



Manchester City Council

Annual Audit Letter 2010/11

25 November 2011

Introduction

Purpose of this Letter

This Annual Audit Letter ('letter') summarises the key issues arising from the work that we have carried out at Manchester City Council ('the Council') during our 2010/11 audit. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

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

The scope of our work

Our responsibility is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's accounts
- the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved
- the accuracy of grant claims and returns to various government departments and other agencies.

This letter summarises the significant matters arising from these areas of work and highlights the key areas for action by the Council. A list of all reports issued to the Council in relation to the 2010/11 audit is provided at Appendix A.

Our audit fee for 2010/11 was agreed in the Audit Fee Letter dated 20 April 2010. After taking account of a rebate of £30,580 from the Audit Commission to reflect the additional cost of the transition to International Financial Reporting Standards (IFRS) our fee was £478,220. We have not provided any non audit services.

Key messages from the audit

2010/11 has been a year of unprecedented change and financial challenge for the Council and local government generally. The Council's medium term financial plan, approved in February 2010, projected a requirement to deliver savings of £96m by the end of 2012/13. However, as a result of the government's comprehensive spending review and the final financial settlement, the updated medium term financial plan shows a total savings requirement of £170m by the end of 2012/13. As a result of the settlement, the Council has had to fundamentally review how it will deliver services in the future whilst planning to achieve the strategic objectives included in

the Community Strategy. This has involved the redesign of organisational structures and significant reductions in the Council's workforce.

The Council has taken steps to address these issues, quickly responding to the financial challenges through its business planning process with clear direction from senior management. The Council was already committed to a significant transformation agenda to deliver the medium term financial plan through the Analyse and Improve Manchester (AIM) programme and revised savings plans have been put in place for the additional savings requirement, supported by robust delivery plans.

Members have been effectively engaged throughout the planning process and good financial governance arrangements are in place which have resulted in the Council being ahead of its planned budget, at the time of writing this letter, and making good progress on the development of savings plans for 2012/13. There are, however, some areas of performance which need to be closely monitored, including overspends on budgets within Adults and Neighbourhood services and risks associated with achievement of savings plans in 2012/13. The Council has established budget recovery plans and is working to finalise savings plans to deliver the medium term financial plan.

The Council's financial position continued to be healthy in 2010/11, with the Council reporting a £1,876,000 overall underspend against budgets, with a decrease of general reserves during the year of £1,366,000 against a budgeted reduction of £3,242,000. The Council's level of reserves continues to underpin a strong financial position, as demonstrated in 2010/11 by the Council being able to fund the £39m unbudgeted costs of Voluntary Early Retirement and Voluntary Severance schemes with further costs to be funded during 2011/12.

Looking forward, it is important that the Council maintains momentum in delivering savings plans which will underpin the achievement of the Medium Term Financial Strategy. This will include monitoring risk areas within budgets, establishing alternative options where savings plans may have slipped and ensuring that business planning is refreshed to draw learning from the experiences of the 2010/11 planning period.

In 2010/11 the Council was required to prepare the accounts under International Financial Reporting Standards, which placed significant additional pressures on the Council's finance team as the transition involved technical complexity, demanding data gathering exercises and restatement of the previous year's accounts. The fact that the Council's accounts required only a relatively small number of adjustments demonstrates how well the finance team performed and the benefits of early engagement with auditors during the year.

Audit of the Council's Accounts

Our audit included:

- audit of the annual accounts

- a review of the Council's internal control systems to support our accounts opinion.

The Council produced draft accounts in advance of the 30 June 2011 deadline, accompanied by good quality supporting work papers. Although member approval of draft accounts is no longer a requirement under the Accounts and Audit Regulations, the draft accounts were presented to members and key issues were discussed at a member briefing which is good practice.

The accounts were compiled under the IFRS based CIPFA Code of Practice ('the Code') for the first time. The Council completed the IFRS restatement exercise to a good standard, reflecting early resolution of emerging accounting issues through regular liaison meetings in advance of the compilation of the accounts. We did not identify any significant departures from the Code.

The quality of the draft accounts was reflected in the small number of audit adjustments required which represents a positive outcome for the Council's finance team in the first year of IFRS. These adjustments were presentational and did not impact on the Council's General Fund, the most significant being:

- removal of the Wright Robinson School (a PFI funded school) from the balance sheet to ensure consistency with accounting policies as the school became a Foundation School on 1 March 2010
- correctly accounting for payments made to contractors for two of the Council's housing PFI schemes.

