Audit Findings Report

Year ended 31 March 2018

Manchester City Council

30 July 2018

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of Manchester City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 12. We have identified presentational and disclosure adjustments to the financial statements but these have not resulted in any change to the draft outturn reported in the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 31 July 2018, as detailed in Appendix C. These outstanding items include: - completion of a small number of audit procedures and audit housekeeping steps including final Engagement Lead file review; - receipt of the signed management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Manchester City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 15.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. We expect to be able to certify the conclusion of the audit once we have completed our review of the Council's Whole of Government Accounts return (NAO deadline 31 August 2018). Further details are noted on page 12.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- A full scope audit was required for the Council by the group engagement team.
- An evaluation of the components of the group based upon materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the audit response. From this evaluation we determined that a comprehensive review of the consolidation of Manchester Airports Holdings Ltd joint venture was required and an analytical approach was required for Destination Manchester Ltd subsidiary.
- An evaluation of the Council's internal control environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 31 July 2018. The audited accounts contain no unadjusted misstatements. Due to the good standard of the draft accounts we have not raised any recommendations. We have followed up the points raised by the Firm's IT auditor in 2016/17 and note the good progress made. A separate schedule of residual and low priority IT risks, primarily around segregation of duties has been provided to management.

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our Audit Plan as set out in the table below

Our approach to materiality

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	34,800,000	29,900,000	Considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	26,100,000	22,400,000	Assessed to be 75% of financial statement materiality.
Trivial matters	1,700,000	1,500,000	Assessed to be 5% of financial statement materiality.
Materiality for specific transactions, balances or disclosures			These items merits a lower materiality than financial statement level materiality due to being of particular interest to the public.
Senior officer remuneration		20,000	
Related party transactions		20,000	

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Manchester City Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Manchester City Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, and identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work has not identified any issues regarding management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment (land and buildings)** The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** In addressing the valuation risk we have: • Updated our understanding of the processes put in place by management to ensure that revaluation measurements are correct • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation experts (the valuers) • Challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register and reflected correctly in the financial statements • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • Evaluated the Authority's assessment of any relevant indicators of impairment. Further detail and commentary on valuation methods is included at page 10.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** We have: • Gained an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund liability is not materially misstated and evaluated the design of the associated controls • Evaluated the instructions issued by management to the actuary and the scope of the actuary's work • Evaluated the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation. We also gained an understanding of the basis on which the valuation was carried out • Carried out procedures to confirm the reasonableness of the actuarial assumptions made, including reference to the auditor's expert • Confirmed the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • Checked the Council's accounting for and reporting of the prepayment to the pension fund during 2017/18. Our audit raised the following matter which we discussed with management: PWC have reviewed the work of Hymans, the pension fund actuary. Hymans forecast is based upon wage inflation of 2.5% whereas PWC forecast 4.5%. We have discussed this inconsistency with management but accept management's view that the Hymans rate used by the GM Pension Fund is appropriate and prudent.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
1	**Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**Auditor commentary** In addressing the understatement risk we have: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls • agreed payroll expenditure from sub-systems to general ledger control accounts • performed a predictive analytical review of payroll expenditure and compared to the reported figures Our audit has not identified any issues or matters arising in response to the risk identified.
2	**Operating expenses and associated creditor** Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenses and the associated creditor and year end cut off as a risk requiring particular audit attention:	**Auditor commentary** In addressing the completeness and cut off risk we have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls • agreed creditor balances to general ledger control account • tested a sample of operating expenditure to ensure it is accounted for correctly and in the correct period Our audit has not identified any issues or matters arising in response to the risk identified.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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. • Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis, when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES. • Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.	• The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) • The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council • The accounting policy is appropriately disclosed in notes 6.2.17 to the financial statements.	Green
Judgements and estimates	Key estimates and judgements include: • Useful lives of property, plant and equipment • Pension fund valuations and settlements • Revaluations and impairments of assets • Provisions and accruals	• The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) • Critical judgements, estimation uncertainty and accounting policies are appropriately disclosed in notes 6 to 8 of the financial statements • Out audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.	Green

