



The Annual Audit Letter for Manchester City Council

Year ended 31 March 2017

29 October 2017

Mark Heap

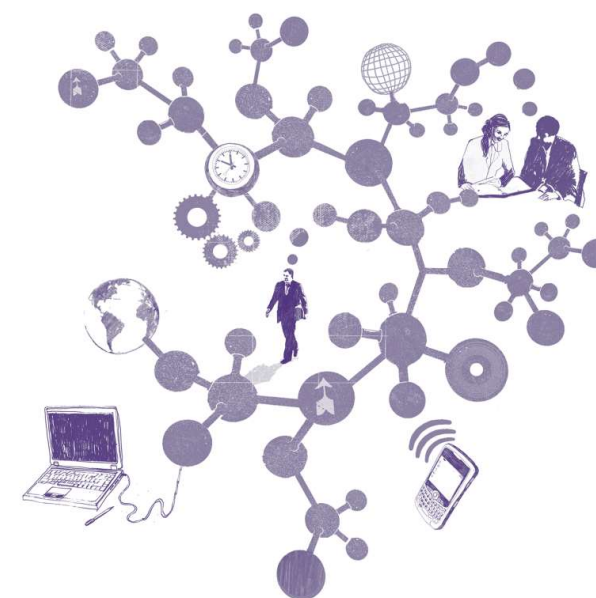
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Manchester City Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 31 August 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 18 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017, except for the following matter:

The publication of an inspection report by Ofsted dated September 2014 concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Children Board in the Manchester City Council were judged to be "inadequate". We recognise that the Council has secured progress in a number of areas as reported in its Improvement Plan presented monthly to the Children's Services Improvement Board.

The ongoing action during 2016/17 in relation to the Ofsted Improvement Plan is evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities during the year. For the period 2016/17 the Ofsted rating of "inadequate" remained in place which gave rise to a qualified VFM conclusion. We therefore qualified our value for money conclusion in our audit opinion on 18 September 2017.

Since reporting our value for money conclusion, Ofsted has notified the Council that a re-inspection of the service will take place from 10 October 2017 lasting for approximately four weeks. The findings from the re-inspection will inform our value for money conclusion work for 2017/18.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

Whilst no objections were received to the Council's 2016/17 accounts we have now concluded our findings into an objection raised to the 2015/16 financial statements concerning the Council's portfolio of "Lender Option Borrower Option" (LOBO) loans. Our response has involved obtaining external legal advice alongside consultation with the Firm's internal technical team to fully investigate the matters raised.

We communicated with the objector and the City Treasurer in July 2017 following our conclusion that no formal audit action was required in relation to the objection, and this matter is now closed.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 4 October 2017. This was later than the deadline of 29 September 2017 set by the NAO due to technical issues outside the Council's control.

Certificate

We certified that we had completed the audit of the accounts of Manchester City Council in accordance with the requirements of the Code on 4 October 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

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Other work completed

During the year we have provided Accountant's Reports relating to the Council's 2015/16 Teachers' Pensions End of Year return and the 2015/16 Pooling of Housing Capital Receipts return. We have also provided regional training for Chief Accountants which representatives of the Council's finance team attended.

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

Grant Thornton UK LLP
29 October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's and Group accounts to be £25,400,000 and £34,600,000 respectively, which is 1.75% of their gross revenue expenditure. We used this benchmark, as in our view, users of the accounts are most interested in how the Council and Group has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality for related party transactions (£100,000) and senior officer remuneration (£20,000) due to the public interest in these disclosures.

We set a lower threshold of £1,270,000 and £1,730,000 for the Council and Group respectively, above which we reported errors to the Audit Committee in our Audit Findings Report. This lower threshold is set at 5% of headline materiality.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the City Treasurer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of management's expert valuers • reviewed the instructions issued to valuation experts and the scope of their work • corresponded with management's expert valuers about the basis upon which valuations are carried out including challenging key assumptions • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value • evaluated management's impairment review. <p>We did not identify any material errors to report.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, including the use of an auditor's expert and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Council's actuary. <p>We did not identify any errors or matters to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 18 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided initial supporting working papers. The finance team responded to all of our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 31 August 2017. There were no material errors to report to the Audit Committee and the majority of amendments arising from the audit related to presentation and disclosure matters only.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 4 October 2017. This was later than the deadline of 29 September 2017 set by the NAO due to technical difficulties which were beyond the control of the Council in recording entries within the Treasury data collection tool.

Audit of the accounts

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had reason to exercise our statutory duties relating to the 2016/17 financial year, however as set out in the Executive Summary above, whilst no objections were received to the Council's 2016/17 accounts we have now concluded our findings into an objection raised to the 2015/16 financial statements concerning the Council's portfolio of "Lender Option Borrower Option" (LOBO) loans. Our response included considering reports and documentation relating to the Council's portfolio of LOBO loans, meeting with relevant Council officers, obtaining external legal advice and liaising with the National Audit Office.

We communicated our findings to the objector on 27 July 2017 in the form of a Statement of Reasons. We concluded that no formal audit action was appropriate in relation to the objection, and we made two non-statutory recommendations to the Council relating to the future management of its treasury portfolio.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risk areas to concentrate our work.

The key risk we identified and the work we performed are set out in the table overleaf.

Overall Vfm conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017. The risk is consistent with our 2015/16 VFM risk assessment and subsequent qualified conclusion.

The publication of an inspection report by Ofsted dated September 2014 concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Children Board in the Manchester City Council were judged to be "inadequate". We recognise that the Council has secured progress in a number of areas as reported in its Improvement Plan presented monthly to the Children's Services Improvement Board.

The ongoing action during 2016/17 in relation to the Ofsted Improvement Plan is evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities during the year. For the period 2016/17 the Ofsted rating of "inadequate" remained in place which gave rise to a qualified VFM conclusion. We therefore qualified our value for money conclusion in our audit opinion on 18 September 2017.

Since reporting our value for money conclusion, Ofsted has notified the Council that a re-inspection of the service will take place on 10 October 2017 lasting for approximately four weeks. The findings from the re-inspection will inform our value for money conclusion work for 2017/18.

Value for Money

Value for money risk

Risk identified	Work carried out	Findings and conclusions
<p>Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in September 2014 which rated these as 'inadequate' and the Council is currently subject to a follow up review. Until Ofsted confirms that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>We reviewed update reports from Ofsted, attended the Children's Services Improvement Board to observe progress with the Improvement Tracker and took account of other relevant documents to inform our conclusion.</p>	<p>We have monitored the Council's progress in delivering improvements in its children's services during the course of our 2014/15, 2015/16 and 2016/17 audits.</p> <p>The Council has continued to invest time and resource into improving Children's Services and addressing matters raised by Ofsted. Good progress has been made in a number of areas as highlighted by the themed inspections carried out by Ofsted during the year, although further work is still required to embed consistent quality social work and improve outcomes for children.</p> <p>The Council has articulated a clear vision for Children's Services in Manchester, and has stated that there is no higher priority for the Council than protecting vulnerable children and ensuring that children and their families receive good help and, when required, good care.</p> <p>The substantial progress made by the service from September 2014 to July 2016 in laying sound foundations for further improvement, and the strength of the investment strategy, gave the Council confidence to approve, at its 13 July 2016 meeting, a net additional £10m investment in the period 2016/17 to 2020/21, with much of this investment being front-loaded in the period to 2019.</p>

Value for Money

Value for money risk

Risk identified	Work carried out	Findings and conclusions continued
		<p>The service continued to experience high levels of demand during the 2016/17 year, but the service’s data indicates some positive developments including a reducing percentage of referrals to the service, a steady increase in Early Help activity, a gradual reduction in the number of looked after children (LAC) and a reduction in the percentage of care leavers not in education, employment or training (‘NEET’).</p> <p>A significant social worker recruitment campaign in the summer and autumn of 2016, coupled with a reduction in staff turnover, has increased capacity within the service. This allowed for a reduction in the average caseload, from approximate 23 to 18 children per social worker between September 2016 and March 2017.</p>

Value for Money

Value for money risk

Risk identified	Work carried out	Findings and conclusions continued
		<p>Since our 2015/16 audit, Ofsted have published four letters following on from monitoring visits that focussed on different aspects of the Council's Children's Services. These letters, together with Ofsted's September 2014 report can be found at: https://reports.ofsted.gov.uk/local-authorities/Manchester.</p> <p>Ofsted has recognised the significant improvements within the service since the September 2014 inspection report. However there remained areas for improvement during 2016/17. For example the fourth letter was published by Ofsted on 6 July 2017, following a monitoring visit that took place on 6 and 7 June 2017. This visit focussed on contact, referral and assessments, strategy meetings, child protection investigations and child in need cases.</p> <p>Ofsted noted that the Council's compliance in achieving timescales had improved, but based on the cases reviewed at the monitoring visit the quality of practice had not improved enough to make a positive difference to outcomes for children. The multi-agency safeguarding hub had sustained the progress noted in previous Ofsted monitoring visits, but the quality of social work practice in child in need cases remained too variable.</p>

Value for Money

Value for money risk

Risk identified	Work carried out	Findings and conclusions continued
		<p>Ofsted commented on the casework audit activity that forms part of the service’s quality assurance framework, noting that these audits largely focus on compliance, processes and timescales but they are not yet sufficiently robust to provided assurance in relation to the quality of social work practice.</p> <p>Ofsted has since announced that a full re-inspection of the service will take over a four week period commencing 10 October 2017. The Director of Children’s Services is confident in the significant improvements made since the initial inspection and we hope to see this reflected in the overall rating that follows.</p> <p>We concluded that the ongoing action during 2016/17 in relation to the Ofsted Improvement Plan is evidence of weaknesses in the Council’s arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities during the year and therefore issued a qualified value for money conclusion.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	207,167	207,167	207,167
Housing Benefit Grant Certification	11,288	TBC	11,625
Total fees (excluding VAT)	218,455	TBC	218,792

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). In addition we have incurred additional fees in relation to a local elector's objection to the 2015/16 accounts (£9,810 plus VAT) and specialist legal fees in connection with a separate query raised by another person (£2,871).

Fees for other services

Fees for other services are set out in the table alongside. The Firm's Ethical Standards have been followed in accepting this work. The work does not generally involve financial statement assertions and the work takes place after the main Council audit.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Service	Fees £
Audit related services:	
2016/17 Pooled Housing Capital Receipts Return	2,750
2016/17 Teacher's Pension Return	4,600
2016/17 Lord Mayor's Charity Independent Examination	nil
Total audit related services	7,350
Total non-audit related services to subsidiaries (see next page)	2,185

Reports issued

Report	Date issued
Audit Plan	21 February 2017
Audit Findings Report	8 September 2017
Annual Audit Letter	29 October 2017

Reports issued and fees

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Group and Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks

	Service provided to	Fees	Threat identified	Safeguards
Audit of subsidiary companies	One Education: 2016/17 Teacher's Pension Return iXBRL Tagging (relates to data reformatting)	£1,235 £950	None	The Firm's Ethical Standards have been followed and a separate audit team to the Council audit team undertakes the work on One Education's Teacher's Pension Return.
Total Audit related services		£2,185		

- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and are notified to the Audit Committee
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Manchester City Council. The table confirms that no non-audit services have been provided relating to 2016/17.



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