



The Audit Findings for Manchester City Council

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2017

August 2017

Mark Heap

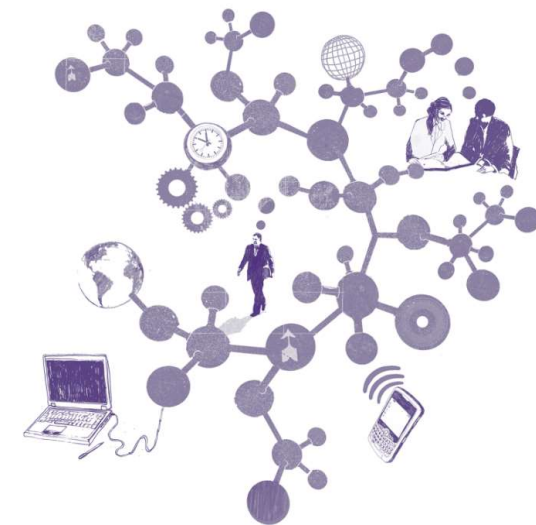
Director
T 0161 234 6375
E mark.r.heap@uk.gt.com

Stephen Nixon

Senior Manager
T 0161 234 6362
E stephen.r.nixon@uk.gt.com

Simon Livesey

Assistant Manager
T 0161 234 6370
E simon.d.livesey@uk.gt.com





Manchester City Council
Audit Committee
Town Hall
Albert Square
Manchester
M60 2LA

August 2017

Dear Members of the Audit Committee

Audit Findings for Manchester City Council for the year ended 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Manchester City Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Engagement Lead

Chartered Accountants

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Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T 0161 953 6900
www.grant-thornton.co.uk

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- 05. Fees, non audit services and independence
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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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 to you in our Audit Plan dated 21 February 2017.

Our audit is still ongoing at the time of writing and we are finalising our procedures in the following areas:

- completion of a number of audit steps and receipt of outstanding queries
- consideration of management's treatment of pension guarantees (p 20)
- 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
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work.

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Executive summary

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). We made a number of recommendations to improve the presentation and disclosure within the disclosure notes to the financial statements.

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

- The Finance Team provided draft accounts for the Council on 6 June 2017 and Group Accounts on 20 June 2017. This was slightly later than planned but in advance of the statutory deadline of 30 June 2017
- The draft accounts were of a good standard which showed evidence of careful management review and technical knowledge of the Finance Team
- Management provided good quality working papers to support the accounts and responded promptly to queries raised during the audit
- Management agreed to all of the suggested amendments during the audit and the accounts therefore contain no unadjusted errors which we wish to report
- Management amended the draft accounts to reflect a non-material error in investment property valuation

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

Subject to clearance of outstanding items we anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

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Executive summary

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues 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 were judged to be "inadequate". We recognise that the Council has secured progress in a number of areas as reported in its Improvement Plan presented monthly to the Children's Services Improvement Board.

The Council anticipates a further re-assessment from Ofsted later in 2017. The ongoing action during 2016/17 in relation to the Ofsted Improvement Plan is evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities during the year. For the period 2016/17 the Ofsted rating of "inadequate" remains in place which gives rise to a qualified VFM conclusion.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

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. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit Committee after 30 November 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.

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.

**Grant Thornton UK LLP
August 2017**

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Section 2: Audit findings

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- 02. Audit findings**
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Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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'.

As we reported in our audit plan, we determined overall materiality for the Council to be £25.4 million (being 1.75% of 2015/16 gross revenue expenditure) and £34.6 million for the Group (being 1.75% of 2015/16 gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

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 £1.2 million for the Council and £1.7 million for the Group. This remains the same as reported in our audit plan.

