



Audit Completion Report Draft to Audit Committee

Manchester City Council
Year ending 31 March 2020

CONTENTS

1. Executive summary
2. Audit approach
3. Significant findings
4. Internal control recommendations
5. Summary of misstatements
6. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Audit Committee
Manchester City Council
Mount Street
Manchester
M30 2LA

19 November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum (ASM) which we presented to Audit Committee on 11 February 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our sincere thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07721 234043.

Yours faithfully

Karen Murray, Partner
Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Manchester City Council ('the Council') and its Group for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 26 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 3 and 6 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 3 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Valuation of Property, Plant & Equipment (land & buildings and investment properties);
- Valuation of Defined Benefit Pension Liability;
- Group Financial Statements consolidation process; and
- Valuation of Manchester Airport Holdings Limited land & buildings for group consolidation.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

Subject to the satisfactory completion of the remaining audit procedures, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

The timetable for the Council's WGA submission has recently been published by MHCLG, and NAO issued auditors with their group instructions in early November. We will complete the required work to the MHCLG timetable as soon as possible

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any questions or objections relating to 2019/20.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding. We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

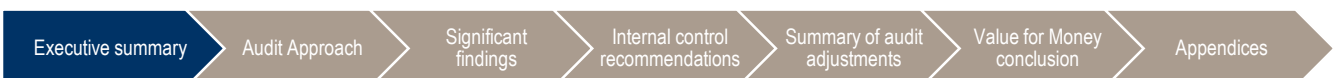
Audit area	Status	Description of outstanding matters
Valuation of Property, Plant & Equipment and Investment Properties	●	We are completing elements of our testing of the Council's valuation of its land and buildings including work that our consulting valuer is completing on the Council's valuer methodology and assumptions
Testing of journal transfers	●	We have received all requested information relating to our testing, but the final elements of our work are still to be completed
Testing of expenditure items	●	Final elements of our testing on some areas of expenditure are still to be completed
Collection Fund	●	Agreeing the Council Tax and NNDR property numbers to the third party Valuation Office reports
Provisions, Contingent Assets & Contingent Liabilities	●	We are completing our testing on the compliance of the disclosed provisions and contingent assets & liabilities with accounting standards
Consolidation of group accounts	●	We require confirmation of any events after the balance sheet date from the auditors of Manchester Airport at the end of the audit.
Review and closure procedures	●	Completion of audit closure procedures, including: <ul style="list-style-type: none"> • review of the final version of the financial statements; and • final manager and partner review.
Signed final statements and signed Management Representation Letter	●	We will complete our final review of the financial statements to confirm all expected changes have been made, upon receipt of the signed version of the accounts and letter of representation

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Misstatements and internal control recommendations

Section 4 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 5 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.



2. AUDIT APPROACH

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in February 2020. We have not made any significant changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £36.8 million for the Group financial statements and £31.4 million for the Council financial statements, using a benchmark of around 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level.

Our final assessment of materiality, based on the final 2019/20 financial statements and qualitative factors is unchanged from that at the planning stage for both the Group and Council financial statements. Our final materiality levels and trivial thresholds are set out in the table below. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £1,105k for the Group and £945k for the Council based on 3% of overall materiality.

Materiality element	Group materiality	Council single-entity materiality
Overall materiality	£36,829,000	£31,489,000
Performance materiality	£25,780,000	£22,042,000
Trivial threshold for reporting to Audit Committee	£1,105,000	£945,000

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Group or the Council.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

Item of account/disclosure	Specific materiality
Officer remuneration bandings (Note 19)	£5,000 *

- Reflecting movement from one salary band to another

Key summary of audit approach and findings

We have summarised the key information regarding our approach, risks and significant findings for the Comprehensive Income & Expenditure Statement and Balance Sheet in the tables over the page. Further information on the findings are provided in section 3.



