



Manchester City Council: Audit Committee Update and Progress Report

9 November 2017

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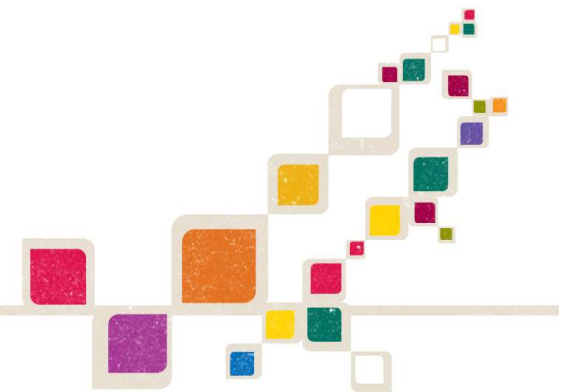
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



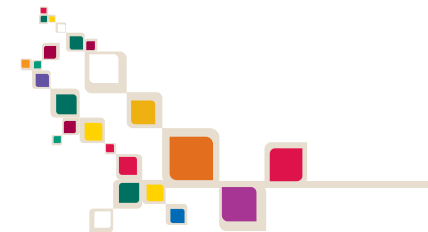
Introduction

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

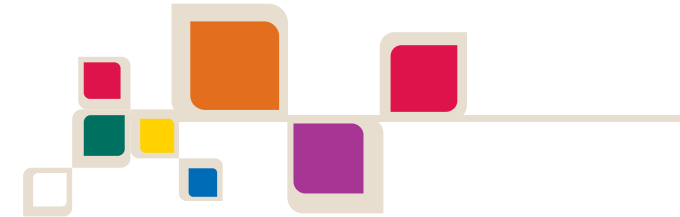
Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services that are not an 'essential' service for an authority but still important to the local community; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures', and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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



Progress at 9 November 2017



| | Planned | Complete | |
|--|---------|----------|--|
|--|---------|----------|--|

2016/17 statutory audit:

The draft Audit Findings Report was presented to the 31 August Committee. 31/8/17 Y

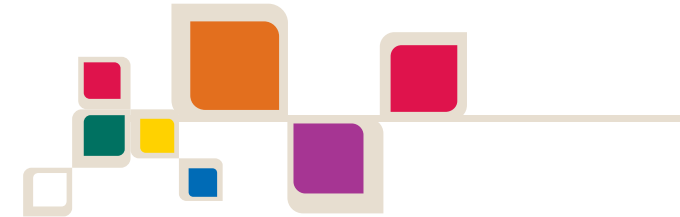
The Whole of Government Accounts (WGA) Assurance Statement was issued to the NAO on 4 October 2017. There were no matters to report to the NAO and an unqualified opinion was provided. The NAO deadline was 29 September 2017. However, this was not achieved due to an error in the NAO reporting tool which was beyond the control of the Council. 29/9/17 Y

The audit opinion on the accounts and VFM conclusion was signed on 18 September 2017.

The 2016/17 Audit Completion Certificate was issued on 4 October 2017 upon completion of our WGA assurance audit. The Certificate deadline was 30 September 2017. This was breached due to delays with the WGA assurance process as set out above. 30/9/17 Y

The Annual Audit Letter is presented to this Committee for noting. 30/10/17 Y

Progress at 9 November 2017



| | Planned | Complete |
|--|---------|----------|
|--|---------|----------|

2016/17 certification:

Housing Benefits:

The Housing benefits audit is ongoing. The work will be completed by the deadline of 30 November and we will report our findings in the certification report in January.

30/11/17

N

For 2018/19 PSAA will no longer appoint the Council's Housing Benefits auditor. The Council must follow its procurement process and notify the Department for Work and Pensions of its appointed auditor in due course.

Pooled Capital Receipts Return:

The audit of the Pooled Capital Receipts return will commence once the terms of the engagement are agreed between DCLG and audit suppliers.

31/12/17

N

Teacher's Pensions Return:

The audit of the Teacher's Pension Return is underway.

