

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

January 2017

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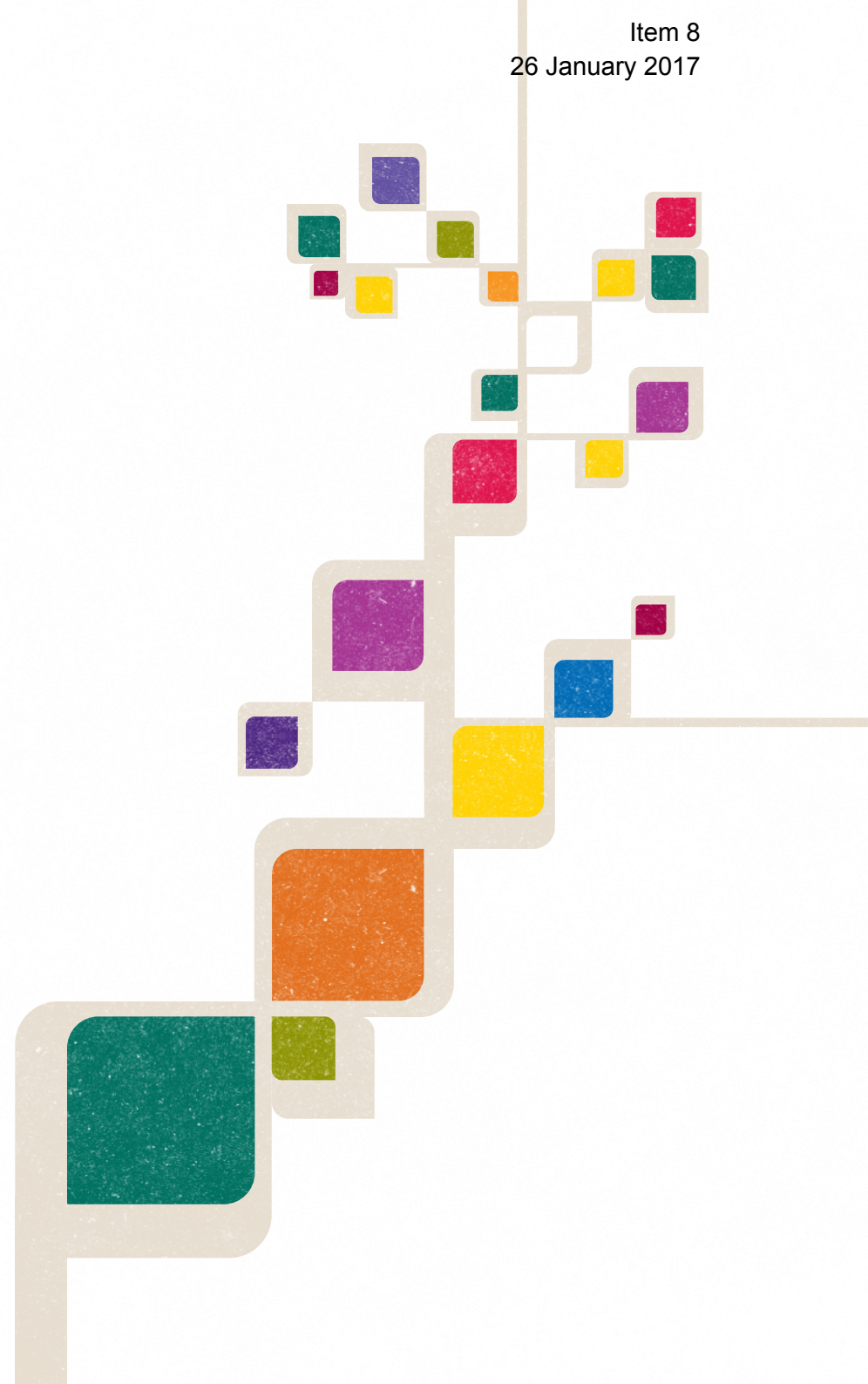
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Associate Director