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	Materiality level
Related party transactions	Due to public interest in these disclosures and the requirement for them to be made (misstatements will also be evaluated by reference to how material they are to the other party)	Materiality is set at £100,000. However, errors will be assessed individually, with due regard given to the nature of the error and its potential impact on the materiality of the other party.
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.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

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Audit findings

Audit findings against significant risks

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
<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 Manchester City 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 • the culture and ethical frameworks of local authorities, including 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>
<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>Summary of work performed:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of 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 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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Audit findings

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. 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
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>This has been considered further as set out below:</p> <ul style="list-style-type: none"> the Council has well established budget processes and forecasts a balanced position through achieving necessary savings targets there is limited need or incentive for expenditure recognition to be manipulated there have been no changes to accounting systems and processes during the accounting period there have been no changes in the Council's approach and methodology relating to the calculation of estimates within the accounts senior finance officers cannot process journals substantive testing of a sample of expenditure for the year, creditors and cut off testing has not identified any issues 	<p>We have considered the risk of material misstatement due to fraudulent transactions within the expenditure cycle as set out in Practice Note 10.</p> <p>Our audit work has not identified any evidence of fraudulent transactions within the expenditure cycle.</p> <p>We are satisfied that there is not a significant risk of material misstatement due to fraud arising from the manipulation of expenditure recognition.</p>

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Audit findings

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. 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
<p>Valuation of property, plant and equipment 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 the current value. This represents a significant estimate by management in the financial statements.</p>	<p>Summary of work performed:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate • review of the competence, expertise and objectivity of management's expert valuer • review of the instructions issued to management's expert valuer and the scope of their work • correspondence with the Council's expert valuer about the basis on which the valuation was carried out, challenging the key assumptions • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value • evaluation of management's impairment review 	<p>Our audit has not identified any material errors regarding valuation of property, plant and equipment.</p> <p>Management amended the draft accounts to record a net £8,503,000 downward revaluation of investment property. The valuation was provided by the external valuer after submission of the draft accounts for audit.</p>

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Audit findings

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation procedures to confirm the reasonableness of the actuarial assumptions made including the use of an audit expert and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary 	<p>Our review has not identified any material errors regarding the valuation of the pension fund net liability.</p>

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Audit findings

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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management also uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention.</p> <p>We also identified creditors being understated or not recorded in the correct period as a risk requiring particular audit attention.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle walkthrough of the key controls to assess whether those controls were in line with our documented understanding tested a sample of non-pay operating expenses during the year for accuracy and recording in the correct period tested a sample of creditors and accruals to supporting evidence to ensure they are correctly recorded in the right period and, where possible, to subsequent payment reviewed post year end payments to identify any unrecorded creditors 	<p>Our review has not identified any material errors regarding non-pay operating expenditure or creditors.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

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Audit findings

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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • performed a trend analysis of payroll costs to identify any unusual or unexpected trends • tested a sample of payroll transactions to confirm accuracy and completeness 	<p>Our review has not identified any material errors regarding employee remuneration expenditure.</p>

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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 Ltd (MAHL) Joint Venture	Yes	Comprehensive	<ul style="list-style-type: none"> Alignment of group accounting policies Adequacy of disclosures within the group financial statements 	<p>Early audit engagement with the Council's finance team.</p> <p>Early engagement with MAHL's external auditor (KPMG UK LLP) to understand their risk assessment procedures.</p> <p>We have reviewed the outcome of the full scope UK statutory audit performed by KPMG on MAHL's 2016/17 financial statements.</p>	Our audit work has not identified any issues in respect of the Group financial statements.
Destination Manchester Ltd Subsidiary	No	Analytical	None	Desktop review	Our audit work has not identified any issues in respect of the Group financial statements.

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of MAHL's auditors began with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the MAHL auditor's audit documentation and meeting with appropriate members of management.

No significant matters have arisen during our audit of the Group.

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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"> NDR and Council tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably government grants and third party confirmations and donations are recognised as due when there is reasonable assurance that the Council will comply with conditions attached to the payment and the grants or contributions will be received revenue relating to the provision of services is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received and the stage of completion of the service can be measured 	<p>Revenue recognition policies are in line with the requirements of the Code of Practice on Local Authority Accounting 2016-17 and accounting standards.</p> <p>We have undertaken substantive testing of grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies.</p>	<p>● Green</p>

