# External Audit Plan

*Year ending 31 March 2018*

Manchester City Council
March 2018

# Contents

**Your key Grant Thornton team members are:**

Mark Heap
Director
T: 0161 953 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

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 planning 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 the Council 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 & headlines

### Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Manchester City Council ('the Council') for those charged with governance.

### Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Manchester City Council. We draw your attention to both of these documents on the PSAA website.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. 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.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

# Introduction & headlines

| | |
|---|---|
| **Significant risks** | Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:<br>• management override of controls<br>• valuation of property, plant and equipment<br>• valuation of pension fund liability<br>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report. |
| **Materiality** | We have determined planning materiality to be £29.9m for the single entity (PY £25.4m) and £34.8m for the Group (PY £34.6m), which equates to 1.75% of your gross expenditure from provision of services for the previous year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.5m for the single entity (PY £1.2m) and £1.7m for the Group (PY £1.7m). |
| **Value for Money arrangements** | Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:<br>• working with partners: consideration of the Council's partnership work to unite health and social care needs across the city and how the Council is overseeing the operation of the pooled budget |
| **Audit logistics** | Our interim visit will take place in March 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.<br>Our fee for the audit will be no less than £207,167 for the Council (PY: £207,167). |
| **Independence** | We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements |
| **Audit Report** | Manchester City Council expects to hold approximately £0.8m of debt listed on the London Stock Exchange at 31 March 2018. An entity with listed debt is a Public Interest Entity (PIE), which has enhanced audit reporting requirements under ISA (UK) 700. |

# Deep business understanding

## Changes to service delivery

### Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version was published in December 2017.

At a meeting of the Council on 2 March 2018 Members agreed a Capital strategy 2018/19 to 2022/23 and Treasury Management Strategy for 2018/19 to achieve Council priorities, supported by a Council Tax increase of 3.49% for 2018/19.

### Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. Greater Manchester is leading the way in the devolution agenda with the devolution of powers, budgets and responsibility to the Greater Manchester Combined Authority (GMCA) already underway. The City Council is already utilising the new powers to integrate health and social care. A coordinated approach also exists to building new housing through the Housing Investment Fund with the Council acting as agent for GMCA until the GMCA itself is granted formal borrowing powers in 2018/19. Looking ahead there will be a coordinated transport infrastructure across the whole of Greater Manchester. Both the Council and GMCA have their own responsibilities to achieve these goals.

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear as to whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditor's opinion by 31 July 2018.

### Audit transition

2017/18 is the final year of Grant Thornton's audit of the Council. During transition the Council needs to engage with the new auditor on key issues for 2018/19.

### Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code regarding the going concern basis for local authorities, and updates for lease accounting, service concession arrangements and financial instruments.



# Deep business understanding

## Key challenges

### Financial pressures

The Council continues to address the challenge of reducing resources and increases in demand, particularly in caring for the needs of the most vulnerable children and adults in the area. The Council has an agreed Medium Term Financial Plan (MTFP) covering 2018 to 2020 following the latest Local Government Finance Settlement. 2018/20 budget process identified £34.5m of savings proposals split across directorates. The Council must now find an additional £37m savings across the three year period to offset the funding reductions and meet unavoidable pressures. The Council has a good record of delivering savings and delivered a £0.689m underspend in 2016/17. At the end of quarter 3 of 2017/18 the Council forecasted a revenue overspend of £4.594m at 31 March 2018.

### Impact of Grenfell Tower fire

The Grenfell Tower fire disaster in 2017 led to Manchester City Council identifying 35 high rise accommodation buildings where the Council is the landlord, although not all have cladding. Local authorities are expected to make these buildings fire safe and the Council is working with partners to ensure that happens. DCLG are reviewing the current restrictions on the use of the financial resources that prevents councils from making essential fire safety upgrades.