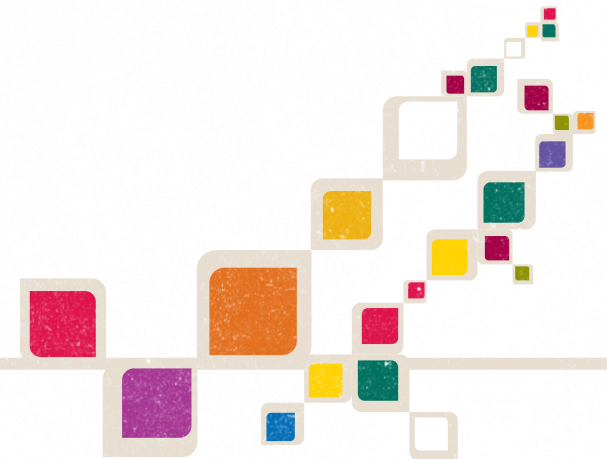
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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:

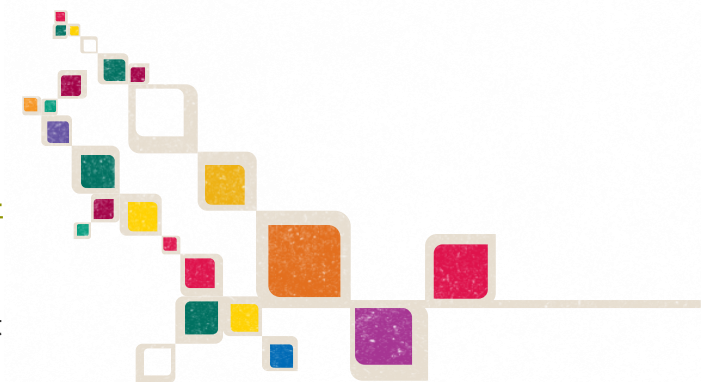
- Vibrant Economy Index – a new way to measure the success of our nation (November 2016)
- <http://www.grantthornton.co.uk/insights/vibrant-economy-index/>
- Advancing Closure – accelerated financial reporting (July 2016)
- <http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- 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:

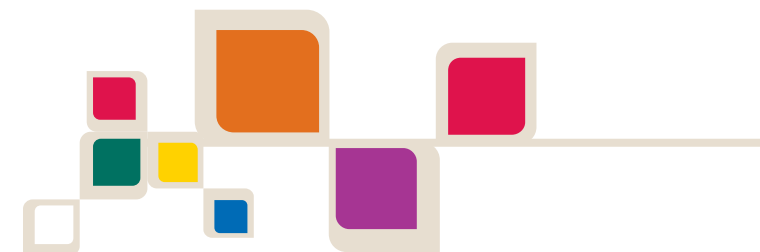
Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

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.

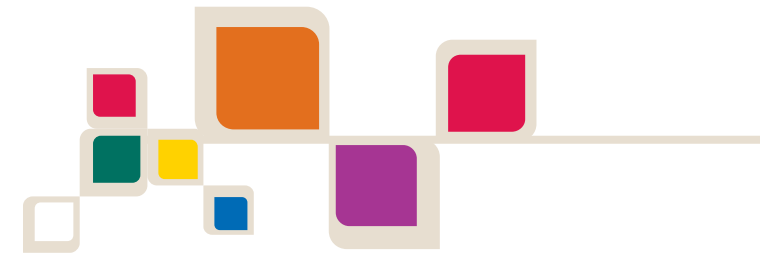


Progress at January 2017



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 summarised the key findings, conclusions and recommendations arising from the audit work we undertook 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 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 January 2017