Assessment

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

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Audit findings

Accounting policies, estimates and judgements continued

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
Judgements and estimates	Judgements and estimates have been considered in a number of areas including: <ul style="list-style-type: none"> • pension fund valuations and settlements • investments in Manchester Airport Group • financial instruments fair values • Provisions, and reserves 	<ul style="list-style-type: none"> • the Council has disclosed its significant judgements and estimates appropriately • the Council has appropriately relied on the work of experts for pension fund valuations, for fair value calculations and the valuation of its investment in Manchester Airport Group • our testing of financial instruments has not identified any matters arising • our testing of a sample of provisions and reserves has not identified any matters arising 	<p style="text-align: center;">● Green</p>

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Audit findings

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements - changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work:</p> <ul style="list-style-type: none"> • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported in the new Expenditure and Funding Analysis (EFA) note to the accounts • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p style="text-align: center;">● Green</p>

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Audit findings

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The City Treasurer (s151 officer) 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 2016/17 financial statements.	● Green
Related Parties Review	As part of our interim audit testing we reviewed the Companies House website for information on members of the Executive Cabinet and senior officers (Assistant Executive Directors and above) to identify any related party interests.	At our final accounts audit we compared the Companies House information to the Members and Senior Officers register of interests and disclosures in the financial statements. There are no matters arising that we wish to draw to your attention.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice and accounting standards.	The Council's accounting policies are appropriate and overall consistent with previous years. At the time of writing we are reviewing management's accounting treatment of the pension guarantee as a contingent liability in note 49.	● Amber

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Audit findings

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Housing Subsidy and Welfare expenditure	<p>The Council includes Housing Subsidy income based upon the unaudited submission to central government.</p> <p>As part of our work on expenditure we have reviewed the following on welfare expenditure:</p> <ul style="list-style-type: none"> • reconciliation of the welfare benefits expenditure system to the general ledger and financial statements; • reconciliation of welfare benefit income to subsidy claim; • substantively tested a sample of 8 welfare benefit payments (rent allowance and non HRA rent rebates); • substantive testing to ensure the welfare benefits system parameters are updated correctly for 2016/17; and • analytical review of benefits paid. <p>These procedures also form part of the Housing Benefit Subsidy Claim audit which has a certification deadline of 30 November 2017.</p>	<p>Our audit has not identified any significant issues in relation to welfare benefit expenditure which would impact on the audit opinion. We will report the findings of our Housing Benefit Subsidy audit in November 2017.</p>	<p style="text-align: center;">● Green</p>

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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	We have previously discussed the risk of fraud with the Audit (Overview) Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	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	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	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested and received direct confirmations for bank balances from the Council's bankers. For the Council's borrowings we received confirmations direct from PWLB and from Capita in respect of the Council's commercial LOBO borrowings.
6.	Disclosures	Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	We are required to report by exception in the following areas if we identify any issues: <ul style="list-style-type: none"> • 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 Council acquired in the course of performing our audit, or otherwise misleading. We have no issues to report.

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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
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 of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The deadline for submission of the audited Group Return is 29 September 2017 and we will complete our audit in advance of that deadline.</p> <p>We are satisfied that our review will not have any material impact on our audit opinion or VFM conclusion.</p>
9.	Audit evidence and explanations	All information and explanations requested from management was provided.
10.	Significant difficulties	We did not encounter any significant difficulties during the audit.
11.	Other matters	There are no other matters we need to report to you.

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Audit findings

Internal controls

Below are summaries of matters identified by the Firm's IT Auditor as part of assessing IT controls relevant to the audit. A detailed listing has been provided to management to which management has provided a comprehensive response and will be revisited during 2017/18. Issues raised in the 2015/16 audit have also been revisited and are reflected within the issues and risks below.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendation and response (abridged)
1.	<p>● Red</p>	<p>SAP - Segregation of duties The organisation lacks adequate controls to prevent segregation of duties conflicts from occurring within the SAP role structure. We note that several medium to high-risk conflicts were present in user accounts. Our analysis focused on two business cycles only - purchase to pay and record to report.</p>	<p>It is recommended that management take steps to examine the extent of all user access segregation conflicts and reduces the number of conflicts where possible given the size of the organisation.</p> <p>Although this is graded as a significant deficiency we have not identified any material errors resulting from the risk in the financial statements.</p> <p>Management response: Agreed.</p> <p>A large amount of work has been undertaken on this previously and a number of unnecessary roles removed from users. The dedicated working group has been re-established involving members from Data Governance, the Shared Service Centre, ICT and Finance to work through the issues and identify where it is possible to change a role and/or whether any mitigation or controls can alleviate the risk identified. A process to ensure that future roles do not present segregation conflicts will also be included within the remit of the working group.</p> <p>Early investigation has shown that several of the users with these conflicts are part of ICT and not business users.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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Audit findings

