



Our Ref OOI/PSA/M04885246

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23<sup>rd</sup> February 2017

Dear Carol

## Manchester City Council audit of financial statements for the year ended 31 March 2017

As part of our audit of Manchester City Council's financial statements (including the Group financial statements) for 2016/17 we need to update our understanding of the senior management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We do this to maintain our understanding of the Council and to comply with International Auditing Standards. We are also required to make enquiries of both senior officers and those charged with governance (the Audit Committee) as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document management's view on key areas affecting the financial statements.

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other senior officers, where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In addition to this request we also need to gain an understanding of how the Audit Committee maintains oversight of the above processes. I have also enclosed a letter addressed to the Chair of the Audit Committee and would be grateful if you could kindly forward this on.

In preparing your responses, it would assist me greatly if you could include a summary of the evidence that you have relied upon to inform your responses, and the sources of assurance that you have that the relevant controls have operated effectively throughout

the financial year, and that will operate up to the date the financial statements are approved.

I would be grateful for your responses by the end of April 2017, if possible, to help inform our planning process. It would also be useful to include both your responses and those of the Audit Committee Chair on the agenda of the 27 June 017 Audit Committee for information.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

*SRNixon*

Stephen Nixon

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Our Ref OOI/PSA/M04885246

Ms Sarah Russell  
Audit Committee Chair  
Manchester City Council  
Town Hall  
Manchester  
M60 2LD

23<sup>rd</sup> February 2017

Dear Sarah

Manchester City Council audit of financial statements for the year ended 31 March 2017

Understanding how the Audit Committee gains assurance from senior officers

As part of our audit of Manchester City Council's financial statements (including the Group financial statements) for 2016/17, we need to update our understanding of how the Audit Committee gains assurance over senior officer processes and arrangements. We do this to maintain our understanding of the Council and to comply with International Auditing Standards.

I would be grateful, therefore, if you would write to me in your role as Audit Committee Chair with your responses to the following questions:

1. How does the Audit Committee oversee senior officers' processes in relation to:

- carrying out an assessment of the risk the financial statement may be misstated due to fraud or error
- identifying and responding to the risk of breaches of internal control
- identifying and responding to the risks of fraud (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances or disclosure for which a risk of fraud is likely to exist)
- Communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?

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2. Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
3. How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?
4. Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail.

Please could you complete this schedule and return it to me by the end of April 2017, if possible, to help inform our planning process.

We are also required to make enquires of senior officers and I attach a copy of the letter and schedule of questions sent to the City Treasurer for your information.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

*SRNixon*

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## Manchester City Council

### Responses from Audit Committee Chair:

#### Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements (including the Group statements) due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud (including risks within Group components)?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively across the Council and Group components?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit Committee exercise oversight over officers' processes for identifying and responding to risks of fraud at the Council and other Group components?	
What arrangements are in place to report fraud issues and risks to the Audit Committee?	
How does the Council communicate and encourage ethical behaviour amongst officers and partners?	
How do you encourage officers to report their concerns about fraud?	
Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any whistleblowing tips or complaints?	

Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council or other Group components since 1 April 2016?	
What are your views on the risks of fraud within other Group components?	

### Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How do officers gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

**Manchester City Council**  
**Responses from Senior Officers:**

<b>Auditor question</b>	<b>Response</b>
What do you regard as the key events or issues that will have a significant impact on the financial statements (including the Group) for 2016/17?	
Have you considered the appropriateness of the accounting policies adopted by the Council (including the Group)? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	
Are you aware of any changes to the Council's regulatory environment (laws, accounting standards, corporate governance & other regularity requirements) that may have a significant impact on the Council's financial statements (including the Group)?	
How would you assess the quality of the Council's and the Group's internal control processes?	
How would you assess the Council's and the Group's process for reviewing the effectiveness of internal control?	
How do the Council's and the Group's risk management processes link to financial reporting?	
How would you assess the Council's and the Group's arrangements for identifying and responding to the risk of fraud?	
What has been the outcome of these arrangements this year?	
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud for the Council and other Group components?	
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	
Have any reports been made under the Bribery Act?	
As a senior officer team, how do you communicate the Council's and other Group component's risk issues (including fraud) to those charged with governance?	
As a senior officer team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	



Auditor question	Response
Is there any use of financial instruments, including derivatives?	
Are you aware of any significant transactions outside the normal course of business?	
What is the current position on significant issues included as contingencies and provisions as at 31 March 2016 as reported in the prior year's audited accounts?	
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	
Are you aware of any guarantee contracts?	
Are you aware of allegations of fraud, errors, or other irregularities during the period at either the Council or other Group components?	
Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?	
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	
Has the senior officer team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment? Is the senior officer team aware of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	
What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?	

<b>Auditor question</b>	<b>Response</b>
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements of the Council?	