30/11/17

N

Homes and Communities Agency (HCA) Plymouth

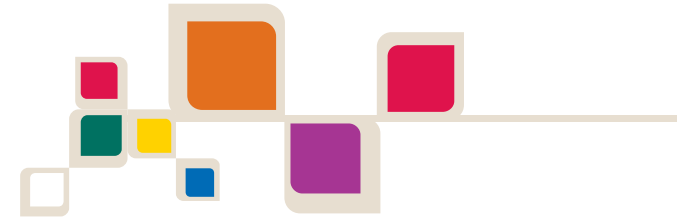
Grove Funding:

The audit is complete.

3/11/17

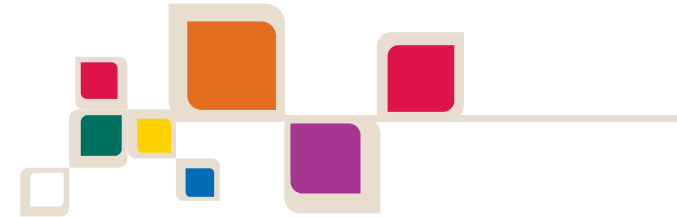
Y

Progress at 9 November 2017



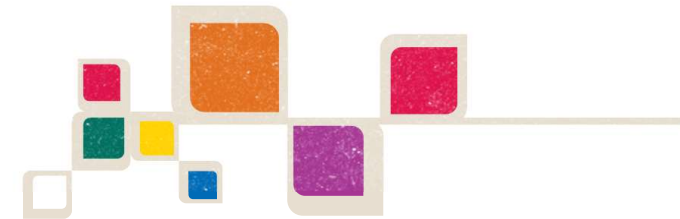
| 2017/18 | Planned Date | Complete ? | Comments |
|--|--------------|------------|--|
| <p>Fee Letter</p> <p>We were required to issue a 'Planned fee letter for 2017/18' by the end of April 2017. This is the final audit year under the current contract. PSAA has awarded contracts to audit suppliers and is currently consulting on local appointments. Your audit supplier from 2018/19 will be confirmed by the end of December 2017.</p> | April 2017 | Y | <p>The fee letter was issued on 27 March 2017. PSAA has maintained the scale fee for the 2017/18 accounts audit at the 2016/17 levels:</p> <p>Audit: £207,167</p> <p>Certification : £13,902 (indicative)</p> <p>Scale fees for all Councils are published on the PSAA website.</p> <p>https://www.psaa.co.uk/</p> |

Progress at 9 November 2017



| 2017/18 | Planned Date | Complete? | Comments |
|---|------------------|-----------|---|
| <p>Accounts Audit Plan</p> <p>We will issue a detailed accounts audit plan to the Council setting out our proposed approach to the audit of the Council's 2017/18 financial statements. This will be issued upon completion of our audit planning.</p> <p>The statutory deadline for the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing with your officers our plan and timetable to ensure that we complete our work by this earlier deadline.</p> <p>We may also need to discuss and agree with you arrangements for the issue of the draft Audit Findings Report, in view of the time available to complete our work and your committee reporting deadlines.</p> | December 2017 | N | <p>To inform our audit planning we have held regular meetings with senior management and the finance team. We have also reviewed Council minutes and remained alert to emerging sector issues which may impact upon the financial statements.</p> |

Progress at 9 November 2017



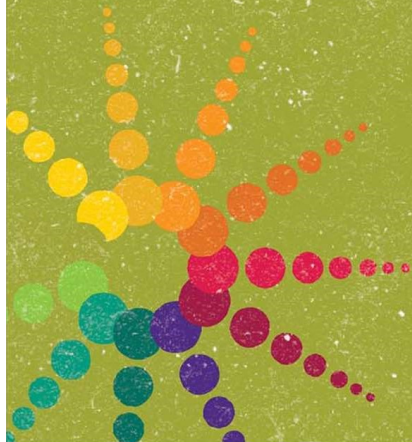
| 2017/18 | Planned Date | Complete? | Comments |
|---|----------------|-----------|----------|
| <p>Interim accounts audit</p> <p>Our interim fieldwork visit plan will reflect the need to complete as much work as possible earlier in the audit cycle. Our work will include:</p> <ul style="list-style-type: none"> • review of the Council's control environment • updating our understanding of the financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. | TBC | N | |
| <p>Final accounts audit</p> <ul style="list-style-type: none"> • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 | June/July 2018 | N | |

Progress at 9 November 2017



| 2017/18 | Planned Date | Complete? | Comments |
|--|--------------|-----------|----------|
| <p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged from last year and is set out in the final guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment when giving an overall conclusion are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties | July 2018 | N | |

Technical Matters



Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure

Technical Matters

Questions:

- Is your Head of Finance aware of the changes to the Code of Practice in 2017/18?

