



Manchester City Council

Annual Audit Letter 2009/10

24 November 2010

Introduction

Purpose of this Letter

The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year at Manchester City Council (the Council). Although this letter is addressed to the members of the Council, it is also intended to communicate the significant issues we have identified to key external stakeholders, including members of the public. 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. This is available from www.audit-commission.gov.uk.

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.

The scope of our work

Our responsibility as your external auditors 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
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money)
- 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 2009/10 audit is provided at Appendix A.

Our audit fee for 2009/10 was £480,000 as agreed in the Audit Fee Letter dated 22 April 2009. We have not provided any non audit services.

Context

The Government's most urgent priority in the current financial climate is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- abolishing Comprehensive Area Assessment and ending Local Area Agreements

- reducing ring-fenced central government grants
- undertaking a full review of local government finance.

Council tax in England is also to be frozen for at least one year, with a possible freeze for a second year in partnership with local authorities.

This Annual Audit Letter has been written in the context of the significant change agenda in which the Council is operating, including the need for greater scrutiny and challenge of service priorities and resources, in the light of difficult economic conditions and the need to generate efficiency savings of over £14 million across services to achieve a year end balanced financial position for 2010/11.

Audit of the Council's Accounts

Our audit of the Council's accounts included:

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

Review of the Council's Internal control systems

We reviewed and documented the Council's principal accounting systems and considered the controls over identified risks. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts. However, our separate reports on Information Security Management and IT Governance raised some important issues and these are summarised later in this letter.

We reviewed the findings included in internal audit reports and the Council's response to these matters. We are pleased to note that the Council has established effective arrangements for monitoring implementation against agreed action plans arising from internal audit reviews. Our review did not identify any material matters of concern that would significantly impact on our final accounts work and there were no specific matters of concern to report.

Our audit opinion on the accounts

We issued an unqualified opinion on the Council's 2009/10 accounts on 30 September 2010, in line with the statutory deadline. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2010 and of its income and expenditure for the year .

We were presented with draft financial statements and the majority of the working papers to support the accounts on 24 June 2010, as agreed in advance with the Council. The working papers were of a good quality and our requests for additional audit evidence were responded to in a timely manner by Council officers. The Council also met the 2009/10 Whole of Government Accounts submission deadline having taken action to improve arrangements from previous years.

The Council responded positively to our review of the previous year's accounts and participated in a workshop designed to improve the quality and presentation of the accounts. Notable improvements in the accounts presented for audit included:

- improved presentation of information in the explanatory foreword
- introductory explanations of core financial statements and disclosure notes
- improvement to the ordering of notes to the accounts
- clearer cross-referencing of accounts disclosures.

A reduced number of amendments, compared to previous years, were identified through our audit, with no amendments impacting on the general fund. We identified, and management processed, one adjustment to the accounts to reclassify a contribution of £980k made to the community care reserve which should have been accounted for as a provision. The adjustment increased the 2009/10 deficit by £980k but did not impact on the general fund. Our audit work also identified a number of classification and disclosure amendments, which were processed by the Council.

The Council's financial position continues to be healthy, underpinned by robust budget setting and monitoring procedures. However, the current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council has in place a Medium Term Financial Plan for 2010/11 to 2012/13 and it is important that this continues to be reviewed in light of the Comprehensive Spending Review. We will continue to keep the Council's financial position under review as part of our 2010/11 audit.

Accounts Key Areas for Action

Key areas for action ahead of preparation of the 2010/11 accounts are:

- the Council should update agreements for the Mental Health Pooled Budget with NHS Manchester, including clarity over in year contributions and responsibility for any overspend
- the Council should continue its preparations for the implementation of International Financial Reporting Standards, focusing particular attention on assessing leases, accounting for fixed assets, the impact on the group accounts and government grant recognition.

Value for Money audit

Use of Resources Assessment

The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

On the basis of our work, we concluded that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources and gave an unqualified Value for Money (VFM) conclusion for the 2009/10 financial year.

Our VFM conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.

We are pleased to report that there are a number of areas where the Council has made progress in improving arrangements, including:

- Medium Term Financial Plans and strategies clearly demonstrate how balanced budgets are being targeted towards the Council's key corporate priorities. The Council's financial planning processes are resulting in improvements in priority areas. Improvements can be demonstrated across all services, with good examples of innovative planning and resource allocation being evidenced
- consideration of value for money has become central to the Council's business planning process, underpinned by a three year VFM strategy which has been communicated to all services and is designed to ensure that VFM considerations are systematically applied throughout the Council to maximise efficiency and savings opportunities. As a result, generally, the Council's relative cost and performance is showing an improving trend
- the Manchester Model for commissioning has become an embedded aspect of the Council's approach to business planning across services. The three year business planning cycle has recognised the need to radically challenge the way in which services are commissioned and delivered and business plans have clearly been informed by the outcome of the Joint Strategic Needs Assessment and 'State of the City' and 'State of the Wards' reports, produced by the Manchester partnership
- data quality arrangements have been strengthened through Council wide training programmes and the development of a rolling programme of data quality audits. To support these audits a good practice data quality peer review group has been established involving representatives from the NHS Manchester, GMPTE, police and fire
- risk management arrangements have been strengthened and there is now clear evidence of the Council's approach becoming embedded within the business planning process. Two new risk managers have been appointed during the year to further improve the quality and consistency of risk management and there has also been significant investment in training for officers
- continued improvement in the Council's internal audit function with strategic audit plans based around key risk areas and the Council's corporate plans, aligned to the resources available. The implementation of audit recommendations is now more closely monitored and update reports to Audit Committee provide useful information for ensuring timely response to recommendations. A greater percentage of recommendations have been implemented compared to previous years.