2. AUDIT APPROACH (CONTINUED)

Comprehensive Income & Expenditure Statement

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Control deficiencies	Significant audit findings
Net Cost of Services	Standard	-	No	None	●	Work not yet complete
Other Operating Expenditure	Standard	-	No	None	●	None
Financing & Investment I&E	Standard	-	No	None	●	Adjustment made
Taxation and non-specific grants	Standard	-	No	None	●	None
Other comprehensive I&E	Standard	-	No	None	●	Adjustments made

Balance Sheet

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Control deficiencies	Significant audit findings
Property, plant and equipment	Significant	Valuation of Land, Buildings and Investment Property	Yes	None	●	Work not yet complete
Long term investments	Standard	-	No	None	●	None
Short term debtors	Standard	-	No	None	●	None
Cash and cash equivalents	Standard	-	No	None	●	None
Short term creditors	Standard	-	No	None	●	None
Borrowings	Standard	-	No	None	●	None
Provisions	Standard	-	No	None	●	Work not yet complete
Pension Liabilities	Significant	Valuation risk	Yes	Yes	●	Adjustments made
Reserves	Standard	-	No	None	●	Adjustments made

Key for Control Deficiencies

- High-priority control deficiency noted
- Medium-priority control deficiency noted
- Low-priority control deficiency noted
- No control deficiency noted / not evaluated



2. AUDIT APPROACH (CONTINUED)

Overview of our group audit approach

The Council's Group financial statements for 2019/20 includes two entities, the Council's 35.5% share of Manchester Airport Holdings Limited and the Council's wholly-owned subsidiary, Destination Manchester Limited.

Our Audit Strategy Memorandum provided details of our intended group audit approach. As highlighted earlier in this report we confirm that we have made no changes to our approach previously outlined.

In addition to understanding and testing the Council's group consolidation process, the table below confirms the approach we have taken to auditing the Council's consolidated group financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Manchester City Council (parent)	NAO Code audit	Mazars LLP	A full audit of the Council financial statements and consolidation process	None
Manchester Airport Holdings Limited (Joint Venture)	Statutory audit	KPMG LLP	<p>Because of the size and complexity of the organisation we concluded that this is a significant group component and that we would require the company auditor to complete work on our behalf as a component auditor.</p> <p>We issued group audit instructions to the auditor, held frequent discussions through their audit, and reviewed their audit file to document and conclude for our group audit purposes, their audit work, findings and conclusions.</p> <p>We summarise the key findings relevant to the Council's oversight of its Group in section 3.</p>	None
Destination Manchester Limited	Statutory audit	KPMG LLP	<p>We concluded that this component is not significant on the basis of its relative size and complexity.</p> <p>Consequently our audit approach was to undertake desktop group analytical procedures on the financial information prepared for group reporting purposes.</p>	Yes

The Council has applied a consideration of materiality in determining which of its subsidiaries, associates and joint ventures to consolidate into its Group financial statements. The result of this consideration, as disclosed in Note 12 to the Group financial statements is that five Council interests are not consolidated:

- Eastlands Development Company Limited
- National Car Park (Manchester) Limited
- Matrix Homes (GP) Limited
- Mayfield Development Limited
- Manchester Mortgage Corporation Limited

The Council's consideration of the material impact of these interests on its Group financial statements is in accordance with the applicable financial reporting framework.

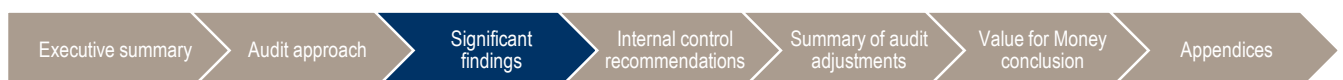


3. SIGNIFICANT FINDINGS

Set out on the following pages are the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
 - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
 - how the matter was addressed in the audit including a summary of our response;
 - where relevant, key observations arising with respect to each matter; and
 - a clear reference to the relevant disclosures in the financial statements
- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. As reported earlier we have not identified any new significant risks or key audit matters.



3. SIGNIFICANT FINDINGS (CONTINUED)

Key audit matters

Valuation of Land & Buildings and Investment Property (Council)

Description of the key audit matter

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle. The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer) and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end. Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.

How we addressed the key audit matter

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuer from the Council;
- Obtained an understanding of the basis of valuation applied by the valuer in the year;
- Obtained an understanding of the Council's approach to ensure that assets not subject to revaluation in 2019/20 are materially fairly stated;
- Obtained an understanding of the Council's approach to ensure that assets revalued through 2019/20 are materially fairly stated at the year end;
- Sample tested the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations;
- Used relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2020;
- Compared the valuations of a sample of revalued assets to our external valuation expert's estimate of the valuation;
- Obtained an understanding of the valuer's consideration of RICS guidance on material uncertainty relating to valuations, and considered whether there was evidence of material uncertainty; and
- Tested the accuracy of how valuation movements were presented and disclosed in the financial statements.
- Tested a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.

Audit conclusion

We are still finalising our work on this area although there are no matters arising from the work completed to date.