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Valuation methods	The Council's accounting policy for valuation of property, plant and equipment is set out at note 6.2.1 within the Accounting Policies. Land and buildings are valued at current value, unless sufficient market evidence is not available in which case current value is estimated at depreciated replacement cost (DRC). Council dwellings are valued annually at market value, less a social housing discount factor. Community assets and infrastructure are valued at depreciated historic cost. Assets under construction are valued at historic cost. Surplus assets are valued at fair value based on the highest or best use of the asset.	Assets are revalued using methods of valuation recommended by CIPFA in the Code of Practice for Local Authority Accounting and in accordance with the guidance notes issued by the Royal Institute of Chartered Surveyors.	● Green
Other policies	The Council's accounting policies are included at Note 6 to the financial statements.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	● Green
Group accounts	Note 1 to the Group details the Group Accounting Policies. The Council prepares Group accounts by consolidating Manchester Airports Holdings Ltd (MAHL) as a 35.5% joint venture and Destination Manchester Ltd (DML) as a 100% owned subsidiary. The MAHL joint venture is accounted for on an equity basis by including the Council's share of MAHL in the Group statements. The DML subsidiary is accounted for on an acquisition basis and consolidated on a line by line basis, writing out inter-group transactions. It is the Council's policy to only include notes to the Group accounts where they are materially changed from the Council's single entity accounts notes.	We have reviewed the Group consolidation prepared by the Council and we have also liaised with the auditor of MAHL for assurance on any matters arising from the MAHL audit that would impact upon the Group audit. There are no matters arising. The draft Group accounts were prepared by the Council based upon draft MAHL balances as draft accounts were unavailable in time for the Council deadlines. The draft MAHL accounts were subsequently presented to the Council after IFRS15 adjustments which required additional work by management to remove the IFRS15 impact for consolidation purposes. Management will want to liaise with MAHL to avoid a recurrence of being presented with unexpected changes in the MAHL accounts..	● Green

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period relevant to our audit opinion and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. To this extent we have met with the Council's Monitoring Officer and we sought assurances from the Audit Committee.
	Matters in relation to going concern	Management confirm at Note 6.1.1 the underlying assumptions to prepare the accounts on a going concern basis. We have assessed management's going concern assumptions and noted the Council's Medium Term Financial Plan approved in March 2018, covering the period up to and including 2019/20. To achieve a balanced budget, the Council has identified delivery plans to achieve a savings requirement of £25.4 million in 2018/19 and requires an additional £9 million savings plans in 2019/20. We have also reviewed the Council's cash flow projections covering the period to July 2019. We have not identified any material uncertainty regarding going concern at Manchester City Council.
4	**Written representations**	A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	We requested and received third party confirmations from investment and loan counterparties including Barclays Bank and other third party bankers.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Significant difficulties**	No difficulties were experienced in obtaining working papers or explanations for audit queries from the finance team.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unqualified opinion in this respect – refer to Appendix C.
2	**Matters on which we report by exception**	We are required to report by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The deadline for the WGA consolidation audit is 31 August 2018 and we plan to complete our audit work and report by the deadline.
4	**Certification of the closure of the audit**	We do not expect to certify the completion of the 2017/18 audit of Manchester City Council in our auditor’s report, as detailed in Appendix C as we do not plan to complete the Whole of Government Accounts audit until the 31 August 2018 deadline.

Value for Money

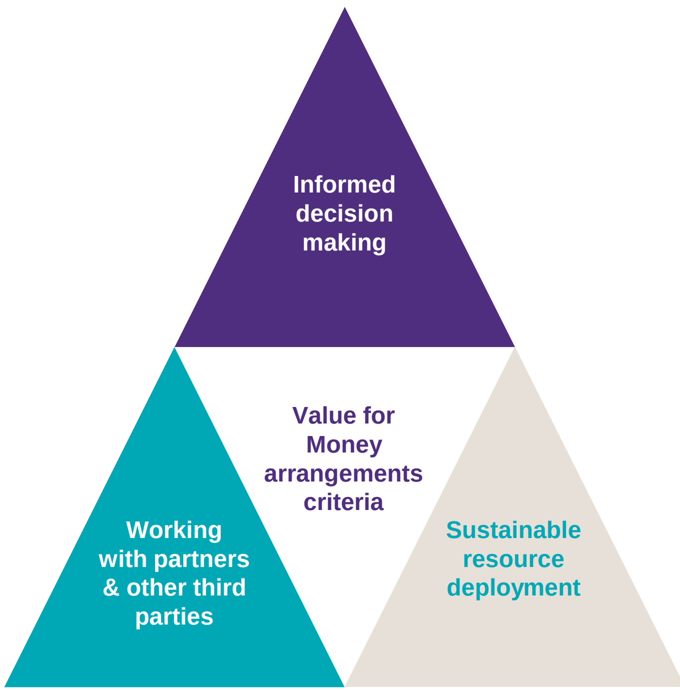
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January and February 2018 and identified a significant risk in respect of working with partners and other third parties using the guidance contained in Audit Guidance Note (AGN) 03. We communicated the risk to you in our Audit Plan dated 15 February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Governance arrangements relating to the Manchester local care organisation (MLCO) ' have been strengthened by a partnership agreement signed in April 2018
- The partnership agreement was developed by a governance working group including representatives of all partner organisations including Manchester Health and Care Commissioning (MHCC)
- The 10 year contract procurement planned for April 2018 has not gone ahead because of issues that are unresolved not only in Manchester but at all 'pioneer' integration locations, in particular concerning VAT and pension costs
- However, workarounds are in place that enable continuing progress on establishing operational structures, most importantly the 12 neighbourhood teams of the MLCO

