

Audit Committee Progress Report and Technical Update 15 October 2019

Manchester City Council
Year ending 31 March 2020





CONTENTS

Audit Progress

Appendix A – Technical Update

This document is to be regarded as confidential to Manchester City Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor.

This paper also seeks to highlight at Appendix A key emerging national issues and developments which may be of interest to Members of the Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Audit Completion 2018/19

Since the last Audit Committee we have completed our work on the Council's Whole of Government Accounts (WGA) return as required by the National Audit Office. We issued our unqualified conclusion on the Council's WGA submission on 20 September 2019. This enabled us to issue our Audit Completion Certificate for 2018/19 on that date.

Audit progress 2019/20

The 2019/20 audit is now due to start. In the next few weeks we plan to:

- hold internal planning meetings as part of our planning process for the 2019/20 audit;
- hold update meetings with the finance team in respect of planning for the 2019/20 interim and final audit visits;
- review minutes from Council meetings to inform our financial audit and value for money conclusion risk assessment.

We plan to carry out interim testing during late October and November which will include updating our core financial systems documentation and carrying out substantive testing of income and expenditure for the first six months of the year.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage. Our detailed Audit Strategy Memorandum will be presented to the January Audit Committee.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	New Code of Audit Practice 2020/21 – Consultation	Consultation process underway for the new Code of Audit Practice that will apply for 2020/21 audits	5
2	Whole of Government Accounts 2017/18	NAO has provided a qualified opinion on the 2017/18 Whole of Government Accounts	6
Public Sector Audit Appointments Ltd (PSAA)			
3	Local audit quality forum June 2019 slides	Slides from PSAA event	7
4	Local Government audit opinions issued by 31 July 2019	Press release relating to the increase in delays in issuing audit opinions	7
Chartered Institute of Public Finance and Accountancy (CIPFA)			
5	A practical guide for Local Authorities on Income Generation (2019 edition)	Guidance to assist Councils	8
Ministry of Housing, Communities & Local Government (MHCLG)			
6	Review of local authority financial reporting and external audit	Announcement of a wide ranging review of financial reporting and external audit in the sector	9
Mazars			
7	Rethinking Social Value: Unlocking Resources to Improve Lives	Sector-leading think piece on Social Value	10

1. Audit progress

2. National publications

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. New Code of Audit Practice 2020/21 – Consultation, September 2019

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The consultation is taking place in two stages. The first has concluded and the second is currently underway with a deadline for responses of 22 November 2019. The NAO plans to finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

The first stage of the consultation showed broad support for maintaining the principles-based nature of the Code, being the wider scope of public audit, independence and public reporting. However the responses highlighted that this should be supported by more detailed sector-specific guidance.

The second stage of the consultation is focusing on the text of the draft Code. In particular there are proposed changes to the way auditors report on arrangements to deliver value for money in the use of resources.

The Local Audit & Accountability Act 2014 places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code, this is referred to as work on arrangements to secure value for money.

Currently, the local auditor reports against a single overall criterion as to whether: "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." This is known as the value for money conclusion and is included in the Auditor Report included in Council's financial statements.

The consultation draft Code proposes changes to this reporting, with a more detailed commentary on the value for money arrangements being included in a new 'Auditor's Annual Report'.

Should the Council wish to respond to the consultation, the details are provided in the link below.

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/#>

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

2. Whole of Government Accounts 2017/18, May 2019

The Whole of Government Accounts (WGA) consolidates the accounts of over 8,000 bodies across the public sector, including central and local government and public corporations such as the Bank of England, to produce an accounts-based picture of the UK's public finances. It sets out what the government receives, pays, owns and owes.

The headline results in WGA 2017/18 show income of £760.9 billion (2016/17 £720.8 billion), expenditure of £814.8 billion (2016/17 £760.7 billion). After financing costs are taken into account, the net expenditure for WGA is £212.4 billion (2016/17 £97.8 billion). On the Statement of Financial Position, WGA shows total assets of £2,013.8 billion (2016/17 £1,903.0 billion), and liabilities of £4,579.2 billion (2016/17 £4,323.7 billion).