Internal controls continued

	Assessment	Issue and risk	Recommendation and response (abridged)
2.	<p>● Amber</p>	<p>SAP – SAP_ALL profile is allocated to users The SAP_ALL profile had been allocated to 4 users. This condition poses the following risk(s) to the organisation: The SAP_ALL authorisation profile contains virtually full system rights and should not be used with any individual accounts within the production environment.</p>	<p>The SAP_ALL profile should be reserved for use within an emergency or fire-fighter type ID that can be locked when not in use. Management response: Agreed ICT have reviewed the current users with the SAP_ALL role. We now have no SAP_ALL roles attributed to any User other than those firefighting accounts which are currently locked. These firefighting accounts provide for operational/contingency cover to the business.</p>
3.	<p>● Amber</p>	<p>SAP – Access to SAP custom programs Table SA 38 allows users to run custom programs. Access to SA 38 provides full access to any program that does not contain an authority check and can therefore circumvent the standard SAP authorisation model. It was noted that 75 users had access to SA 38.</p>	<p>The use of SA 38 should be restricted to system administrators and personnel who have been given permission to access all custom programs. Management response: Agreed Steps are being taken to reduce SA 38 users. At 18 July there are 29 users with access to SA 38 (15 are ICT and system users – the remaining 14 are business users). We will review the remaining users to see if they use this transaction and remove this from a role if not used.</p>

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Audit findings

Internal controls continued

	Assessment	Issue and risk	Recommendation and response (abridged)
4.	● Amber	<p>SAP – Excessive access to modify SAP table data</p> <p>There are an excessive number of users with access to sensitive database table editing transaction codes. We observed that 26 users have access to Table SM30, 25 users had access to Table SM31, and no table logging is undertaken.</p>	<p>Management should ensure that customisable tables are adequately protected by preventing users from using the SM30 or SM31 transaction code.</p> <p>Management response: Agreed</p> <p>We have reviewed the users allocated to Tables SM30 and SM31 and half are IT users. We will review further to see if business users use this transaction and remove this from the role if not used.</p>
5.	● Amber	<p>Inappropriate logging within PuTTY for Academy database changes*</p> <p>Whilst it was acknowledged that the option to maintain individual logs of database level edits was now enabled, it was confirmed that these logs were being held locally on the individual's machine.</p> <p>(*PuTTY is the software tool used to edit the Academy database)</p>	<p>PuTTY logging configurations should be altered so that the logging for database edits results in the files being saved to a network drive that is appropriately restricted.</p> <p>Management response: This is currently not possible to implement. There are 5 business users by default at the present time plus IT users. We will liaise with the IT auditor throughout 2018/19 on this matter.</p>

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Audit findings

Internal controls continued

	Assessment	Issue and risk	Recommendation and response (abridged)
6.	● Amber	Proactive Reviews of Logical Access within Academy User accounts and associated permissions within Academy were not being formally, proactively reviewed for appropriateness.	Management should perform periodic, formal reviews of the user accounts and permissions within Academy. Management response: Agreed and complete
7.	● Amber	Limited engagement with the corporate risk register and lack of standardised approach to risk register maintenance Although a comprehensive IT risk register exists, there is limited tie in with the corporate risk register and it was detailed that the corporate risk register had not been updated in approximately two years.	Management should engage more frequently with the existing risk register and ensure that actions are taken in response to the identified risks, particularly where these risks have high impact or likelihood. Management response: Agreed and complete

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

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Audit findings

Adjusted misstatements

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 one adjustments arising from the audit which has been processed by management.

