



## **Manchester City Council**

### **Annual Audit Letter 2008/09**

**December 2009**

### Purpose of this letter

The purpose of this Annual Audit Letter ('letter') is to summarise the key issues arising from our 2008/09 audit of Manchester City Council ('the Council').

Our main responsibilities as external auditors are to:

- review and report on the Council's accounts
- assess whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- review the accuracy of grant claims and returns to various government departments and other agencies.

This letter is intended to summarise, for external stakeholders and members of the public, the key issues arising from our work. The letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

A list of all external audit reports issued in relation to the 2008/09 audit is provided at Appendix A. Appendix B sets out our budgeted and actual audit fees for 2008/09.

### Key areas for Council action

We have highlighted below in Table One the key conclusions and areas for action arising from the three elements of our audit. Further details are provided in the remainder of the letter.

**Table One: Audit conclusions and key areas for action**

Audit conclusions	Key areas for action
<b>The Council's accounts</b>	
<p>The Council prepared timely, good quality accounts and innovative supporting electronic working papers. This is a significant achievement given the complexity of the Council's accounts.</p> <p>We gave an unqualified opinion on the Council's accounts on 25 September 2009, confirming the financial statements 'present fairly' the financial position of the Council.</p> <p>The future challenge for all authorities is preparing for the introduction of International Financial Reporting Standards (IFRS).</p>	<p>The Council should continue its preparations for the introduction of IFRS, ensuring asset valuation procedures are robust and early resolution of PFI accounting issues.</p> <p>The Council should ensure that it meets the submission deadline for the Whole of Government Accounts consolidation pack in 2010.</p>

<b>The Council's use of resources</b>	
<p>We concluded that the Council has adequate arrangements in place to deliver economy, efficiency and effectiveness in its use of resources.</p> <p>The key future challenge is demonstrating Council-wide actions and outcomes arising from the improved processes that are now in place.</p>	<p>The Council needs to demonstrate delivery of its VFM strategy and achievement of key outcomes and improvements from the revised business planning process.</p> <p>Continued priority needs to be given to implementing the remaining actions needed to address significant IT related issues, specifically in relation to security and disaster recovery arrangements.</p>
<b>The Council's grant claims and returns</b>	
<p>We have concluded that the Council has good overall arrangements in place for dealing with grant claims and returns.</p>	<p>There are no specific actions that the Council needs to take, other than to continue to ensure timely and accurate submission of all grant claims and returns.</p>

### The Council's accounts

We issued an unqualified audit opinion on the Council's accounts on 25 September 2009, in advance of the statutory deadline. Our audit work and opinion confirmed:

- the financial statements 'present fairly' the financial position of the Council
- the Annual Governance Statement was consistent with our knowledge of the Council
- the scope and conduct of internal audit work was appropriate to support our audit work, a significant improvement on the prior year
- the electronic working papers provided were of a good standard which, together with our continuing dialogue and early resolution of key issues, helped the audit progress smoothly
- appropriate controls are in place in the high profile areas of Members' allowances and treasury management
- the Council holds general fund balances of £26.3m and £143m earmarked reserves (including school balances) and is therefore well placed to deal with future unforeseen circumstances.

Our audit identified a few misstatements in the accounts which were corrected by the Council. The overall effect of these adjustments was to increase the income and expenditure account deficit by £92.7m, but with no effect on the general fund reserve balance. As a result of a late notification, the Council also processed a late adjustment to the major repairs allowance received from central government which increased the surplus on the housing revenue account by £160k. These adjustments are not significant in the overall context of the Council's accounts and reflect the recent improvements made to the quality of the Council's accounts. The Council needs to ensure that the Whole of Government Accounts consolidation pack is prepared to the same quality and by the required deadline.

The most significant future challenge relating to the Council's accounts is preparing for the introduction of International Financial Reporting Standards (IFRS).

The Council has already started to address the implications of IFRS and is well placed to address successful implementation, although there are some significant challenges relating to PFI and fixed asset accounting and valuation.

We will be issuing a 2009/10 accounts audit plan to the January 2010 Audit Committee and will continue to work closely with the Council to support the transition to IFRS.

### The Council's use of resources

We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 and therefore issued a positive Value for Money (VFM) conclusion on 25 September 2009.

Our VFM conclusion is informed by our use of resources work which is based on the Audit Commission's new assessment framework which emphasises achievement of outcomes and includes new areas of assessment this year such as environmental management. The new framework is more challenging and based on different scoring criteria and is therefore not directly comparable to previous years. We also carried out local risk based reviews of workforce planning and IT security.

