



Annual Audit Letter

Year ended 31 March 2018

Manchester City Council

2 August 2018



Contents



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Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
10

Appendix

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Manchester City Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 31 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £29,900,000 which is 1.75% of the Council's gross revenue expenditure. We determined materiality for the audit of the group's financial statements to be £34,800,000, which is 1.75% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We plan to complete our work on the Council's consolidation return in accordance with the guidance issued by the NAO before the statutory deadline of 31 August 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We will certify that we have completed the audit of the accounts of the Council and group in accordance with the requirements of the Code of Audit Practice once we have concluded our Whole of Government Accounts assurance work.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Council

Our year end audit work was undertaken during June and July 2018.

We have shared our audit findings with management. No recommendations for improvement were required.

We have concluded that the other information published with the financial statements, which includes the Annual Governance Statement and Narrative Report is consistent with our knowledge of your organisation and with the financial statements we have audited.

2017/18 is the final year of the Grant Thornton audit contract. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff since the appointment commenced in 2008.

Grant Thornton UK LLP

August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council and group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £34,800,000, which is 1.75% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's accounts to be £29,900,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower level of materiality of £20,000 for both related parties and senior officer remuneration as we consider these items to be of enhanced public interest.

We set a lower threshold of £1,500,000 and £1,700,000 for the Council and group respectively, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the Narrative Report and Annual Governance Statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable 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 ISA (UK) 240 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:</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 Manchester City Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Manchester City Council.</p>	<p>Improper revenue recognition was considered as a significant audit risk and subsequently the risk was rebutted.</p>
<p>Management override of controls</p> <p>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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, and identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any issues regarding the risk of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment (land and buildings)</p> <p>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.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>In addressing the valuation risk we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considered the competence, expertise and objectivity of management experts used • reviewed the basis on which the valuation is carried out with the external valuers and challenged the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated 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 • tested material additions and disposals and reviewed the depreciation calculation • reviewed the Council's consideration of asset impairment 	<p>We did not identify any material errors or misstatements relating to land and buildings valuation.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out• undertook procedures to confirm the reasonableness of the actuarial assumptions made• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary	<p>We did not identify any material errors or misstatements relating to the valuation of the pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's and group's financial statements on 31 July 2018, meeting the statutory deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 31 July 2018. Management prepared a good set of draft accounts which contained no material errors. Audit adjustments were confined to disclosure matters only within the notes to the accounts. The draft outturn and general fund balance remained unchanged.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We plan to carry out work on the Council's Data Collection Tool in line with instructions provided by the NAO. The deadline for submitting the audit assurance statement is 31 August 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have had no cause to exercise these statutory powers at Manchester City Council and no objections from the public were received.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Manchester City Council in accordance with the requirements of the Code of Audit Practice. We will issue the certificate once we conclude our Whole of Government Accounts assurance work.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified related to the Council's joint working with partners to integrate health and social care across the city. The work we performed is set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018. An unqualified Value for Money conclusion was issued.

Value for Money conclusion

Key Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The success of the integration of health and social care across Manchester would be compromised if the governance and decision making process isn't functioning.</p>	<ul style="list-style-type: none"> • The Care Quality Commission (CQC) inspection of health and social care integration reported in December 2017 that 'governance arrangements were clearly articulated from the Greater Manchester Health & Social Care Partnership down to locality levels.' • In describing governance arrangements in the city of Manchester itself, the CQC concluded that 'these arrangements would ensure that the individual partner organisations could meet their statutory responsibilities while working within an integrated commissioning structure.' • The accountabilities between partners in Manchester were expected to be enshrined in a formal procurement contract by April 2018, but this is not yet in place due to unresolved issues such as VAT treatment and pensions costs associated with the transfer of staff to the Manchester Local Care Organisation (MLCO). • The VAT issue in particular would carry a risk of c£3 million per annum to the total health and social care budget depending on the ultimate interpretation of HMRC rules and the partners are understandably unwilling to proceed with the procurement while that risk exists (the Council is working with NHSE and the Dept. of Health on a proposition to put to HMRC on this matter). • Management and democratic accountability are achieved through the management teams and the boards for both Manchester Health and Care Commissioning (MHCC) and the MLCO which include NEDs and councillors from the partner organisations. The Resources & Governance Committee of the Council scrutinises progress. 	<ul style="list-style-type: none"> • The governance and decision-making arrangements for 'A Healthier Manchester' were expected to be formalised in a 10 year procurement contract by April 2018, but this was not achieved because of unresolved national issues, most notably VAT treatment which carries a c£3m risk to the partnership. • The accountabilities are formalised instead through a partnership agreement signed in April 2018, developed by a governance working group consisting of representatives of all partner organisations. • This has enabled continued progress to be made on operational developments, most importantly the establishment of 12 neighbourhood teams under the MLCO. <p>We concluded that the Council, together with its partners has developed functioning governance arrangements and therefore an unqualified Value for Money conclusion has been issued to the Council.</p>

Appendix A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	207,167	211,167	207,167
Certification of Housing Subsidy Return	12,500	TBC	11,288
Total fees	219,667	TBC	218,455

The proposed audit fee for the year exceeds the scale fee set by Public Sector Audit Appointments Ltd (PSAA) by £4,000 due to the additional work involved in addressing the Public Interest Entity (PIE) requirements arising from the Council's listed debt.

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.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts return	2,750
- Certification of Teacher's pension return	4,600
Non-Audit related services	
- CFO Insights	12,500
- Online service allowing rapid analysis of key financial performance data	

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and Group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council and Group's policy on the allotment of non-audit work to your auditor.



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