Impact of adjusted misstatements

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 £'000	Balance Sheet £'000	Impact on total net expenditure cost £000
<p>Note 32 Investment Properties Investment properties are initially valued at cost. They are not depreciated but are revalued annually according to market conditions. After submitting draft accounts for audit the Council received notification from the external valuer that investment properties had suffered further net downward revaluation of £9,021k. The majority of the net downward revaluation related to two assets amounting to £8,503k. Management adjusted the accounts for this revaluation and agreed to process the remaining adjustment in 2017/18 as it fell below audit triviality threshold.</p>	<p>Financing and investment income and expenditure 8,503</p>	<p>Investment Properties 8,503</p>	<p>8,503</p>

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Audit findings

Misclassifications and disclosure changes

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 £'000	Account balance	Impact on the financial statements
1 Disclosure	-	Note 35 Investments	Investments (in joint ventures)The disclosure of the Council's share of Manchester Airports Holdings Ltd was updated to include long term liabilities. Disclosure item only.
2 Misclassification	-	Note 42 Financial Instruments	The table headed Fair Value of Assets and Liabilities Carried at Amortised Cost was amended to report values using Capita's new Loan Rate rather than the premature redemption rate. Market debt moved from £832,583k to £709,670k, Government debt moved from £63,585k to £60,023k and Stocks moved from £10,752k to £9,015k. The narrative to the note was also amended. The carrying amount on the Balance Sheet was correct and remains unchanged therefore this has not impacted the CIES or Balance Sheet.
3 Disclosure	-	Various	There were various disclosure matters which the Council processed to improve the narrative in the accounts. For example narrative to explain why financial information had been re-stated for 2015/16 eg note 34.

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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

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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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys 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 January 2017 in respect of specific areas of "proper arrangements" using the guidance contained in AGN03:

Informed decision making

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance
- Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
- Reliable and timely financial reporting that supports the delivery of strategic priorities
- Managing risks effectively and maintaining a sound system of internal control

Sustainable resource deployment

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
- Managing and utilising assets effectively to support the delivery of strategic priorities
- Planning, organising and developing the workforce effectively to deliver strategic priorities

Working with partners and other third parties

- Working with third parties effectively to deliver strategic priorities
- Commissioning services effectively to support the delivery of strategic priorities
- Procuring supplies and services effectively to support the delivery of strategic priorities

DRAFT

Value for Money

Our risk assessment identified a significant risk in relation to:

- “Planning, organising and developing the workforce effectively to deliver strategic priorities” (Sustainable resource deployment)

The risk identified was that 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.

We communicated the risk to you in our Audit Plan dated 21 February 2017.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

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 time and resource into improving Children’s Services and addressing matters raised by Ofsted. Good progress has been made in a number of areas as highlighted by the themed inspections carried out by Ofsted during the year, although further work is still 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 33 to 35.

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 A.

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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.

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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, 2015/16 and 2016/17 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 2016 that the Children's Service management team recognised that the key challenge being faced was to increase the pace and effectiveness of improvements already being made to provide a service that is consistently safe, effective and efficient.

An updated five-year investment strategy had 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 planned 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.

The service continued to experience high levels of demand during the 2016/17 year, but the service's data indicates some positive developments including:

- the percentage of referrals to the service within 12 months of a previous referral has reduced by over 20% from the August 2014 baseline, and now appears to have stabilised at around 25%
- a steady increase in Early Help activity, part of the service's strategy to more effectively manage demand, and reduce more resource-intensive interventions over the medium and long term
- the number of looked after children (LAC) has continued a trend of gradual reduction, as at March 2017 there were 1,170 LAC compared with 1,380 in August 2014
- the percentage of care leavers not in education, employment or training ('NEET') reduced from 42% to 33% over the course of the year.

A significant social worker recruitment campaign in the summer and autumn of 2016, coupled with a reduction in staff turnover, has increased capacity within the service. This allowed for a reduction in the average caseload, from approximate 23 to 18 children per social worker between September 2016 and March 2017.

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Value for Money

Since our 2015/16 audit, Ofsted have published four letters following on from monitoring visits that focussed on different aspects of the Council's Children's Services. These letters, together with Ofsted's September 2014 report can be found at: <https://reports.ofsted.gov.uk/local-authorities/Manchester>.

Ofsted's first published letter since the September 2014 inspection report was issued on 14 October 2016, summarising a monitoring visit that had taken place on 14 and 15 September 2016.