We reported our findings to the Audit Committee and gave an unqualified opinion on the accounts on 29 September 2011. Key areas for action ahead of preparation of the 2011/12 accounts are:

- resolving the mental health pooled budget dispute with Manchester Teaching Primary Care Trust in relation to the amount of overspend attributable to the Council from 2009/10 and the amount of contributions to be paid for 2010/11 which is a matter we have referred to in several previous audit reports
- ensuring correct accounting treatment for schools, once guidance is finalised by CIPFA
- assessing the accounting impact of the planned changes to the Housing Revenue Account and associated debt write off.

In giving our opinion on the accounts we reviewed the quality of the Council's internal control systems. Our main findings were:

- controls over the Council's key financial systems are operating effectively
- there are no material weaknesses within the general IT control environment that could adversely impact on our audit of the accounts and the Council has made good progress in addressing previous IT audit recommendations
- Internal Audit is performing well and is compliant with the CIPFA Code of Practice for Internal Audit.

Value for Money audit

The Council is responsible for ensuring that proper arrangements are in place to secure economy, efficiency and effectiveness in its use of resources and ensure proper stewardship and governance.

We were required to reach a conclusion on whether adequate arrangements are in place (Value for Money conclusion) based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Our VfM conclusion has been informed by a local programme of work based on our audit risk assessment and informed by the criteria above.

Financial Resilience

We reviewed the adequacy of the Council's arrangements across four areas: key indicators of performance, strategic financial planning, financial governance and financial control. We concluded that the Council has adequate arrangements in all areas.

| Area of review | Summary findings |
|--------------------------------------|--|
| Key indicators of performance | <p>We assessed the Council's performance across a range of key indicators of performance using an Audit Commission benchmarking group to compare the Council to other Metropolitan District Councils with Housing Revenue Accounts.</p> <p>The Council's performance is generally good or compares favourably to the benchmark group. The Council should continue to monitor key financial ratios to ensure financial resilience is maintained.</p> |
| Strategic Financial Planning | <p>The Council has good strategic financial planning arrangements in place and the Medium Term Financial Plan (MTFP) has been revisited and updated following the Government's financial settlement. The Council's business planning process started earlier than in previous years to meet the unprecedented scale of the challenge.</p> <p>Going forward, it will be important for the Council to keep the MTFP under review to ensure that strategic objectives remain deliverable and that all key assumptions within financial plans remain accurate.</p> |

| | |
|------------------------------------|---|
| <p>Financial Governance</p> | <p>Financial governance is an area of relative strength for the Council, with a clear and consistent 'tone from the top' being evidenced throughout strategies and communications with officers. The Council has implemented some good practice governance structures which are providing robust financial oversight and ensuring sufficient involvement and challenge by members.</p> |
| <p>Financial Controls</p> | <p>Financial controls are operating well, enabling the Council to quickly identify and respond to financial pressures during 2010/11 and 2011/12. Budget monitoring arrangements are good and have been strengthened by the introduction of Budget Performance Groups for each directorate. These have become a key feature of holding directorates to account for budgetary performance.</p> <p>The Council is currently managing some pressures within directorate budgets and savings plans but is projecting achievement of budget in each of the next two years. It will be important for the Council to continue to closely monitor recovery plans to ensure the delivery of a balanced budget over the next two years.</p> |

Our overall conclusion is that the Council has proper arrangements for securing financial resilience but the Council should closely monitor areas of risk going forward, including delivery of savings plans, to ensure that financial resilience is maintained.

Economy, Efficiency and Effectiveness

The Council's governance frameworks have been strengthened over the last few years, most notably within Internal Audit and the establishment of an effective Audit Committee. The Council has also strengthened the governance arrangements over its significant partnerships.

A significant development this year has been the establishment of the Greater Manchester Combined Authority ('GMCA') to oversee economic regeneration and transport functions in the region. GMCA received formal approval from Government in November 2010 and GMCA had to be established as an authority by 1 April 2011. This allowed only a short timescale to ensure that appropriate governance arrangements were established. We therefore undertook a high level review of the effectiveness of the Council's involvement in establishing arrangements to delegate functions of the Council to GMCA.

The Council and the other districts worked quickly to produce an operating agreement and a constitution for GMCA which were presented to Council members in February. The Council appointed elected members to the governing bodies of GMCA and Transport for Greater Manchester (TfGM). Council members have received regular progress updates, and minutes of GMCA are presented to each meeting of the Executive.