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 15.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report which confirms this can be found at Appendix C.

Recommendations for improvement

We discussed findings arising from our work with management and acknowledge that there are actions in place arising from the CQC report of December 2017 and a programme plan for operational delivery. Therefore we make no additional recommendations for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
The success of the integration of health and social care across Manchester would be compromised if the governance and decision making process isn't functioning.	• The CQC inspection of health and social care integration reported in December 2017 that 'governance arrangements were clearly articulated from the Greater Manchester Health & Social Care Partnership down to locality levels.' • In describing governance arrangements in the city of Manchester itself, the CQC concluded that 'these arrangements would ensure that the individual partner organisations could meet their statutory responsibilities while working within an integrated commissioning structure.' • The accountabilities between partners in Manchester were expected to be enshrined in a formal procurement contract by April 2018, but this is not yet in place due to unresolved issues such as VAT treatment and pensions costs. This is a national issue and discussions have taken place, and are continuing, between the Council, MHCC and the Department of Health, NHSE and HMRC on this matter. • The VAT issue in particular would carry a risk of c£3 million for welfare related services (excluding direct staff costs) per annum to the total health and social care budget depending on the ultimate interpretation of HMRC rules and the partners are understandably unwilling to proceed with the procurement while that risk exists. • Management and democratic accountability are achieved through the management teams and the boards for both MHCC and MLCO which include NEDs and councillors from the partner organisations. The Health and Wellbeing Board brings together those who buy services across the NHS, public health, social care and children's services, elected representatives and representatives from Health to plan the health and Social Care services for Manchester. The Resources and Governance Committee of MCC scrutinises progress. It is also considered by Audit Committee as a significant partnership.	**Auditor view** • The governance and decision-making arrangements for 'A Healthier Manchester' were expected to be formalised in a 10-year procurement contract by April 2018, but this was not achieved because of unresolved national issues, most notably VAT treatment which carries a significant financial risk to the partnership. • The accountabilities are formalised instead through a partnership agreement signed in April 2018, developed by a governance working group consisting of representatives of all partner organisations. This is underpinned by a detailed Financial Framework. • This has enabled continued progress to be made on operational developments and joint planning, most importantly the establishment of 12 integrated neighbourhood teams under the MLCO.

Independence and ethics

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. The firm, its partners, senior managers and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements
- 2017/18 is the tenth year that Grant Thornton UK LLP will have served as the Council's external auditor. So as to avoid any matters under Ethical Standards and ISA (UK) 260 regarding the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers), Public Sector Audit Appointments Ltd has appointed another firm as the Council's external auditor from 2018/19 onwards.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Independence and ethics

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 following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the scale fee for the audit of £207,167 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension Return	4,600	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,600 in comparison to the scale fee for the audit of £207,167 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total	**7,350**		
Non-audit related			
CFO Insights Online service allowing rapid analysis of key financial performance data	12,500	Self-Interest (because this is a subscription)	The fee for this work is negligible in comparison to the scale fee for the audit and in particular the overall turnover of Grant Thornton UK LLP and the Public Sector Assurance service line. It is also a fixed fee with no contingent element. These factors mitigate the perceived self interest threat to an acceptable level.
Total	**12,500**		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Treasurer.
None of the services provided are subject to contingent fees.

In addition to the above fees charged for services to the Council, the Firm provides audit and non audit related services to subsidiaries of the Council.