Ofsted noted that the Council had made improvements where there had been very poor practice, and that some progress had been made towards meeting the recommendations from the inspection. It was noted that senior leaders and managers demonstrated a good understanding of the improvements required, and that the pace of change had increased significantly in the preceding six months.

Ofsted commented positively on the recruitment of additional social workers to reduce caseloads, but considered many key actions were too recent at the time of their visit to have made a difference to the work done with children. A lack of capacity in parts of the service, resulting in the quality of service children were receiving being too variable, was noted. The timeliness of allocating children to social workers, visits and needs assessments had improved, although Ofsted noted little evidence of ongoing assessments and updates for significant changes.

Ofsted undertook a separate monitoring visit on 14 and 15 December 2016, focussed on the progress made in improving the impact of the safeguarding unit's oversight and monitoring of the progress of planning for children. A letter summarising this visit was published on 25 January 2017. Following this visit, Ofsted commented that additional investment in staffing had reduced the workload of independent reviewing officers (IROs), helping them to provide a more effective service. Progress had been made to improve the effectiveness of the safeguarding unit, and there was evidence of increased IRO scrutiny in the majority of the cases Ofsted reviewed.

Ofsted also noted that the introduction of a recognised social work model ('Signs of Safety') was leading to more balanced, child-centred work.

Some areas of practice needed further improvement, including focusing the safeguarding unit on improving the quality of practice, as well as compliance, and ensuring all relevant agencies provide reports to child protection conferences and that these are shared with families beforehand.

Ofsted completed a further monitoring visit on 7 and 8 March 2017, this time focussing on the performance of the adoption service.

Ofsted noted that the Council's adoption service was showing signs of positive changes as a result of an accelerated programme of improvements in the previous six to eight months. In particular, the average time taken from a child being received into care to being placed for adoption had reduced significantly from 740 days in 2013/14 to 514 days. Improvements in the timeliness of adoption placements are such that the Council's performance in this area now compares well against most English local authorities.

The fourth letter was published by Ofsted on 6 July 2017, following a monitoring visit that took place on 6 and 7 June 2017. This visit focussed on contact, referral and assessments, strategy meetings, child protection investigations and child in need cases.

Ofsted noted that the Council's compliance in achieving timescales had improved, but based on the cases reviewed at the monitoring visit the quality of practice had not improved enough to make a positive difference to outcomes for children. The multi-agency safeguarding hub had sustained the progress made seen in previous Ofsted monitoring visits, but the quality of social work practice seen in child in need cases remained too variable.

Ofsted commented on the casework audit activity that forms part of the service's quality assurance framework, noting that these audits largely focus on compliance, processes and timescales but they are not yet sufficiently robust to provided assurance in relation to the quality of social work practice.

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Value for money

Conclusion

The Council has continued to secure progress on its Children's Services improvement journey during 2016/17, with additional investment in social worker recruitment having a positive impact on capacity within the latter part of the year.

The service now has a permanent management team in place, progress has been made in embedding a new model of social work practice, average caseloads have reduced significantly and compliance with key processes and timeliness has improved.

The Children's Services management team recognises that further improvements are required to ensure consistent good quality practice is delivered to secure improved outcomes for children. We will continue to monitor the Council's progress in this area through our 2017/18 audit.

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.

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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

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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"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Group or 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"> We have had no recourse to exercise this power for the Group or the Council
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have had no recourse to exercise this power for the Group or the Council
5.	Application for judicial review	<ul style="list-style-type: none"> We have had no recourse to exercise this power for the Group or the Council
6.	Objections from the public to the accounts under sections 26 and 27 of the Act	<ul style="list-style-type: none"> We received an objection to the 2015/16 accounts from a member of the public regarding LOBO borrowings. We concluded our review of the matters raised and responded to the objector on 27 July 2017 recording the matter as closed. We have therefore issued our 2015/16 Audit Completion Certificate to the Council

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Section 5: Fees, non-audit services and independence

- 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

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Fees, non audit services and independence

We confirm below our proposed fees charged for the audit and for the provision of other audit related and non audit related services

Fees

	Proposed fee £	Final fee £
Council audit	207,167	207,167
Grant certification – Housing Benefit Claim	11,288	TBA
Total audit fees (excluding VAT)	218,455	TBA

Proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). However, the final fee for the Council's audit has yet to be determined, following completion of the audit and our work to consider a local elector's objection relating to 2015/16 (£9,810). We have also incurred specialist legal fees in dealing with a separate query raised by another person (£2,871). The additional fees to the Council for this work is to be submitted to PSAA Ltd for approval.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA Ltd. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. The final fee for the certification of the Council's 2016/17 Housing Benefit claim will be determined following completion of our work in this area in November 2017.