Key Areas for Action

The main areas where further action is required by the Council include:

- a new ICT governance structure was defined in 2009 and a strategic partner was appointed to assist in the development of ICT plans and operational policies.

However, ongoing change within the ICT management structure has delayed the development of plans and there remain a number of outstanding recommendations from previous external and internal audit reviews. It is clear that the Strategic Director of Transformation is focused on improving arrangements and plans to address the recommendations have been developed. We also note that a special joint meeting of the Audit Committee and Resources and Governance Overview and Scrutiny Committee will take place in December 2010 to review these plans. It is critical that the Council continues to focus attention on the improvement of ICT arrangements

- demonstrating that the Council's improving commissioning arrangements are being applied consistently across the Council and delivering planned benefits and efficiencies for service delivery
- continuing to strengthen school governance arrangements following the positive steps taken in 2009/10 which have included the appointment of a 'school improvement partner' manager and the establishment of a Schools Finance Board. A key focus must now be to ensure that all governing bodies are fully engaged with the improved governance arrangements to ensure consistency of impact.
- further development of strategic Asset Management Plans and evidence of delivery against of the plan's key objectives
- ensuring that the Council's VFM strategy continues to be developed to support service improvement and efficiency, despite the abolition of the Comprehensive Area Assessment. Areas for continued attention which were highlighted before the abolition of CAA were secondary school attendance, mental health and community safety.

Value for Money Project Reviews

To support our assessment of the Council's use of resources, we completed four specific pieces of work. A summary of the key messages arising from our reviews are shown in Table One below:

Table One: Additional value for money project reviews

Title of review	Key messages arising and areas for action
Information Security Management Report (reported to the Audit Committee in June)	<p>Our review concluded that existing information security policies were developed based on a best practice information security control framework. However, these policies are now out of date and no longer reflect the ICT department's structure and the technologies utilised.</p> <p>We identified a number of areas where action is required to improve existing controls including:</p> <ul style="list-style-type: none"> • resolving user account management, audit policy settings and remote access issues still outstanding from previous audits • improving clarity over responsibility for IT security through establishing appropriate governance arrangements • reviewing existing induction and staff awareness programmes for information security

	<ul style="list-style-type: none"> finalising Incident Management Team arrangements.
<p>Review of IT Governance Report (reported to the Audit Committee in June)</p>	<p>Our review concluded that the Council is beginning to implement a number of good practice initiatives to improve IT governance arrangements. However, we noted that progress since previous audit reviews has been limited, primarily due to vacancies in the new ICT structure.</p> <p>Attention should be given to improving controls through:</p> <ul style="list-style-type: none"> formalising ICT and Business Portfolio Board arrangements updating the ICT strategy and aligning this with the Council's corporate strategy developing a formal ICT policy to communicate the requirement for all ICT services and purchases to be routed through a central ICT governance process filling vacancies in the new ICT governance structure developing a formal set of KPIs to be monitored and reported to the Council.
<p>Review of Partnership Working Arrangements (reported to the Audit Committee in June)</p>	<p>Whilst effective partnership working arrangements have been established between the Council and the PCT in a number of areas, our work identified scope to further develop arrangements by:</p> <ul style="list-style-type: none"> working together more closely to take forward the joint Securing Our Shared Future (SOSF) programme, including agreeing the level of resources required, developing detailed project plans for work streams and strengthening the link between the SOSF programme and integrated commissioning across the Council increasing engagement between the Council and the PCT on estate planning, more co-location and shared use of properties, better utilisation of existing properties within the joint estate, and the PCT making use of the Council's Gateway process for approving and delivering large capital schemes increasing the level of collaborative procurement between the Council and the PCT.
<p>Project Management Review (reported to the Audit Committee in September)</p>	<p>The common theme emerging from our review is that the Council has robust project management processes across the Transformation programme. In order that the planned objectives for the programme are delivered it is important that all aspects of the planning approval process are prioritised and interdependent aspects of the programme continue to be closely monitored.</p>

Grant claims and returns

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. In 2009/10 we are expecting to certify 30 claims and returns, relating to grant income of around £640m.

At the time of producing this letter our certification work on the Council's 2009/10 grant claims and returns is ongoing. Details of the findings from our review will be included in our Grants Report due to be issued to officers in December 2010 and presented to the Audit Committee in January 2011.

The majority of claims and returns were submitted on time for audit and supported by good quality working papers. Our findings to date note no significant amendments and no requirement for any claims or returns to be qualified, which represents good performance by the Council and an improvement on performance in previous years.

Next Steps

This letter has been discussed with the City Treasurer and will be presented to the Audit Committee on 9 December 2010.

We presented and agreed our indicative 2010-11 outline audit plan with the Audit Committee in June 2010 which sets out our initial assessment of the local risk based work we plan to carry out. Following the abolition of the Comprehensive Area Assessment we are currently revisiting the risk based audit work and will update the Audit Committee with our revised plan in January 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
24 November 2010

A Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Plan	April 2009
Information Systems Controls - Follow Up Review	November 2009
Accounts Audit Plan	December 2009
SAP System Utilisation and Effectiveness Review	April 2010
Information Security Management Report	April 2010
Review of IT Governance Report	April 2010
Interim Accounts Audit Report	May 2010
Review of Partnership Working Arrangements	June 2010
Annual Report to those Charged with Governance	September 2010
Project Management Review	September 2010
Annual Audit Letter	November 2010
Grants Report	November 2010

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