# Deep business understanding

**Our response**

- we will consider your arrangements for managing and reporting your financial resources, including your progress on devolution as part of our work in reaching our Value for Money conclusion
- we will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements
- we will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops
- as part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **The revenue cycle includes fraudulent transactions** | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Manchester City Council, mean that all forms of fraud are seen as unacceptable<br>Therefore we do not consider this to be a significant risk for Manchester City Council. |
| **Management over-ride of controls** | Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.<br>Management over-ride of controls is a risk requiring special audit consideration. | We will:<br>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness<br>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness<br>• evaluate the rationale for any changes in accounting policies or significant unusual transactions. |

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Valuation of property, plant and equipment** | The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.<br><br>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.<br>. | We will:<br>• review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• consider the competence, expertise and objectivity of management experts used<br>• discuss the basis on which the valuation is carried out with the valuer and challenge the key assumptions<br>• review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding<br>• test revaluations made during the year to ensure they are input correctly into the Council's asset register<br>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value<br>• test material additions and disposals and review the depreciation calculation<br>• review the Council’s consideration of asset impairment |

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Valuation of pension fund net liability** | The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.<br><br>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration. | We will:<br>• identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement<br>• evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out<br>• undertake procedures to confirm the reasonableness of the actuarial assumptions made<br>• check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary |

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| **Employee remuneration - completeness** | Payroll expenditure represents a significant percentage of the Council's operating expenses.<br><br>As the payroll expenditure comes from a number of individual transactions and sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention. | We will<br>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness<br>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls<br>• agree payroll expenditure from sub-systems to general ledger control accounts<br>• perform a predictive analytical review of payroll expenditure and compare to the reported figures |
| **Operating expenses and associated creditor – completeness** | Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.<br><br>We identified completeness of non-pay expenses as a risk requiring particular audit attention: | We will<br>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness<br>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls<br>• agree creditor balance to general ledger control account<br>• test a sample of operating expenditure to ensure it is accounted for in the correct period |

# Other matters

### Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

### The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

### Materiality for planning purposes

We calculate financial statement materiality based on a proportion of the expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £29.9m (PY £25.4m) for the Council single entity accounts based upon 1.75% of 2016/17 gross revenue expenditure for the provision of services, and £34.8m (PY £34.6m) for the Group, based upon 1.75% of 2016/17 total gross expenditure. We will revisit the calculation upon receipt of the 2017/18 draft accounts.

We design our procedures to detect errors in specific accounts at a lower level of precision (Senior officer remuneration and Related Party Transactions).

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

### Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.5m (PY £1.2m) for the Council and £1.7m (PY £1.7m) for the Group.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to 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 (UK and Ireland) 600 | Risks identified | Planned audit approach |
|---|---|---|---|---|
| **Manchester Airport Holdings Ltd (MAHL)**<br><br>**Joint Venture** | Yes | Comprehensive | • Alignment of group accounting policies<br>• Adequacy of disclosures within the group financial statements | Early audit engagement with the Council's finance team.<br><br>Early engagement with MAHL's external auditor (KPMG UK LLP) to understand their risk assessment procedures.<br><br>We will review the outcome of the full scope UK statutory audit to be performed by KPMG on MAHL's 2017/18 financial statements. |
| **Destination Manchester Ltd**<br><br>**Subsidiary** | No | Analytical | N/A | Desktop review of financial statements. |

**Audit scope**:

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the components financial statements is required

**Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

**Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level



# Value for Money arrangements

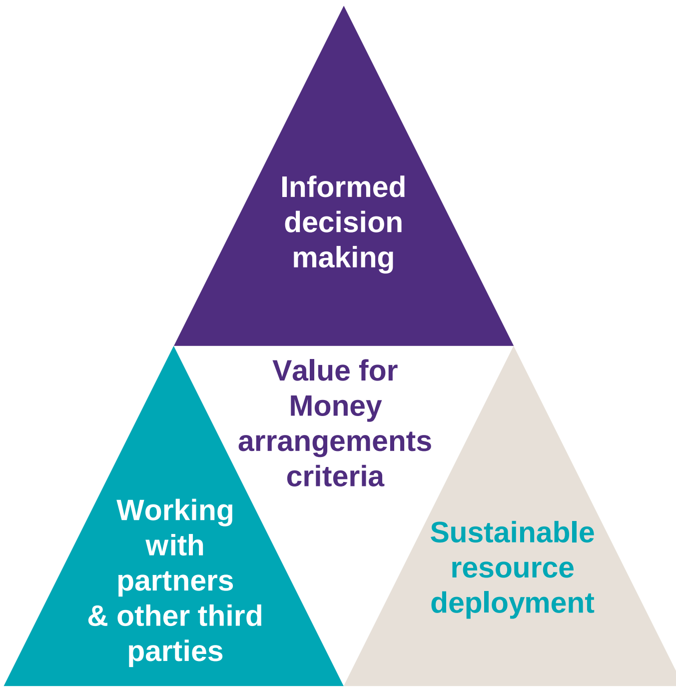
### Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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."*

