

Richard Paver
City Treasurer
Manchester City Council
Town Hall
Albert Square
M2 5RT

20 April 2010

Dear Richard

**Manchester City Council
Annual Audit Fee 2010/11**

We set out below the indicative audit work programme and associated fee for 2010/11. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11
- reflects only the audit element of our work, excluding any inspection and assessment fees. James Foster will be writing to you separately on inspection fees.

As we have not yet completed our audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary.

The Audit Commission published its work programme and scales of fees for 2010/11 in October 2009. The Audit Commission proposed a 6% increase in scale fees to reflect the additional cost of transition to International Financial Reporting Standards (IFRS). This additional cost will be met by the Audit Commission through payment of a subsidy to the Council in April 2010. The Commission's proposed fees do not include provision for review of the accounting treatment of PFI schemes, which is significant for the Council, but we plan to absorb this additional cost to ensure there is no overall increase in the cost of the audit to the Council in 2010-11, as illustrated in the table below:

Audit fee

Audit area	Indicative fee 2010/11 £	Planned fee 2009/10 £
Financial statements	313,800	275,000
Use of Resources	195,000	205,000
Total	508,800	480,000
less IFRS subsidy from Audit Commission	(30,580)	-
Total audit fee paid by the Council	478,220	480,000
Certification of claims and returns (estimate)	£110,000	£124,710

Financial Statements

In setting the fee we have taken account of the introduction of IFRS and assumed that the general level of risk in relation to the audit of the financial statements is not significantly different and that working papers and other information will be provided in accordance with an agreed timetable. A separate plan for the audit of the financial statements will be issued in December 2010 setting out the risks identified, planned audit procedures and any changes in fee.

From 2010/11, the Council will be required to prepare its accounts in accordance with IFRS. The transition to IFRS will increase our work, particularly in the first year when the Council needs to restate its previous year's accounts on the new basis, to provide prior year comparatives. As explained above, the scale fee has been increased by 6% nationally to reflect the costs of this additional work. The Audit Commission will offset this increase by a subsidy to cover the one-off element of the cost of the transition to IFRS, payable to the Council in April 2010.

Risk area	Planned work	Timing of work
<p>IFRS implementation The introduction of IFRS in 2010/11 will lead to significant changes to the presentation of the financial statements and the accounting treatment that underlies a number of material balances, particularly PFI and other complex arrangements.</p> <p>The 2009/10 financial statements will also have to be restated under IFRS in order to provide prior year comparative information. This will require significant management input from the Council, and additional review by the audit team.</p>	<p>We will continue to review the Council's IFRS implementation project planning and address emerging issues as they arise to seek early resolution.</p> <p>We will ensure we provide ongoing input and advice to the Council on IFRS issues.</p>	<p>Ongoing - September 2011</p>

Use of Resources

Our work on use of resources informs our 2010/11 value for money conclusion. The Audit Commission is carrying out a review of the approach to value for money work, including the use of resources, with a view to making future changes which we will discuss with you as they emerge. In addition to use of resources we have identified the following value for money risks which we will consider as part of 2010/11 audit:

Risk area	Planned work	Timing of work
<p>School absence</p> <p>In the 2009 Area Assessment Manchester received a 'red flag' for school attendance because of the persistently high number of pupils absent from secondary school.</p> <p>Following the introduction of various initiatives, recent performance indicators have shown an improvement in absenteeism but the pace of improvement could be increased.</p>	<p>We will undertake a review of the Council's response to the Area Assessment red flag, assessing the effectiveness of the initiatives put in place and the reliability of the data quality underpinning performance information.</p>	<p>July 2010 - September 2010</p>
<p>Governance arrangements</p> <p>The Council is proactive and innovative in its approach to wider regional working including, for example, through AGMA, the City Region and Total Place pilot. Most recently this has culminated in a proposal to create a Greater Manchester combined authority.</p>	<p>We will review the development of the Council's governance framework to ensure it adequately reflects these developments and the associated risk.</p>	<p>April - June 2011</p>
<p>Follow up of prior year recommendations</p>	<p>We will carry out a small follow-up of the work undertaken in 2009/10 including IT governance and security management, project management and partnership working. We will review the adequacy of the Council's general arrangements for follow up of audit and inspection recommendations.</p>	<p>January 2011</p>

We will issue separate project briefs for individual reviews and agree these with you before beginning the work.

Grants

We estimate that the overall audit fee for grant claims will reduce, although it is an estimate based on our current understanding of the number and quality of claims presented for audit. Actual fees will be charged at prescribed rates set out in the Audit Commission's published work programme and scale fees guidance for 2010/11, based on the actual number and quality of claims presented for audit. If the estimate is likely to change significantly, we will first discuss this with the City Treasurer.

Administration

We expect to issue a number of reports relating to our work over the course of the audit and these are listed below.

This letter excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

The key members of the audit team for 2010/11 remain unchanged as follows:

Engagement Partner - Sarah Howard	0113 2002530 / sarah.howard@gtuk.com
Engagement Manager - Gavin Blackstone	0113 2002505/gavin.blackstone@gtuk.com
Support Manager - John McLoughlin	0113 2002534/john.mcloughlin@gtuk.com
Senior Technical Manager - Paul Spinks	0113 200 2554 paul.spinks@gtuk.com

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact David Grundy, Manchester Office Managing Partner at david.grundy@gtuk.com.

Yours sincerely

Sarah Howard
Engagement Lead
For Grant Thornton UK LLP

cc

Sir Howard Bernstein, Chief Executive

James Foster, Comprehensive Area Assessment Lead

Planned outputs

Our reports will be discussed and agreed with the appropriate officers at the Council before being issued to the Audit Committee.

Planned output	Indicative date
Indicative fee letter	April 2010
Financial statements audit plan	December 2010
Interim audit report	June 2011
Annual report to those charged with Governance (Accounts)	September 2011
Use of Resources report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Specific reviews	To be agreed
Annual audit letter	November 2011
Grants report	December 2011