Our use of resources assessment concluded that the Council has at least adequate arrangements in all areas, as summarised in Table Two:

**Table Two: The Council's 2009 use of resources assessment**

Use of Resources Theme	Assessment
<b>Managing finances</b>	<b>2</b>
Financial planning	3
Understanding costs	2
Financial reporting	2
<b>Governing the business</b>	<b>2</b>
Commissioning and procurement	2
Use of data	2
Good governance	2
Internal control	2
<b>Managing resources</b>	<b>2</b>
Managing natural resources	2
Asset management	2
Workforce management	N/A*
<b>Overall Council score</b>	<b>2</b>

\* workforce management was not assessed in 2009. It will be subject to audit in 2010.

Overall, we assessed the Council as performing at least adequately (level 2) in all areas and performing well (level 3) in aspects of 'managing finances', reflecting particular strengths in

Assessment scale:

- 1 - Below minimum requirements - inadequate performance
- 2 - Only at minimum requirements - adequate performance
- 3 - Consistently above minimum requirements - performing well
- 4 - Well above minimum requirements - performing strongly

the Council's financial standing and business planning processes. Whilst the Council's overall assessment has reduced from 3 to 2, this is in the context of the 'harder test' described above and in line with the national picture of the majority of Councils scoring 2. Significant progress has been made in a number of areas, including:

- development of strategic financial planning and business planning, helping to ensure resources are targeted to the Council's priority areas
- an impressive response to early messages we shared on areas for improvement in governance arrangements, particularly progress in developing the Internal Audit function and the Audit Committee, which is now cited as best practice on the Audit Commission's website
- strong arrangements in many areas across the assessment framework, good direction of travel and clear commitment from management to improve and develop a 'VFM culture'.

The key areas for future development are:

- delivery of the Council's VFM strategy, demonstrating that this is having a positive Council-wide impact on the relative cost and performance of services
- demonstrating achievement of key actions and outcomes from the Council's improved business planning process
- maintaining momentum on development of governance arrangements, particularly further improvement in risk management arrangements
- consistent application of good practice across the Council
- delivering improved outcomes from the Council's workforce strategies, including higher achievement against Equality Standards and delivery of workforce efficiencies
- implementation of outstanding actions to address the IT related issues which caused significant disruption during 2009.

The findings of our work contributed towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Manchester. The results of this work have been reported separately to the Council by the Audit Commission.

#### The Council's grant claims and returns

Each year we review and certify a number of grant claims and returns in accordance with arrangements put in place by the Audit Commission.

The Council has good overall arrangements in place which have been strengthened this year through the introduction of a revised grants protocol and use of a dedicated grant co-ordinator to ensure timely identification and submission of claims.

This year we reviewed 30 claims and returns, representing income of around £620m. The majority of claims were submitted on time for audit, supported by good quality working papers. Fewer claims were qualified this year and, although around a third of claims required audit amendment, the value of amendments (£20k) was insignificant in the context of the overall funding received, and officers have agreed to take appropriate action to avoid amendment in future years.

### Responsibilities of the external auditors and the Council

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas that involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. 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.

This letter is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. Our audit should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. For these reasons we do not accept responsibility for any reliance that third parties may place on it.

### Next steps

This letter has been discussed with officers and will be presented to the January 2010 Audit Committee.

We presented and agreed our indicative 2009/10 outline audit plan with the Audit Committee in May 2009. The audit fee letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our VFM conclusion. This comprised:

- consideration of progress in developing partnership working as part of a joint review with Manchester PCT

- a review of the adequacy of the Council's project management arrangements using a sample of projects to test the effectiveness of risk management and performance management arrangements.

We confirm that these assumptions remain relevant and we will build these into our risk based work plan, along with specific follow up of this year's recommendations, and any new risks emerging between now and when we conclude our 2009/10 audit in September 2010.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Grant Thornton UK LLP  
December 2009

## Audit Reports issued in relation to the 2008/09 audit

<b>Audit Report</b>	<b>Date</b>
Audit Plan	June 2008
Information Systems Controls	May 2009
Interim Accounts Report	June 2009
Corporate Governance Arrangements	June 2009
SAP Follow Up	July 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources	October 2009
Information Systems Controls - Follow Up	November 2009
Grants Report	December 2009
Annual Audit Letter	December 2009

## Audit Fees 2008/09

The table below summarises the planned and actual audit fees charged to the Council during 2008-09.

<b>Audit Area</b>	<b>Plan 2008-09</b>	<b>Actual 2008-09</b>
Financial statements, including WGA	281,000	281,000
Use of Resources & VFM conclusion	209,000	209,000
<b>Total Code Fee</b>	<b>490,000</b>	<b>490,000</b>
Certification of grant claims and returns*	125,000	124,710
<b>Total Audit Fee</b>	<b>615,000</b>	<b>614,710</b>

\* The planned fee for certification of grant claims and returns was based on an estimated number of claims and agreed with the Council in April 2009. Actual fees are billed on a cost incurred basis and vary according to the number, complexity and quality of claims presented for audit.



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