

The Annual Audit Letter for Manchester City Council

Year ended 31 March 2013

October 2013

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Section 1: Executive summary

01. Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Manchester City Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012-13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 September 2013.

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 (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 6 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012-13 are as follows:

- an unqualified opinion on the Council's single entity financial statements, which gave a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- a qualified opinion on the Council's group financial statements, as accounting policies for the measurement of subsidiaries' land and buildings were not aligned with those of the Council
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we have certified two grant claims and returns to date, both of which were certified without amendment or qualification.

Key messages

We summarise here the key messages arising from our audit for the Council, as well as highlighting key issues facing the Council in the future.

Objection to the audit of the Council's 2011-12 accounts

In our 2011-12 Annual Audit Letter we reported that we had received one objection to the 2011-12 accounts that we were continuing to review, and that we had not been able to certify the audit as complete.

As the Council's auditor we have specific and formal duties which reflect that the Council has stewardship responsibilities for the public money it spends on behalf of local taxpayers. In considering an objection we consider whether public money has been spent lawfully and in accordance with the principles of economy, efficiency and effectiveness.

The objection we received related to the Council's taxi licensing charges, specifically:

- the advertisement of annual licence charges
- the Council's arrangements during 2011-12 for costing and charging for licences
- the level of licence fees charged by the Council.

The objection resulted in a significant audit review and extensive legal advice was obtained and considered, reflecting the complexity of the matters raised with us and the potential significance both to the Council and to local government nationally.

Our key conclusion regarding this objection was the fact that the Council had put right many of the deficiencies identified through its own Internal Audit work and our external audit processes.

We considered whether to use our discretionary audit powers and concluded that:

- an application to the High Court would serve little value in this case
- an immediate report in the public interest was not appropriate.

We set out our formal decision regarding the objection and the reasons for that decision in a detailed letter to the objector in June 2013 and we presented a summary report on the objection to the Council's Audit Committee in September 2013.

We made a number of recommendations to the Council following the conclusion of our audit work on the objection and we will monitor the implementation of these recommendations.

Following the conclusion of our work on the objection we certified the audit of the Council's 2011-12 complete on 6 August 2013.

Additional audit fees of £57,723 were incurred and paid by the Council as a result of the audit work in relation to the objection to the 2011-12 accounts.

Transfer of Housing Revenue Account reserves to the General Fund

The Local Government and Housing Act 1989 (the Act) requires local authorities to maintain a statutory, ring-fenced, Housing Revenue Account (HRA). The purpose of the ring-fence is to ensure that council tax payers do not subsidise services specifically for the benefit of tenants and that rent is not used to subsidise functions which are for the benefit of the wider local community.

Although, as a general principle, authorities do not have the discretion to make transfers between the HRA and the General Fund, there are a limited number of specific instances where this can occur and these are detailed in Schedule 4 of the Act and included, until 1 October 2013, authorities not in receipt of HRA subsidy which had a credit balance on their HRA.

The Council took the view that these circumstances applied and made an urgent key decision on 25 September 2013 to transfer £15m from HRA reserves to the General Fund reserve.

In our view, the legal position was not clear cut and such reserve transfers could be an unintended consequence of HRA self-financing and contrary to the intention of the Act.

We discussed these matters with the City Treasurer and sought specific assurances from the Council's Monitoring Officer to ensure that, before the Council took its decision, it considered the legal, financial and

reputational risks it faced, including:

- obtaining legal advice on the powers to make the transfer and whether it was exercising its discretion reasonably
- governance issues and risks, ensuring due process was followed
- assessing the impact on the financial resilience of the HRA.

We concluded, based on our review of the Council's process for making this decision, discussion at the Audit Committee on 26 September 2013 and assurances provided by the Council's Monitoring Officer on 30 September 2013 that we were not minded to challenge the transfer between reserves.

Financial resilience

As part of Value for Money audit work in 2012-13 we considered the Council's arrangements for securing financial resilience. Our overall conclusion was that the Council is performing well, despite operating in an increasingly challenging financial environment.

The Chancellor announced the 2015-16 spending round on 26 June 2013 and the Council expects to face a further funding reduction of 15% between 2014-15 and 2015-16. The Council's strong arrangements for financial governance, planning and control position it well to respond to the significant challenges arising from continuing financial austerity.

Acknowledgements

This Letter has been agreed with the City Treasurer and will be presented to the Audit Committee on 28 November 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 1 July 2013, in accordance with the agreed timetable. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

The Council presented its draft accounts to the Audit Committee on 11 July 2013, in line with best practice.

Issues arising from the audit of the accounts

The Council's single entity accounts were once again of a high quality and we were pleased to report that no misstatements were identified for adjustment during the audit process. We issued an unqualified audit opinion on the single entity accounts on 30 September 2013.

During 2012-13 the Council relinquished control of its former subsidiary Manchester Airport Group. The newly formed company, Manchester Airport Holdings Limited, which also includes Stansted Airport, is accounted for as a joint venture in the Council's group accounts as it is jointly controlled by the Council and Industry Funds Management (IFM).

The accounting for loss of control of a subsidiary is both unusual and complex and we agreed an interpretation of the applicable accounting standards, appropriate to the loss of control of Manchester Airport Group, with the Council after the submission of the unaudited accounts and during the audit of the accounts.

We agreed one material adjustment to the Council's group accounts, relating to the gain on loss of control of Manchester Airport Group. This adjustment was necessary to ensure the group Comprehensive Income and Expenditure Statement (CIES) reported the Council's gain on loss of control and that minority interests were written out of the group accounts via the group Movement in Reserves Statement. This accounting adjustment did not affect the total reserves position of the group.

We issued a qualified opinion on the Council's group accounts, as accounting policies for the measurement of Manchester Airport Group's land and buildings were not aligned with those of the Council for the purposes of preparing the group accounts. This non-alignment of accounting policies affected the calculation of the gain on loss of control of MAG reported in the group CIES. The Council explored the possibility of commissioning valuations of MAG's land and buildings to avoid a qualification of the group accounts, but concluded that the likely cost of such valuations did not represent value for money. The Council is considering options to address the issue of alignment of accounting policies for the 2013-14 group accounts.

Audit of the accounts

Annual governance statement

The Council updated the format and contents of its Annual Governance Statement for 2012-13 and we concluded this was consistent with our knowledge of the Council and met the requirements of the CIPFA/SOLACE "Delivering Good Governance in Local Government" framework.

Whole of Government Accounts

The Council submitted its draft Whole of Government Accounts (WGA) pack for audit on 24 September 2013, following a number of delays due to technical problems with the WGA template pack which resulted in the pack having to be returned to the Department of Communities and Local Government several times so that they could resolve these issues.

We identified a small number of amendments, none of which were significant. We met the audit deadline of 4 October 2013 and concluded that the WGA pack was consistent with the audited statutory accounts.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (identified as the Audit Committee at the Council). We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012-13 single entity accounts and a qualified opinion on the Council's 2012-13 group accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the Council's single accounts gave a true and fair view of the Council's financial position and of its income and expenditure and that the Council's group accounts gave a true and fair view of the group's financial position and of its income and expenditure, except for the effects of the non-alignment of group accounting policies for land and buildings .

Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VfM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience.

Whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

The overall conclusion from our work on financial resilience was that the Council is performing well despite operating in an increasingly challenging financial environment. We noted that the Council produced its Medium Term Financial Strategy in a shorter timeframe during 2012-13 to allow additional public consultation on plans for 2013-14 and 2014-15, and this was achieved due to early, and sound, financial planning. The Council delivered a high proportion of its Cost Improvement Scheme savings targets in 2012-13 and also delivered an underspend on its 2012-13 budget of £422,000 which equated to 0.1% of the budget. Further details are provided in our Financial Resilience report issued in September 2013.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council has set out its Strategic Response to the current public sector budgetary constraints, including its priorities for available resources. The Council has recently updated its Value for Money Policy Statement, setting out its approach to VfM, the means through which the Council monitors VfM, and planned activities to improve VfM over the period 2013-15. During 2012-13 the Council delivered £52m of Cost Improvement Scheme savings. The Council improved productivity during the year, including reducing the incidence of sickness absence. We noted that the average number of days lost to sickness absence remains higher than the local government average and recommended that the Council should continue its efforts in this area.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

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Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Following completion of the 2011-12 certification work programme we reported in January 2013 that we had certified eight claims and returns relating to expenditure totalling £660 million. We noted a decline in the number of claims and returns submitted for audit on time.

To date we have certified two claims and returns for the financial year 2012-13 relating to expenditure of £305 million, with no amendments or qualifications required. We received one return from the Council in advance of its submission deadline, and one return after its submission deadline. We will report in full on the findings of our 2012-13 certification work programme to the Audit Committee on completion of this work.


Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages from our 2011-12 certification work are summarised in the table opposite.

Summary of the Council's arrangements (2011-12 claims and returns)

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	We noted a decline in the number of claims and returns submitted for audit on time, with four of the eight 2011-12 claims and returns being submitted after the deadline. We agreed a recommendation with the Council in relation to the role of the grants co-ordinator. We were able to certify all claims and returns by the audit deadlines.	 Amber
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	The Council's claims and returns were prepared to a high standard with only minimal and insignificant matters arising during our 2011-12 certification audits.	 Green
Supporting working papers	Working papers supporting the Council's claims and returns were prepared to a good standard. We received a good level of co-operation from the Council's in responding to audit queries.	 Green

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm that we have not provided any non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee*	274,752	274,752
Grant certification fee**	31,150	TBA
Total fees	305,902	TBA

* The Audit Commission agreed 2012-13 audit fee rebates directly with local government bodies. For the Council this rebate amounts to £25,000. The fee quoted in the above table is the gross fee payable by the Council, before the Audit Commission rebate.

** To be confirmed on completion of work and reported in our 2012/13 Grant Certification Report

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	6 June 2013
Audit Findings Report	26 September 2013
Certification report	To be completed
VfM – Financial Resilience Report	26 September 2013
Annual Audit Letter	28 October 2013



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