull; 39% in Nottinghamshire; 30% in Kent
- 647 A&E attendances avoided by one street triage team in one year in Birmingham and Solihull
- 80% remission in psychosis through early intervention in Derbyshire
- 25% of unemployed users of the café run by the Manchester Mind Young Adults Services and Projects team have gone on to find employment.

A set of recommendations on how to move this approach forward is also provided.



<http://www.grantthornton.co.uk/en/insights/partnership-working-in-mental-health/>

Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017/18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

The Council was represented at a recent 'Early Closure' workshop jointly hosted by Cheshire West and Chester Council and Grant Thornton.

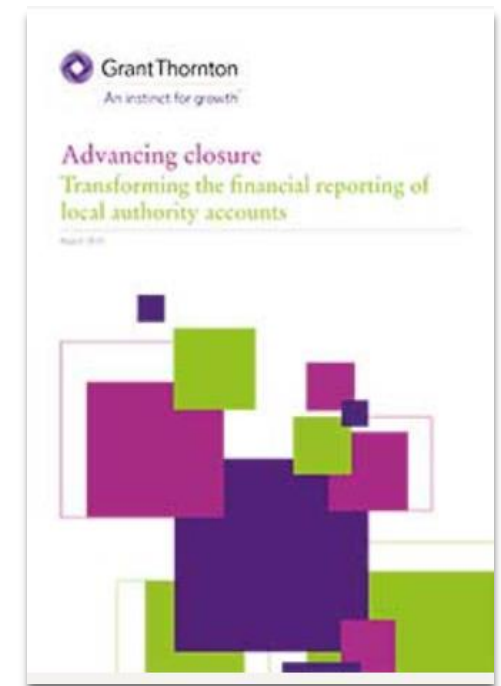
Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below –

<http://www.grantthornton.co.uk/industries/public-sector/>





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