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

Technical Matters

Questions:

- Is your Head of Finance aware of the changes to the Code of Practice in 2017/18?

Forthcoming provisions for IFRS 9 and IFRS 15

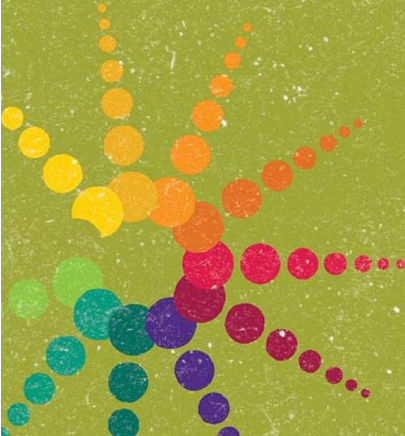
CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

Sector issues



Independent Review of Building Regulations and Fire Safety

A graphic consisting of a large orange rounded rectangle with the text 'Sector Issues' inside. To its right, there are three smaller orange squares of varying sizes, one above and two below, connected by thin grey lines to the main rectangle.

Sector Issues

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

Independent Review of Building Regulations and Fire Safety



Sector Issues

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

The full terms of reference are available at: <https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-terms-of-reference>

Procurement of external audit services

Sector Issues



Public Sector
Audit Appointments

Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

Procurement of external audit services

Sector Issues



Public Sector
Audit Appointments

Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December..



Department
for Work &
Pensions

Housing Benefit (Subsidy) Assurance Process 2018/19: Module 1 Special Purpose Framework Instruction:

This Circular sets out the arrangements for the audit of the housing benefits subsidy for 2018/19. It is for the LA to appoint a reporting accountant to undertake this work and notify the DWP of this. A standard letter of notification for the LA use is set out in Appendix 1 of the circular. This letter of notification must be issued to the DWP by the LA in due course at a date to be announced by DWP.

Local Authority 2016/17 Revenue Expenditure and Financing

Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf

Local Authority 2016/17 Revenue Expenditure and Financing



Sector Issues

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

Grant Thornton publications



Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

Grant Thornton publications

Questions:

- Is your Council exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?

Setting up a successful social enterprise

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted exiting models into social enterprises; for example where a greater focus on social outcomes has been identified

Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Grant Thornton publications

Questions:

- Is your Council exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?

DOWNLOAD

A guide to setting up a social enterprise

Download PDF [1,380kb] →



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

The Board: creating and protecting value

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This powerful tool provides a framework (see graph 1) with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

Grant Thornton publications

Question:

- Have you read our report?

The Board: creating and protecting value

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Grant Thornton publications

Question:

- Have you read our report?

The Board: creating and protecting value

Graph 1 - Value creation and protection framework

| Value creation | |
|------------------|---|
| Non-executives | <p>Directorship How well do the non-executives:</p> <ul style="list-style-type: none"> design, debate and decide the organisation's future? inspire and guide the executive to realise the organisation's purpose? provide support to the executives? |
| | <p>Leadership How well do the executives:</p> <ul style="list-style-type: none"> Make decisions aligned with realising the organisation's purpose? Inspire and motivate employees to realise the organisation's purpose? model the values of the organisation? |
| | Executives |
| | <p>Assurance How well do the non-executives:</p> <ul style="list-style-type: none"> monitor financial, compliance and business indicators? ensure appropriate processes are in place to manage risk? have oversight of the executive team? |
| | <p>Management How well do the executives:</p> <ul style="list-style-type: none"> set goals, creating plans and allocating resources to achieve them? effectively assign roles and responsibilities? Focus on day-to-day tasks and resources needed to deliver strategic aims? |
| Value protection | |

Grant Thornton publications

Question:

- Have you read our report?



Source: The Board: Creating and protecting value, 2017, Grant Thornton

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>



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