Fees for other services

Service	Fees £
Audit related services:	
2016/17 Pooled Housing Capital Receipts Return	2,750
2016/17 Teacher's Pension Return	4,600
2016/17 Lord Mayor's Charity Independent Examination	nil
Total audit related services	7,350
Total non-audit related services to subsidiaries (see page 41)	2,185

Subsidiary companies

Grant Thornton UK LLP also provides audit and services to subsidiaries of the Council. These are separate engagements outside the remit of PSAA Ltd and are listed in the table below. The Firm's Ethical Standards have been followed in accepting this work and the audits are carried out by a separate team to the Council audit.

Subsidiary Audit Fees	Fees £
Northwards Housing	19,500
One Education	14,130
Matrix Homes Limited Partnership and Matrix Homes (General Partner) Limited	11,750
New Economy	9,020
MIDAS	7,170
Your Employment Service	3,500
Total audit related services (excluding VAT)	65,070

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Fees, non audit services and independence

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Group and Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks

	Service provided to	Fees	Threat identified	Safeguards
Audit of subsidiary companies	One Education: 2016/17 Teacher's Pension Return iXBRL Tagging	£1,235 £950	None	The Firm's Ethical Standards have been followed and a separate audit team to the Council audit team undertakes the work on One Education's Teacher's Pension Return.
Total Audit related services		£2,185		

- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and are notified to the Audit Committee
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Manchester City Council. The table confirms that no non-audit services have been provided relating to 2016/17.

This covers all services provided by us and our network to the Group and the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

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Fees, non audit services and independence

Independence and ethics

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. The firm, its partners, senior managers, managers have complied with the Financial Reporting Council's Ethical Standard and the Auditing Practices Board Ethical Standards as applicable and confirm that we are independent and are able to express an objective opinion on the financial statements
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Group. No non-audit related other services have been undertaken by the Firm.

- We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard
- We have received confirmation that KPMG LLP is independent
- We have received confirmation that the following external experts engaged by the Council are independent
 - Jacobs UK Ltd
 - PricewaterhouseCoopers LLP
 - Roger Hannah & Co. Ltd
 - GVA Grimley Ltd

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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**

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Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.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.

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Communication of audit matters

Communication to those charged with governance

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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
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	✓	✓

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Appendix

A. Audit Opinion

A: Draft Audit opinion

We have audited the financial statements of Manchester City Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account (HRA) Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Reconciliation of the Single Entity Comprehensive Income and Expenditure Statement Surplus to the Group Comprehensive Income and Expenditure Statement Deficit, the Group Balance Sheet, the Group Cash Flow Statement and the related notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Annual Statement of Accounts, the City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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Appendices

A: Draft Audit opinion

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report, Narrative Report to the Annual Accounts, Introduction to Manchester City Council's Annual Accounts, Introduction to Manchester City Council Group Accounts and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Our Integrated Annual Report 2016-17 and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Appendices

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

An inspection report published by Ofsted in September 2014 concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Authority and the Local Safeguarding Children Board in the Manchester City Council area were judged to be "inadequate". Key areas identified by Ofsted for improvement included addressing high caseloads for social workers which was resulting in delayed assessments and potentially leaving children at risk, and quality assurance and management oversight not being robust.

The Authority has developed an Improvement Plan to address Ofsted concerns which it has continued to progress during 2016/17 pending re-inspection. Regular updates are provided to the Children's Service Improvement Board.

This ongoing action during 2016/17 in relation to the Ofsted Improvement Plan is evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities during the year.

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Appendices

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that in all significant respects the Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Mark Heap

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

To be signed and dated August 2017

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