Audit Adjustments

Misclassification and disclosure changes

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

Misclassification/Disclosure omission	Detail	Adjusted?
Various	Management agreed to a small number of sundry disclosure requests to improve the presentation of the financial statements for the reader. For example, adding an extra row to note 23 Property, Plant and Equipment to reconcile the prior year reclassification of infrastructure assets made on 1 April 2018.	✓
Provisions Note 41 Business Rates Appeals	The Provisions note was amended for the Business Rates appeal estimate. The amount charged to this provision was understated by £1.53m with a corresponding adjustment to the amounts released in year which was overstated by £1.53m.	✓
Financial Instruments Note 42 Fair value disclosures	The fair value of PFI, service concessions and finance lease liabilities was understated by £214.881m due to the omission of the fair value of PFI liabilities. The fair value of trade debtors was understated by £126.856m due to the omission of short term debtors. The restated fair value of trade debtors for the previous year is similarly understated by £148.408m. Some further smaller long term debtors were also added to the disclosure note. Each of these items are disclosure matters only with no impact upon the Council's General Reserve.	✓ ✓

Fees

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

Audit Fees	Proposed fee £	Final fee £
Council Audit	207,167	211,167
Grant Certification Certification of Housing Subsidy Return	12,500	TBC
Total audit fees (excluding VAT)	**£219,667**	**£TBC**

The proposed audit fee for the year exceeds the scale fee set by Public Sector Audit Appointments Ltd (PSAA) by £4,000 due to the additional work involved in addressing the Public Interest Entity (PIE) requirements arising from the Council's listed debt.
Our fees for grant certification cover only housing benefit subsidy certification which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £
Audit related services: Certification of Housing capital receipts return Certification of Teacher's pension return	 2,750 4,600
Non Audit related services: CFO Insights Online service allowing rapid analysis of key financial performance data	12,500
Total (excluding VAT)	£19,850

Independent auditor's report to the members of Manchester City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Manchester City Council (the 'Authority') and its subsidiary and joint venture (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and all notes to the financial statements, including the accounting policies to the core financial statements and the group accounts. 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 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

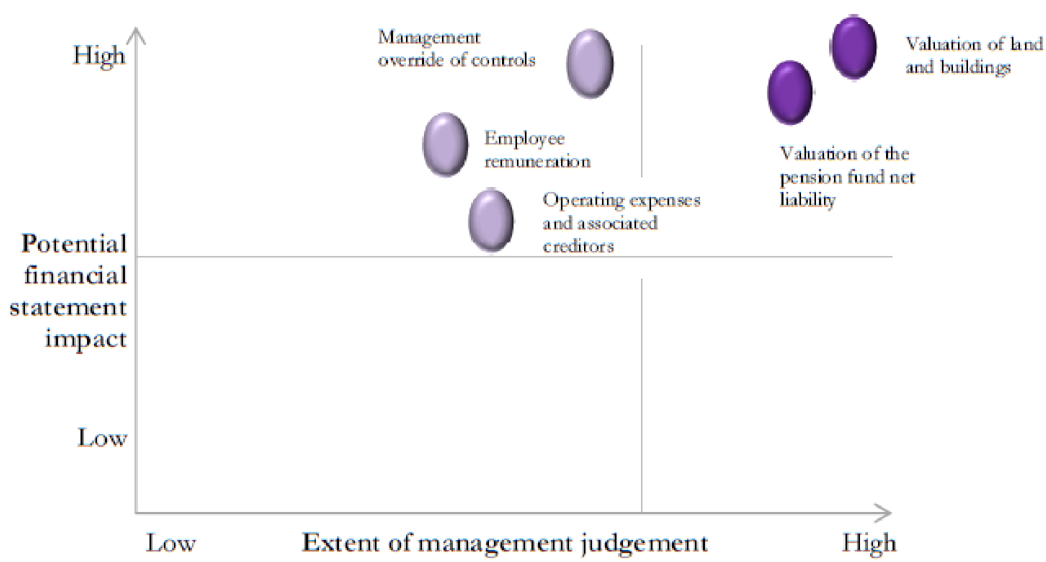
- the City Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the City Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £34.8 million which represents 1.7% of the group's total gross expenditure on provision of services;
- Key audit matters were identified as
  - Valuation of land and buildings
  - Valuation of the pension fund net liability
- We performed a full scope audit of the Authority and analytical procedures on the non-significant components within the group.
- We issued group instructions to KPMG LLP in respect of their full scope audit of Manchester Airports Holdings Limited.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Authority and Group	How the matter was addressed in the audit – Authority and Group
Risk 1 - Valuation of land and buildings The Authority revalues its land and buildings on a rolling five year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management due to the high value involved in the core financial statements and the group accounts. We therefore identified the valuation of land and buildings, including impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our work included, but was not restricted to: • Updating our understanding of the processes put in place by management to ensure that revaluation measurements are correct; • Evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of the valuation experts (the valuers); • Challenging the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • Testing revaluations made during the year to see if they had been input correctly into the Authority's asset register and reflected correctly in the financial statements; • Evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • Evaluating the Authority's assessment of any relevant indicators of impairment. The Authority's accounting policy on valuation of land and buildings is shown in note 6.2.1 to the core financial statements and note 1 to the group accounts and related disclosures are included in note 23 to the core financial statements and note 10 to the group accounts.