2011 has been an important year for establishing the basic arrangements of GMCA and TfGM and good progress has been made in establishing strategies to deliver key functions. Appropriate scrutiny arrangements have been established, with the previous AGMA scrutiny pool being widened to cover GMCA. The scrutiny pool, with each constituent Council represented by three members, is carrying out work against an approved work programme which covers 2011/12. Additionally, to provide assurance on progress on delivering the 'Greater Manchester Strategy' ('GMS'), a suite of performance indicators has been developed and are being monitored.

The Council will wish to continue to monitor the delivery of the functions of GMCA and in particular continue to receive information on key performance indicators.

In last year's Annual Audit Letter we reported that the Council needed to focus attention on the improvement of ICT governance arrangements as this had been an area of concern for some time. Progress has been made in this area in recent months, overseen by the Deputy Chief Executive. A revised ICT structure has been established and the interim Head of ICT will be replaced by a full time appointment in January 2012. The finalised structure includes three departments reporting to the Head of ICT to oversee service delivery, applications support and ICT performance. Management are confident that the new structure will have a positive impact on the future performance of the ICT team and achievement of its budget. A new ICT strategy has also been approved and the ICT Governance Board continues to meet regularly. Whilst the Council has clearly made positive progress, these new arrangements will take time to become embedded and it is important that momentum is maintained. We will therefore continue to monitor these arrangements during 2011/12.

Last year we reported that, notwithstanding the abolition of the Comprehensive Area Assessment, the Council should have in place a VfM strategy to ensure that key areas of service improvement and efficiency are reviewed and significant risks addressed. We are pleased to note that the Council responded positively to this message and has arrangements in place to deliver its VfM strategy through VfM action plans across directorates which review risks and monitor the controls in place to provide assurance that VfM is being delivered. VfM action plans are regularly reviewed by the SMT Use of Resources sub-group.

The Council has effective arrangements in place for monitoring the implementation of recommendations arising from our audit reports. Management provide the Corporate Research and Performance Group with progress updates against recommendations and this is summarised in a report to the Audit Committee every six months. Generally, good progress has been made and, whilst there are a small number of recommendations that have not been completed within due dates, revised deadlines

have been agreed and actions are being progressed, particularly relating to information systems controls.

The Council has effective arrangements in place to produce the Annual Governance Statement (AGS) and the content of the AGS is consistent with our knowledge. The Council may wish to consider whether some of the narrative currently in the AGS would be more appropriately included in the Annual Report which would help reduce the length of the Council's accounts and focus the AGS on the Council's core governance issues and sources of assurance.

The Council has identified several areas for improvement in its governance arrangements, which are consistent with our knowledge of the Council. We will continue to monitor the Council's response to these risk areas as part of our VfM audit work in 2011/12 which include:

- fully developing an integrated commissioning model across the Council
- establishing appropriate governance arrangements for new models of service delivery
- responding effectively to the Localism Bill
- continuing to develop effective methods of obtaining assurance over school governance arrangements.

We issued our VfM conclusion on 29 September 2011 and concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

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. We expect to certify 23 2010/11 claims and returns, relating to grant income of around £670m.

At the time of writing this letter our certification work on the Council's 2010/11 grant claims and returns is ongoing. To date we have noted good performance by the Council in its preparation of claims, building on the progress made in recent years. The majority of claims have been submitted in a timely manner for audit and have been supported by good quality working papers. To date we have not been required to qualify any claims and there have been only a small number of adjustments required to claims. A number of officers who previously prepared claims have left the Council during the year, but the Council has addressed this through ensuring that the new claim preparers are well supported and requirements are clearly communicated through the Council's updated grants protocol document.

Details of the findings from our review will be included in our Grants Report due to be issued to officers in December 2011 and presented to the Audit Committee in January 2012.

This letter has been discussed with the City Treasurer and will be presented to the Audit Committee on 8 December 2011.

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

Grant Thornton UK LLP
25 November 2011

Appendix 1

Reports issued in relation to the 2010/11 audit

| Report | Date Issued |
|--|----------------|
| Annual Audit Fee letter | April 2010 |
| Accounts Audit Plan | December 2010 |
| Interim Accounts Audit Report | May 2011 |
| Annual Report to those Charged with Governance | September 2011 |
| Review of the Council's arrangements for securing financial resilience | October 2011 |
| Annual Audit Letter | November 2011 |
| Grants Report | December 2011 |

www.grant-thornton.co.uk

© 2011 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International'). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication

