



# The Audit Findings for Manchester City Council

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**Year ended 31 March 2014**

11 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

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Executive summary

## Executive summary

### Purpose of this report

This report highlights the key matters arising from our audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and the Audit Committee in accordance with the requirements of International Standard on Auditing (ISA) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year, and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

### Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation (Appendix B)
- updating our post balance sheet events review, to the date of signing the opinion
- finalisation of our review of the Whole of Government Accounts submission.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

### Key issues arising from our audit

#### The Council's financial statements

The key messages arising from our audit of the Council's financial statements are:

- we anticipate providing an unqualified opinion on the single entity financial statements
- a number of disclosure adjustments were made to the financial statements, and one classification adjustment made following our audit
- we received good quality working papers from the finance team and other staff as well as timely responses to our audit queries.

Further details are set out in section 2 of this report.

#### Group financial statements opinion

The key messages arising from our audit of the Council's group financial statements are:

- we anticipate providing an unqualified opinion on the group financial statements
- a small number of disclosure adjustments were made to the financial statements, and two classification adjustments made following our audit
- we received good quality working papers from the finance team, including valuation reports that allowed the Council to address relevant matters that gave rise to qualification of the opinion on the 2012-13 group financial statements.

Further details are set out in section 2 of this report

Executive summary

### **Value for Money (VfM) conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

We have also prepared a separate report on financial resilience.

### **Whole of Government Accounts (WGA)**

We received the Council's WGA return for audit on 25 July 2014. We are currently finalising our review of the WGA submission, and anticipate providing a standard report providing assurance that the submission is consistent the Council's audited statutory accounts.

### **Controls**

The Council's officers are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses in the Council's financial systems that we wish to highlight for your attention.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the City Treasurer.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other officers during our audit.

**Grant Thornton UK LLP**  
**11 September 2014**

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## Section 2: Audit findings

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Audit findings

## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 20 March 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 20 March 2014.

### **Audit opinion**

#### **Single entity and group financial statements**

We anticipate that we will provide the Council with an unmodified opinion on the single entity and group financial statements. Our proposed audit opinion is set out in Appendix A, and an overview of our audit findings in Appendix C.



Audit findings

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p>	<ul style="list-style-type: none"> <li>• identification of the significant revenue streams at the Council and consideration of the applicability of revenue fraud risk to each cycle</li> <li>• review and testing of revenue recognition policies</li> <li>• performance attribute testing on material revenue streams</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has confirmed that the Council has applied appropriate revenue recognition policies.</p> <p>Substantive audit testing has not identified any instances of improper recognition of revenue.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management override of controls.</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• tests of detail on unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings

## Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Accounting implications arising from the localisation of Business Rates.</b></p> <p>There is a risk that the Council's provision for business rate appeals is significantly misstated.</p>	<ul style="list-style-type: none"> <li>• we have obtained an understanding of the changes arising from the localisation of business rates to enable us to audit the related transactions, balances and disclosures within the Council's statement of accounts</li> <li>• discussed the Council's arrangements for preparing an estimate of the provision required in relation to business rate appeals with the Council's Principal Finance Manager (Revenues), Corporate Finance Lead, City Treasurer, Chief Executive and Audit Committee</li> <li>• reviewed the Council's methodology for determining an estimate of the provision required to assess compliance with the requirements of CIPFA's Code of Practice on Local Authority Accounting (the Code) and International Accounting Standard (IAS) 37 (Provisions, Contingent Liabilities and Contingent Assets)</li> <li>• consulted with senior Grant Thornton Public Sector Assurance and National Assurance Services colleagues in relation to the Council's methodology</li> <li>• audited the calculation of the Council's estimate of the provision required, taking account of the Council's methodology and the data provided by the VOA on appeals relating to the 2005 and 2010 rating lists</li> </ul>	<p>Based upon the audit work we have performed we are satisfied that the contribution to the provision for appeals of £111.5 million, recognised in the Collection Fund, and the provision for business rate appeals of £54.6m, recognised in the Council and Group Balance Sheets, are materially accurate, and consistent with the requirements of the Code and IAS37.</p> <p>We agreed an adjustment to Note 3.5 to more accurately reflect the estimated effect of a 1% increase in the reduction in rateable values on the provision required.</p>

Audit findings

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated or not recorded in correct period.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• performed attribute testing of expenditure to ensure valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• sample tested payables and accrued expenditure, including reviewing post year end invoices and payments.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings

## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• performed attribute testing on a sample of employees to confirm that that they are employed by the Council and that pay costs and associated deductions have been accurately calculated</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Welfare expenditure</b></p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• completed detailed testing of housing benefit expenditure and council tax support discounts</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>


Audit findings  
**Audit findings against other risks (continued)**

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Housing rent</b>	Revenue transactions not recorded.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• performed attribute testing a sample of rent payments to ensure amounts have been accurately calculated</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment (PPE)</b>	PPE activity not valid.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• sample tested PPE additions</li> <li>• reviewed the appropriateness and consistency of application of capitalisation policies</li> <li>• tested existence and ownership of a sample of assets to evidence of title</li> <li>• reviewed the expert valuation reports commissioned by the Council and tested the related revaluation and impairment entries in the Statement of Accounts for consistency with these reports</li> <li>• made enquiries of the Council's valuers to obtain assurance that they hold relevant professional qualifications and have followed an approach to valuing the Council's assets that is consistent with the requirements of the Code.</li> </ul>	<p>The Council operates a five year rolling programme of asset valuation. In addition, for 2013/14, the Council has commissioned a valuer to assess the potential valuation movements, by type of asset, since the most recent valuations were undertaken. The Council has applied the results of this exercise in determining fair values included in the accounts as at 31 March 2014. The Council has also provided additional disclosure, of asset classes and dates of last valuation, in Note 22 to more fully comply with the requirements of the Code.</p> <p>We discussed the proposed approach to updating fair values with Council finance officers during our interim audit, and we are satisfied that the approach taken does not give rise to risk of material misstatement. We also note the practical difficulties of obtaining valuations as at 31 March for inclusion in the accounts.</p> <p>However, in our view, this approach does not fully meet the requirements of the Code paragraph which requires that revaluations are made with sufficient regularity to ensure that carrying amounts do not differ materially from that which would be determined using fair values at the end of the reporting period. The Council has disclosed that its approach is not strictly compliant with the Code in Note 22.</p>




Audit findings

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Government grants and contributions are not credited to the Comprehensive Income and Expenditure Statement unless there is reasonable assurance that the conditions relating to the grant or contribution will be complied with and the grant or contribution will be received</li> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Supplies are recorded as expenditure when they are consumed.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's revenue recognition policies are appropriate to its circumstances</li> <li>Disclosure in the Council's financial statements is consistent with the requirements of the Code</li> </ul>	 <b>Green</b>

### Assessment

-  Accounting policy which could potentially attract attention from regulators (red)
-  Accounting policy appropriate but scope for improved disclosure (amber)
-  Accounting policy appropriate and disclosures sufficient (green)

Audit findings

## Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– PFI arrangements</li> <li>– useful life of capital equipment</li> <li>– revaluations and impairments</li> <li>– pension fund valuations</li> <li>– the provision for business rate appeals</li> <li>– accounting for schools' property, plant and equipment</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Council has appropriately disclosed its accounting policies relating to PFI arrangements, property, plant and equipment (including that of schools), investment properties, heritage assets and pension schemes. These policies are consistent with the requirements of the Code.</li> <li>• We have concluded that the Council's accounting model for the new Brunswick PFI scheme is consistent with our understanding of the scheme, based on a review of the model and key scheme documentation. We are satisfied that the new PFI scheme has been appropriately accounted for in the Statement of Accounts.</li> <li>• The Council has appropriately relied on the work of experts in forming key estimates and judgements, particularly in relation to accounting for pensions and non-current assets.</li> <li>• We have considered the Council's judgement that the publication of the business rate valuation list, rather than the submission of an appeal, is the relevant past event on which to base its estimate of the provision for business rate appeals and concluded that this is consistent with the requirements of the Code and International Accounting Standard 37.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

**Assessment**

- Accounting policy which could potentially attract attention from regulators (red)
- Accounting policy appropriate but scope for improved disclosure (amber)
- Accounting policy appropriate and disclosures sufficient (green)

## Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Manchester Airport Holdings Limited (MAHL)	Yes	Comprehensive	<p>Alignment of group accounting policies</p> <p>Adequacy of disclosures within the group financial statements</p>	<p>Review of the outcome of the full scope UK statutory audit performed by non-GT member firm KPMG on Manchester Airport Holdings Limited's 2013/14 financial statements.</p> <p>Review of the valuation reports commissioned by the Council and testing the related entries in the Statement of Accounts for consistency with these reports.</p> <p>Made enquiries of the Council's valuers to obtain assurance that they hold relevant professional qualifications and have followed an approach to valuing MAHL PPE assets that is consistent with the requirements of the Code.</p> <p>Review of disclosures included within the group financial statements for compliance with the requirements of the Code.</p>	<p>Our work has not identified any issues we wish to report in relation to either the audit of MAHL's 2013/14 financial statements, or our audit of the consolidation of these financial statements into the Council's Group Statement of Accounts.</p> <p>The valuation reports obtained relating to MAHL PPE assets enabled the Council to demonstrate alignment of accounting policies across the group, to ensure compliance with Code requirements and address matters that gave rise to qualification of the prior year group accounts.</p>
Destination Manchester Limited	No	Analytical	None	Desktop review performed by GT UK	Our audit work has not identified any issues in respect of the consolidation of Destination Manchester Limited.



Audit findings

## Misstatements, misclassifications and disclosure changes

This section of our report provides details of misstatements, misclassifications and disclosure changes.

**Misstatements** – a misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code) or applicable accounting standards. The adjusted misstatements page of our report identifies those misstatements that have an impact on the financial position or financial performance reported in the draft financial statements and that have been adjusted by management.

**Misclassifications** – misclassifications are a subset of misstatements and are those reported financial statement items assigned to incorrect categories or classifications. Typically, misclassifications do not have an impact on reported financial position or financial performance however correct classification is important to achieve compliance with the Code and aid readers' understanding of the financial statements.

**Disclosure** – incorrect or omitted disclosures are a further subset of financial reporting misstatements. Incorrect or omitted disclosures do not impact on an organisation's reported financial position or financial performance but correct and complete disclosure is important to achieve compliance with the Code and aid readers' understanding of the financial statements.

Audit findings

## Adjusted misstatements – Manchester City Council

We are pleased to report that there were no adjusted misstatements to the Council's draft financial statements identified during the audit process that require reporting to the Audit Committee, and the financial position and financial performance reported in the draft financial statements remains unchanged. We provide details of the more significant adjustments and disclosure changes agreed with officers on pages 19 and 20.

## Adjusted misstatements – Manchester City Council Group

We are pleased to report that there were no adjusted misstatements to the draft Group financial statements identified during the audit process that require reporting to the Audit Committee, and the financial position and financial performance reported in the draft Group financial statements remains unchanged. We provide details of the more significant adjustments and disclosure changes affecting the Group financial statements on pages 21.

Audit findings

## Misclassification and disclosure changes – Manchester City Council

The table below provides details of disclosure changes identified during the audit which have been made in the Council's amended financial statements.

Adjustment type	Value £m	Account balance	Description of adjustment and impact on the financial statements
1 Misclassification	Dr £15m / Cr £15m	Cash and cash equivalents and Bank overdraft	A presentational adjustment has been made to reclassify the net overdrawn financial reporting position on the Council's bank accounts of £15m and present this together with the Council's short term cash investments and cash-in-hand balances on a net basis. This reflects the Council's day-to-day approach to the management of its cash position and is consistent with the Code.
2 Disclosure	N/a	Introduction to the Annual Accounts	The Introduction to the Annual Accounts has been updated to include reference to the impairment of property, plant and equipment and investment properties of £161 million.
3 Disclosure	N/a	Accounting policy 1.3.17 Government Grants and Contributions	The wording of this accounting policy has been revisited to ensure full compliance with Code requirements on the timing of recognition of grant income within the Comprehensive Income and Expenditure Statement.
4 Disclosure	N/a	Accounting policy 1.3.25 Post Employment Benefits	The wording of this accounting policy has been revisited to provide additional disclosure on accounting for pension assets and liabilities.
5 Disclosure	N/a	Critical accounting judgement Note 2.7	The wording of this note has been expanded to disclose that the Council impairs the value of school PPE assets to nil on notification of a transition to academy status.
6 Disclosure	N/a	Key Sources of Estimation Uncertainty Note 3.5	The disclosure in Note 3.5 has been updated to more accurately reflect the estimated effect of a 1% increase in the reduction in rateable values on the provision required.
7 Disclosure	N/a	Note 20 – Accounting for Schools	The first table in Note 20 has been updated to disclose 4 rather than 5 Foundation Schools.

Audit findings

## Misclassification and disclosure changes – Manchester City Council (continued)

	Adjustment type	Value £m	Account balance	Description of adjustment and impact on the financial statements
8	Disclosure	N/a	Note 35 - Provisions	An analysis of provisions between long and short term at the Balance Sheet date has been added to the note and additional narrative added.
9	Disclosure	N/a	Note 37 – Usable Reserves	A summary of the movements to and from the Council's usable reserves have been added to the note.
10	Disclosure	N/a	Pension disclosures - various	<p>Various narrative amendments to pension disclosures have been made to reflect the changes made to International Accounting Standard 19 'Employee Benefits' e.g. 'actuarial loss on pension assets/liabilities' is now described as 're-measurement of the net defined benefit liability'.</p> <p>Notes have been added at the foot of the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Cash Flow Statement to explain the effect of pensions accounting restatements.</p>

Audit findings

## Misclassification and disclosure changes – Manchester City Council Group

The table below provides details of disclosure changes identified during the audit which have been made in the final set of group financial statements.

Adjustment type	Value £m	Account balance	Description of adjustment and impact on the financial statements
1 Misclassification	Dr £15m / Cr £15m	Cash and cash equivalents and Bank overdraft	The adjustment to the Group Balance Sheet reflects the adjustment to the Council Balance Sheet described on page 19.
2 Misclassification	Dr £42.4m / Cr £42.4m	Comprehensive Income and Expenditure Statement – Other comprehensive income and expenditure	<p>A presentational adjustment has been made to the "Other comprehensive income and expenditure" section of the Comprehensive Income and Expenditure Statement (CIES).</p> <p>The surplus on revaluation of Manchester Airport Holdings Limited (MAHL) property assets, undertaken for the purposes of aligning accounting policies of the MAHL joint venture with those of the Council for Group financial reporting purposes, has been reclassified from the "Surplus on revaluation of non-current assets" to "Share of other comprehensive income and expenditure of subsidiaries" to ensure compliance with the requirements of the Code and International Accounting Standards 28 and 31.</p>
3 Disclosure	N/a	Council Note 2.9	Critical judgements paragraph 2.9 has been updated to disclose the review of the materiality of the organisations included in the Group Accounts as a critical accounting judgement.
4 Disclosure	N/a	Group Note 2	Note 2 has been expanded to include reconciliations of the restatements of the Group Movement in Reserves Statement and the Group Cash Flow Statement.

Audit findings

## Unadjusted misstatements – Manchester City Council

There are no adjustments identified during the audit which have not been made within the final set of financial statements.

## Unadjusted misstatements – Manchester City Council Group

The Group accounts have been restated to remove immaterial subsidiaries and associates, and this has been effected through a prior period adjustment, the details of which are disclosed in Note 2 to the Group accounts.

Whilst the approach taken and disclosure provided in Note 2 is considered to be both transparent and helpful to the reader of the accounts, it is not strictly in accordance with the requirements of the Code and International Accounting Standard 8 (Accounting Policies, Changes in Accounting Estimates and Errors) as an immaterial change of accounting policy should be effected through in-year transactions, rather than by way of adjusting the comparators for the prior period.

Audit findings

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We have not identified any significant control deficiencies during the course of our audit.

Audit findings

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to the Audit Committee.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any incidents in the period that resulted in a change to our planned audit procedures and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council (Appendix B).</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our work has found no material disclosure omissions.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements of the Council and of the Group on a going concern basis.</li> </ul>



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## Section 3: Value for Money

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Value for Money

## Value for Money

### Background

The Code of Audit Practice 2010 (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 our 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.** 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.** 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 following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance
- Financial planning
- Financial control

Overall our work on financial resilience concluded that the Council is performing well, despite continuing to operate in a challenging financial environment. This will assist the Council in managing the significant financial challenges that are likely to be faced over the next two to three years.

Further details on our work reviewing the Council's financial resilience are contained in our "Review of the Council's Arrangements for Securing Financial Resilience" report.

#### 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. We note 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 achieved cumulative savings of £81m over the two financial years 2012-13 and 2013-14 and is making good progress in delivering on planned savings in 2014-15 and developing budget plans for 2015-16 and 2016-17.

#### Better Care Fund (BCF)

We have considered the Council's preparations for the introduction of the Better Care Fund as part of our VfM audit work. We have been able to conclude that the Manchester area BCF Plan meets national conditions at a high level, for example in relation to the protection of social services, commitment to seven day service provision and data sharing based on NHS patient numbers. The Council has engaged effectively with its partners and there has been appropriate representation from stakeholders in developing plans. It will be important to keep risk management arrangements and management capacity under review to minimise the risk of failing to deliver on BCF performance metrics.

## Value for Money (continued)

### **Annual Governance Statement (AGS)**

The Council has a robust process in place for preparing its AGS and this allows for senior officer and member scrutiny of the draft document at an early stage. We concluded that the AGS was consistent with our knowledge of the Council and met the requirements of the CIPFA/SOLACE "Delivering Good Governance in Local Government" framework.

### **LED Street Lighting**

We have considered the Council's proposed migration to LED street lighting as part of our VfM work. We note that the Council is operating within a pre-existing PFI street lighting scheme, and at the time of writing the negotiation of a contract variation with the PFI operator has yet to take place. The Council has undertaken an option appraisal and its financial modelling indicates that significant revenue savings would accrue to the Council, through reduced electricity consumption, following migration to LED lighting.

### **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 2014.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters

Fees, non-audit services and independence

## Fees, non-audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	274,752	274,752
Grant certification	25,200	TBA
<b>Total audit fees</b>	<b>299,952</b>	<b>TBA</b>

### Fees for other services

Service	Fees £
None	Nil

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters

## Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

The Audit Findings Report 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		N/A
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		N/A
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		N/A
Significant matters arising in connection with related parties		N/A
Significant matters in relation to going concern		N/A

Appendices

# Appendices



Appendices

## Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report for the Council and Group Statement of Accounts

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER CITY COUNCIL

#### Opinion on the Statement of Accounts

We have audited the Statement of Accounts of Manchester City Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The Statement of Accounts comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Manchester City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Annual Statement of Accounts, the City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Statement of Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the Statement of Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the Statement of Accounts. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited Statement of Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Appendices

**Opinion on the Statement of Accounts**

In our opinion the Statement of Accounts:  
give a true and fair view of the financial position of Manchester City Council as at 31 March 2014 and of its expenditure and income for the year then ended;  
give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and  
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

**Opinion on other matters**

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the Statement of Accounts are prepared is consistent with the Statement of Accounts.

**Matters on which we report by exception**

We report to you if:  
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;  
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;  
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or  
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Council and the auditor**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Appendices

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Council has proper arrangements for:

securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Manchester City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the Statement of Accounts of Manchester City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Sarah Howard  
Partner, for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

XX September 2014

Appendices

## Appendix B: Management Letter of Representation

[ To be placed on Council letter headed paper]

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB  
XX September 2014

Dear Sirs

**Manchester City Council**  
**Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the group financial statements of Manchester City Council and its joint venture and subsidiary undertakings as shown in appendix I to this letter for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the group financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Group Financial Statements**

i) We have fulfilled our responsibilities for the preparation of the group financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii) We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the group financial statements.

iii) The Council has complied with all aspects of contractual agreements that could have a material effect on the group financial statements in the event of non-compliance.

iv) We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi) We are satisfied that the material judgements used by us in the preparation of the group financial statements are soundly based, in accordance with the Code, and adequately disclosed in the group financial statements. There are no further material judgements that need to be disclosed.

vii) Except as stated in the group financial statements:

- a) there are no unrecorded liabilities, actual or contingent
- b) none of the assets of the Council has been assigned, pledged or mortgaged
- c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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viii) We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.

ix) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

x) All events subsequent to the date of the group financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

xi) Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii) We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and Group and the Council and Group financial position at the year-end.

xiii) The group financial statements are free of material misstatements, including omissions.

xiv) We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group financial statements.

xv) We believe that the group financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group's needs. We believe that no further disclosures relating to the group's ability to continue as a going concern need to be made in the group financial statements.

**Information Provided**

xvi) We have provided you with:

- a) access to all information of which we are aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
- b) additional information that you have requested from us for the purpose of your audit; and
- c) unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvii) We have communicated to you all deficiencies in internal control of which management is aware.

xviii) All transactions have been recorded in the accounting records and are reflected in the group financial statements.

xix) We have disclosed to you the results of our assessment of the risk that the group financial statements may be materially misstated as a result of fraud.

xx) We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a) management;
- b) employees who have significant roles in internal control; or
- c) others where the fraud could have a material effect on the financial statements.

xxi) We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's group financial statements communicated by employees, former employees, regulators or others.

Appendices

xxii) We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing group financial statements.

xxiii) We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv) We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group financial statements.

**Annual Governance Statement**

xxv) We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 22 September 2014.

Signed on behalf of the Audit Committee

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Audit findings

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Provisions (long & short term)	Provisions	Significant	Provisions overstated	No	Sufficient appropriate audit assurance obtained.
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	Sufficient appropriate audit assurance obtained.
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	Sufficient appropriate audit assurance obtained.
Costs of services – Housing benefits	Welfare expenditure	Other	Welfare benefits improperly computed	No	Sufficient appropriate audit assurance obtained.
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	Sufficient appropriate audit assurance obtained.
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Sufficient appropriate audit assurance obtained.
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Sufficient appropriate audit assurance obtained.

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services – other revenues (fees & charges)	Other revenues	None		No	Sufficient appropriate audit assurance obtained.
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	Sufficient appropriate audit assurance obtained.
Interest payable and similar charges	Borrowings	None		No	Sufficient appropriate audit assurance obtained.
Net interest on the net defined benefit liability	Employee remuneration	None		No	Sufficient appropriate audit assurance obtained.
Income from council tax	Council Tax	None		No	Sufficient appropriate audit assurance obtained.
NNDR revenues	NNDR	None		No	Sufficient appropriate audit assurance obtained.
PFI revenue support grant and other Government grants	Grant Income	None		No	Sufficient appropriate audit assurance obtained.
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	Sufficient appropriate audit assurance obtained.



Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	Sufficient appropriate audit assurance obtained.
Re-measurement of the net defined benefit liability	Employee remuneration	None		No	Sufficient appropriate audit assurance obtained.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	Sufficient appropriate audit assurance obtained.
Debtors (long & short term)	Revenue	None		No	Sufficient appropriate audit assurance obtained.
Cash & cash equivalents	Bank & cash	None		No	Sufficient appropriate audit assurance obtained.
Borrowing (long & short term)	Debt	None		No	Sufficient appropriate audit assurance obtained.
Pension liability	Employee remuneration	None		No	Sufficient appropriate audit assurance obtained.
Reserves	Equity	None		No	Sufficient appropriate audit assurance obtained.

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