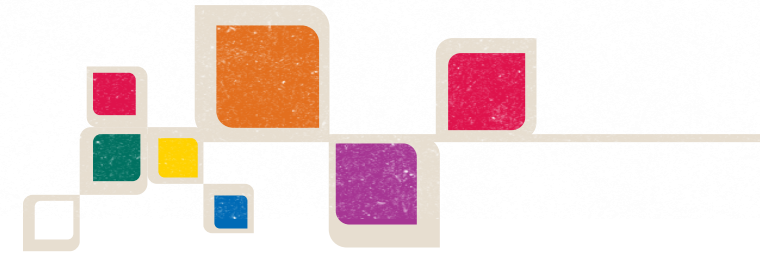
2015/16 work	Planned Date	Complete?	Comments
<p>2015/16 certification work</p> <p>We have completed a programme of work to certify the following of the Council's 2015/16 grant claims and returns:</p> <ul style="list-style-type: none"> • Housing Benefit Subsidy claim • Teachers' Pensions End of Year Return • Pooling of Housing Capital Receipts Return 	30 November 2016	Yes	<p>Our certification work on the Council's 2015/16 grant claims and returns requiring external auditor certification is now complete.</p> <p>The Council's Housing Benefit Subsidy claim, with a total value of £269.7m, was certified subject to a qualification letter on 30 November 2016 as our 'discovery' testing of rent allowance claims identified two small errors. Our extended testing enabled us to extrapolate the potential impact of the identified errors as £14,181.</p> <p>We have agreed an additional fee of £4,690 +VAT for the additional work required on the Council's 2015/16 Housing Benefit Claim with officers, although this remains subject to approval by Public Sector Audit Appointments Limited. Further details are included in our Housing Benefit certification summary letter, also included on the Audit Committee's agenda.</p> <p>We also issued a qualification letter in relation to the Council's Teachers' Pensions End of Year Return on 28 November 2016. The qualification letter reflected the fact that the Council did not have independent assurance over the completeness and accuracy of data provided by schools where payroll services are provided by an external party.</p> <p>We certified the Council's Pooling Housing Capital Receipts Return without qualification on 9 January 2017. One amendment to the return was necessary prior to certification, to reclassify one capital receipt for £33,600 from Quarter 4 to Quarter 3 of the return.</p>

Progress at January 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Accounts Audit Plan We will prepare a detailed accounts Audit Plan 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 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 February and March 2017, free of any charge to the Council.</p>
<p>Final accounts audit 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 January 2017



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



The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting (IR), is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, IR has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets.

IR is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, IR encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- IR encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- IR is underpinned by the International IIR Framework published in December 2013. It is principles based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- IR is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

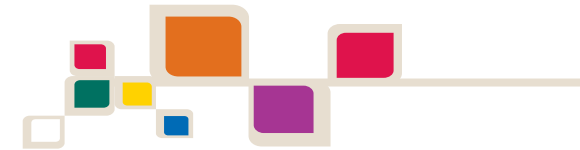
The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt IR, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this such as the World Bank Group, UNDP, the City of London Corporation, the Wales Audit Office and UK government departments.

Integrated Reporting

Further information is available on the IIRC's website

Grant Thornton Technical update





Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main change to the Code for 2016/17 relates:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (i.e. no longer following the standard CIPFA service analysis "SERCOP"). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

Grant Thornton Publications and events



Culture of Place

Our towns, counties and cities have distinct and varied cultures

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

From conversations with local authority CEOs, leaders and others, we have collated a selection of stories that invite us all to think about how the sector can disrupt fixed thinking, open up cultures and energise our places. They go beyond what's immediately obvious, voice what is sometimes unsaid and work with the strengths of their place.

Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- The place leader is the story teller – leaders need to be more deliberate in their storytelling, helping communities make sense of a complex world, the past, present and possible futures
- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

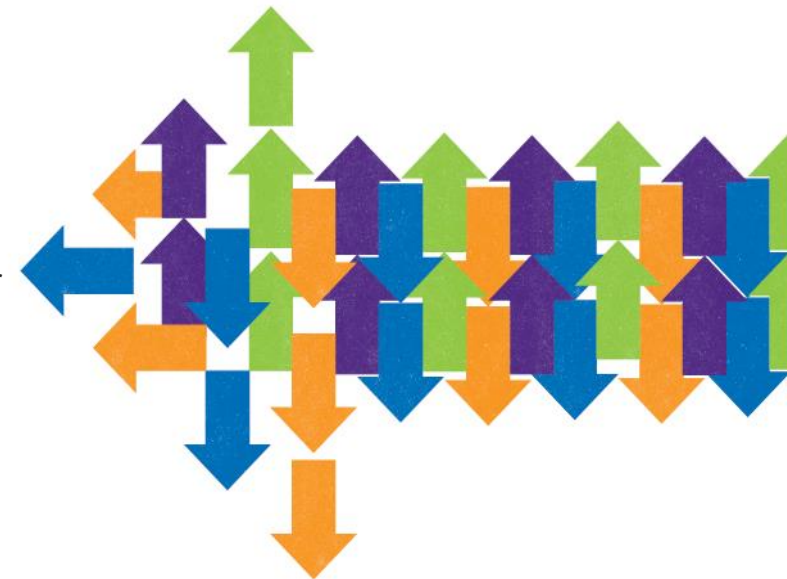
A copy of the report and a collection of short videos can be found on our website at:

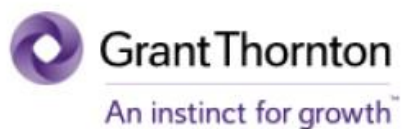
<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

Grant Thornton reports

Challenge question:

Is the Council familiar with this publication?





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Grant Thornton

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17 January 2017

Dear Carol,

Certification work for Manchester City Council for year ended 31 March 2016

We are required to certify the Housing Benefit subsidy claim submitted by Manchester City Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for the Housing Benefit "COUNT" framework issued by the Audit Commission in February 2015.

We have certified the Council's Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £269,654,099. Further details relating to the claim certified are set out in Appendix A.

The indicative fee for the certification of the Council's 2015/16 Housing Benefit claim was based on the final 2013/14 certification fee, reflecting the amount of work required by the auditor to certify the subsidy claim that year. The indicative fee set by the Audit Commission was £11,625.

Our initial sample testing of Housing Benefit cases reflected in the claim identified errors which required us to undertake additional testing, in line with the HB COUNT framework. We have agreed an additional £4,690 fee to reflect the additional testing and review necessary with the Council's Housing Benefit Systems and Subsidy Manager, although this additional fee remains subject to PSAA's approval. Further details are set out in Appendix B.

Yours sincerely

Grant Thornton UK LLP

For Grant Thornton UK LLP

Appendix A – Certification of 2015/16 Housing Benefit claim

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	269,654,099	Yes	15.47	Yes	<p>The qualification was issued on the basis that two errors were identified during the course of the audit. The first relating to an incorrectly applied additional earnings disregard and the second to an incorrectly applied carer's allowance.</p> <p>For the incorrectly applied carer's allowance we tested all cases where this specific error type could occur (56 additional cases in total).</p> <p>The effect of this error was to overstate cell 103 by £15.47 with a corresponding understatement of cell 113 by £15.47. Both cells 103 and 113 were amended by this amount. There is no effect on cell 094 or on overall subsidy claimed by the Council.</p> <p>For the additional earnings disregard error please see the qualification letter which we have attached to the back of this letter for detail of the extrapolation performed.</p>

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance Indicative to Actual (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	15,050	11,625	16,315	4,690	<p>The variance between indicative and actual fee is due to the additional cost of reviewing and re-performing two additional samples performed in order to address the two errors identified in our initial sample testing.</p> <p>The indicative 2015/16 fee reflected the volume of work necessary to certify the 2013/14 Housing Benefit claim, adjusted for a reduction in hourly rates for audit certification work.</p>