Key Audit Matter – Authority and Group	How the matter was addressed in the audit – Authority and Group
	Key observations We obtained sufficient audit assurance to conclude that: • the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of land and buildings disclosed in the financial statements is reasonable.
Risk 2 - Valuation of the pension fund net liability The Authority's pension fund net liability as reflected in its balance sheet represents a significant estimate in the core financial statements and group accounts. We therefore identified the valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Gaining an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund liability is not materially misstated and evaluating the design of the associated controls; • Evaluated the instructions issued by management to the actuary and the scope of the actuary's work; • Evaluating the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation. We also gained an understanding of the basis on which the valuation was carried out; • Carrying out procedures to confirm the reasonableness of the actuarial assumptions made, including reference to the conclusions of our auditor's expert (an actuary); and • Confirming the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. The Authority's accounting policy on the valuation of the net pension liability is shown in note 6.2.22 to the core financial statements and related disclosures are included in note 46 to the core financial statements. **Key observations** We obtained sufficient audit assurance to conclude that:

Key Audit Matter – Authority and Group	How the matter was addressed in the audit – Authority and Group
	• the basis of the valuation was appropriate and the assumptions and processes used by the actuary in determining the estimate were reasonable; • the valuation of the Authority's pension fund net liability disclosed in the financial statements is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

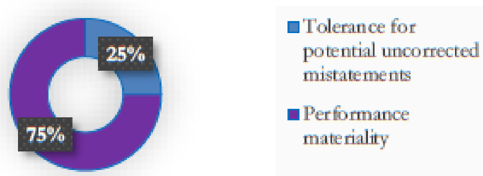
Materiality was determined as follows:

Materiality Measure	Group	Authority
Financial statements as a whole	£34.8 million which is 1.7% of the group's gross expenditure on provision of services. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the group has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure on provision of services as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the group or the environment in which it operates.	£29.9 million which is 1.7% of the Authority's gross expenditure on provision of services. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure on provision of services as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the Authority or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality		Disclosure of senior officers' remuneration (based on final reported values, over £20,000, due to public interest in these disclosures). Related party transaction disclosures (over £100,000 and also the significance to the other party) due to

		the public interest in these disclosures.
Communication of misstatements to the Audit Committee	£1.7 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£ 1.5 million and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality - Group and Authority



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Gaining an understanding of significant changes to the Group structure;
- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. A full scope or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on the Authority, which represents 85.5% of the group's income, 84.7% of its total expenditure and 70% of its total assets;
- Issuing group instructions to the auditors of Manchester Airports Holdings Limited in respect of their audit of Manchester Airports Holdings Limited for the year ended 31 March 2018, using the results of their full scope audit procedures. Manchester Airports Holdings Limited represents 24.9% of the group's net income and expenditure and 29.1% of its total assets;
- Performing analytical procedures on non-significant components included in the group financial statements: Destination Manchester Limited; and
- Gaining an understanding of and evaluating the Authority's internal controls environment including its financial and IT systems and controls.

Other information

The City Treasurer is responsible for the other information. The other information comprises the information included in the Annual Statement of Accounts set out on pages 3 to 242, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matter required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the City Treasurer and Those Charged with Governance for the financial statements

As explained more fully in The Statement of Responsibilities for the Annual Statement of Accounts set out on page 48, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City

Treasurer. The City Treasurer is responsible for the preparation of the Annual 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 2017/18, which give a true and fair view, and for such internal control as the City Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the City Treasurer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Authority and we remain independent of the group and the Authority in conducting our audit.

The following services, in addition to the audit, were provided by the firm to the Authority after 1 April 2017 that have not been disclosed separately in the Annual Statement of Accounts:

- Pooling of Housing Capital Receipts return certification for 2016/17
- Teachers' Pensions return certification for 2016/17

Our audit opinion is consistent with the additional report to the Audit Committee.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

To be signed