This is supported by three sub-criteria, as set out below:




### Significant VFM risks

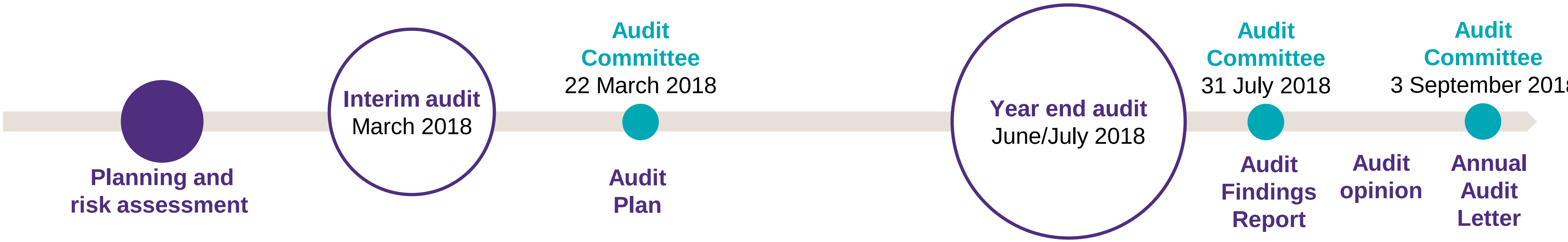
Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

**Working with partners and other third parties:**

As part of the devolution agreement with the Government for Greater Manchester to take control of health and social care spending and decisions, the Council is progressing with its Locality Plan "A Healthier Manchester". Under this plan the City will commission and deliver health and social care services jointly across the City and have a single hospital service and Local Care Organisation spanning the entire local authority area.

We will consider the Council's progress in developing the governance arrangements for joining together health and social care across the City to improve health outcomes for citizens as set out in the Locality Plan, and the underlying decision making process.

# Audit logistics, team & audit fees




### Mark Heap, Engagement Lead

Mark leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

### Stephen Nixon, Audit Manager

Stephen plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your the first point of contact for discussing any issues.

### Simon Livesey, Audit Incharge

Simon's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

### Audit fees

The planned audit fees are no less than £207,167 (PY: £207,167) for the financial statements audit and £13,902 for the housing benefit subsidy audit. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited and the fee is indicative. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

### Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

### Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

### Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 17). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

# Early close

## Our requirements

Your Finance team has proven in 2016/17 and previously that they are well positioned to deliver draft accounts to the earlier deadline and we expect this to continue for 2017/18. We fully expect that you will produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement, together with good quality working papers.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

# Independence & non-audit services

The following non-audit services were identified.

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Housing capital receipts grant | 2,750 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the total fee for the audit of £207,167 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Teacher's Pension Return | 4,600 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,600 in comparison to the total fee for the audit of £207,167 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| **Non-audit related** | | | |
| CFO Insights<br>Online service allowing rapid analysis of key financial performance data | 12,500 | Self-Interest (because this is a subscription) | The fee for this work is negligible in comparison to the total fee for the audit and in particular the overall turnover of Grant Thornton UK LLP and the Public Sector Assurance service line. It is also a fixed fee with no contingent element. These factors mitigate the perceived self interest threat to an acceptable level. |

In addition to the above fees charged for services to the Council, the Firm provides audit and non audit related services to subsidiaries of the Council. The amounts detailed above are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

# Appendices

A. **Revised ISAs**

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statements for periods commencing on or after 17 June 2016.