The National Audit Office issued their Audit Report on the 2017/18 WGA, and have qualified their opinion as a result of qualifications in underlying accounts, and as a result of issues relating to the boundary, non-coterminous year ends, and accounting policies applied by the Treasury when carrying out the WGA consolidation.

<https://www.nao.org.uk/report/whole-of-government-accounts-2017-18/>

2. NATIONAL PUBLICATIONS – PUBLIC SECTOR AUDIT APPOINTMENTS LTD

3. Local audit quality forum June 2019 slides, June 2019

The local audit quality forum meeting place in which all of the parties which share a responsibility for audit quality can share experiences and good practice. The June 2019 slides are now available. The forum addressed 'practical help for Audit Committees', including the following:

- what should the Audit Committee look for in the financial statements?
- what is it like being an Audit Committee Chair;
- support for Audit Committees from CIPFA;
- how can Internal Audit help the Audit Committee to deliver its remit;
- support from the Local Government Association for Audit Committees; and
- new Code of Audit Practice consultation.

The next Forum meeting is in November 2019.

<https://www.psa.co.uk/wp-content/uploads/2019/06/10-07-19-LAQF-Presentation-Slides.pdf>

4. Local Government audit opinions issued by 31 July 2019, August 2019

PSAA issued a press release after the end of the 2018/19 audit deadline to highlight the increase in the number of audit opinions that were not available by 31 July 2019. Reporting an increase in the number of opinions not available, the press release highlights the factors that have driven the increase in delays.

<https://www.psa.co.uk/2019/08/news-release-local-government-audit-opinions-delivered-by-31-july-2019/>

2. NATIONAL PUBLICATIONS – CIPFA

5. A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019

CIPFA's revised income generation guide reflects on the income generation issues of 2019 and the changes that are being made.

The issues that are examined in this publication include:

- the need for thorough testing and business cases to robustly assess income proposals;
- the impact of the 2018 MHCLG Statutory Investment Guidance; and
- how the pattern of local authority income is changing.

The guide will allow councils to maximise their income potential against a backdrop of Brexit uncertainties and other economic changes. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure councils act prudently.

The publication also has practical guidance on income generation for different service areas and there is a full coverage of discretionary charging rules.

<https://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-for-local-authorities-on-income-generation-2019-edition>

2. NATIONAL PUBLICATIONS – MHCLG

6. Review of local authority financial reporting and external audit, September 2019

The Ministry of Housing, Communities and Local Government announced in September that they had appointed Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. The review will not look at broader issues of local authority finances and sustainability.

The review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

As part of the review, MHCLG have issued a “Call for Views” which is linked below, along with the review’s terms of reference.

<https://www.gov.uk/government/publications/review-of-local-authority-financial-reporting-and-external-audit-terms-of-reference>

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

2. NATIONAL PUBLICATIONS – MAZARS

7. Rethinking Social Value: Unlocking Resources to Improve Lives, June 2019

Mazars have issued a sector leading think piece on Social Value.

This report utilises the knowledge and understanding we have access to as one of the largest auditors of the wider public sector, with involvement across the public sector.

The report reflects views from our clients in the public and not-for-profit sectors on how social value is defined, delivered and its impact on communities. We are pleased to share the results of this research in our brand new report: *'Rethinking social value: unlocking resources to improve lives'*.

The report focuses on:

- the opportunities around social value;
- leadership, communication, and building support;
- case studies highlighting innovative approaches in charities, not-for-profits and private sector partnerships; and
- how to measure the impact of social value.

<https://www.mazars.co.uk/Home/Industries/Public-Services/Public-Services-Insights/Rethinking-Social-Value>

CONTACTS

Partner
Karen Murray

Phone: 0161 238 9248
Mobile: 07721 234 043
Email: karen.murray@mazars.co.uk

Senior Manager
Stephen Nixon

Phone: 0161 238 9233
Mobile: 07909 986 191
Email: stephen.nixon@mazars.co.uk