| Section of the auditor's report | Description of the requirements |
|---|---|
| **Key Audit Matters (KAM)** | We will be required to include matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters will be selected from those matters communicated with those charged with governance. The auditor's report will include a description of the KAM, our response and key observations. |
| **Conclusions relating to going concern** | We will be required to conclude and report whether:<br>• Management's use of the going concern basis of accounting is appropriate<br>• Management have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern. |
| **Material uncertainty related to going concern** | We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements.<br>Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report. |
| **Other information** | We will be required to include a section on other information which includes:<br>• Responsibilities of management and auditors regarding other information<br>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation<br>• Reporting inconsistencies or misstatements where identified |
| **Additional responsibilities for directors and the auditor** | We will be required to include the respective responsibilities for management and us, as auditors, regarding going concern. |
| **Other matters which we are required to address** | We will be required to include details of who appointed us, date of appointment, period of uninterrupted engagement, non-audit services, and that the audit opinion is consistent with the Audit Findings Report. |
| **Format of the report** | The opinion section appears first followed by the basis of opinion section. |



Grant Thornton

An instinct for growth™

Carol Culley, City Treasurer
Manchester City Council
Town Hall
Manchester
M60 2LA

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

T +44 (0)161 953 6900
F +44 (0)161 953 6901

www.grant-thornton.co.uk

19th February 2018

Dear Carol

**Certification work for Manchester City Council for year ended 31 March 2017**

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

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

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £258,034,397. Further details are set out in Appendix A.

We identified a number of issues from our certification work which we wish to highlight for your attention. There were three new areas where we identified errors and one error that was repeated from previous years testing. Given the nature of the sub-populations and the variation in the errors found it is unlikely that even significant additional work would have resulted in an amendment to the affected cells that would allow me to conclude it is fairly stated.

As a result of the errors identified, the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fee, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £11,288 and no additional fee was incurred.

Yours sincerely

Grant Thornton UK LLP

Grant Thornton UK LLP

**Appendix A - Details of claims and returns certified for 2016/17**

| Claim or return | Audited Value | Amended? | Amendment value | Qualified? | Comments |
|---|---|---|---|---|---|
| Housing benefits subsidy claim | £258,034,397 | Individual cells amended but subsidy unchanged | Individual cells amended but subsidy unchanged | Yes | See below |

## Findings from certification of housing benefits subsidy claim

**Rent Allowance – Total expenditure (Benefit Granted)**
**Incorrect income disregards against earnings**

In 2015/16 we identified errors in relation to the application of income disregards where claimants in receipt of working tax credit received earnings on a fortnightly basis but were not working 16 hours or more. Our initial testing in 2016/17 did not identify any similar issues however, in line with HBCOUNT Module 1, we selected a random sample of 40 cases from the sub-population of fortnightly earners awarded working tax credit and receiving an income disregard. Testing of the additional sample identified 9 cases which were in error due to income disregards applied where claimants were not working 16 hours or more.

**HRA Rent Rebates – Total expenditure (Benefit Granted)**
**Incorrect calculation of self-employed earnings**

Testing of the initial sample identified one case where benefit had been underpaid as a result of the Authority miscalculating the claimant's self-employed earnings.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. However, because errors miscalculating the claimant's average weekly earnings could result in overpayments an additional random sample of 40 cases was tested.

Testing of an additional sample of 40 cases identified 20 cases which were in error due to the incorrect calculation of self-employed earnings.

**HRA Rent Rebates – Total expenditure (Benefit Granted)**
**Incorrect calculation of student income**

Testing of the initial sample identified one case where benefit had been incorrectly recorded as a result of the Authority miscalculating the claimant's student income.

The error identified did not alter the claimant's benefit entitlement. However, because errors miscalculating the claimant's student income could result in overpayments an additional random sample of 40 cases was tested. Testing of the additional sample of 40 cases identified 12 cases which were in error due to the incorrect calculation of student income.

**Benefit software: reconciliation of benefit granted to paid**

The Authority uses the Capita benefits software. The software supplier provides a method for the Authority to reconcile benefit granted per the benefit software to benefit paid per the benefit software.

The reconciliation spreadsheet showed an imbalance of £12,264.40 relating to private tenants.