3. SIGNIFICANT FINDINGS (CONTINUED)

Valuation of Defined Benefit Pension Liability (Council)

Description of the key audit matter

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.

In addition our work focused on two issues that emerged through 2020. In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was included in the Council's liability in 2019/20. The proposed remedy indicates that the actuarial estimate of the liability for 2019/20 was likely to be overstating the pension fund liability but not materially. A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. Although the impact of 'Goodwin' is still being clarified the Council's actuary have provided evidence to support their assessment of the impact on the Council's liability. They conclude that the impact is not likely to be material. In both issues, we engaged with the Council's actuary and reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability.

How we addressed the key audit matter

We have:

- Obtained an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council;
- Obtained confirmation from the auditor of the Greater Manchester Pension Fund that the controls in place at the Pension Fund are operating effectively. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate;
- Reviewed a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor;
- Reviewed the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuations for the Council. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation reports for the Council provided by the actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

3. SIGNIFICANT FINDINGS (CONTINUED)

Valuation of Defined Benefit Pension Liability (Council)

Audit conclusion

Our work is complete and our audit procedures provided the planned assurance relating to the valuation of the Council and the Group's defined benefit pension liability.

The Council obtained an updated actuarial report to incorporate the estimate of the proposed 'McCloud' remedy and have amended the financial statements to reflect this updated estimate as reflected in Section 5. In concluding on this we note that the Council has included disclosure in Note 9.7 of the material uncertainty, disclosed in the Greater Manchester Pension Fund accounts, relating to the valuation of the Pension Fund property investment assets. The valuation of the Council's share of the Pension Fund property investment assets as disclosed in Note 45 is £130m. We intend to reference to this disclosure in our audit report but conclude that our audit opinion is not modified in respect of this matter.

Management override of controls (Council)

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

We are still finalising our work on the accounting estimates and journal transfers as highlighted on page 4. There are no matters arising from the other areas of our work completed against this risk.

3. SIGNIFICANT FINDINGS (CONTINUED)

Areas of management judgement

Group Financial Statements consolidation process (Group)

Description of the management judgement

The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group.

How our audit addressed this area of management judgement

Our approach to auditing the Group Financial Statements has been detailed in section 2.

We will complement this work by our review of the Council's Group consolidation process. In particular we will review the Council's judgements relating to the entities that are consolidated into the Group Financial Statements, and we will review and test the method of consolidation of those group entities into the Group Financial Statements.

Audit conclusion

Our work for the Council's consolidation of group entities is almost complete with final elements to be completed identified in section 1.

We have concluded that the Council's judgements relating to which entities to consolidate into its group financial statements are appropriate and consistent with the requirements of the CIPFA Code.

We have completed our review of the work of the component auditor of the Council's joint venture, Manchester Airport Holdings Limited (MAHL). There were no matters to report to the Council in relation to this work.

The component auditor reported to the company a range of audit adjustments and internal control recommendations. All of the adjustments were made by MAHL management except one, which was for a trivial value of £0.7m. The Council consolidated on the basis of the final audited MAHL accounts and the consolidation incorporates the adjustments made by MAHL.

None of the component auditor's internal control recommendations were material or significant to the Council's group financial statements or their oversight of group reporting.

3. SIGNIFICANT FINDINGS (CONTINUED)

Areas of management judgement

Valuation and ownership of Manchester Airport Land & Buildings for Group consolidation (Group)

Description of the management judgement

The Council's joint venture, Manchester Airport Holding Limited's (MAHL) accounts are prepared in accordance with IFRS and their land & buildings are valued at cost. In consolidating their share of the MAHL accounts the Council must align the accounting policies of the company with their own. Consequently for the group consolidation exercise the Council engages an external valuer to value the Manchester Airport land & buildings consistent with the Council's accounting policies.

Most of the airport land is owned by the City Council and the other nine GM Metropolitan Councils so the valuer must remove the value of this land from that owned by the Airport directly to avoid double-counting.

How our audit addressed this area of management judgement

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuer from the Council;
- Obtained an understanding of the basis of valuation applied by the valuer in the year;
- Obtained an understanding of the valuer's approach to removing the valuation of land owned by the GM Councils from their valuation;
- Sample tested the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations;
- Compared the Council's valuations to our external valuation expert's estimate of the valuation; and
- Obtained an understanding of the valuer's consideration of RICS guidance on material uncertainty relating to valuations, and considered whether there was evidence of material uncertainty.

Audit conclusion

We are still finalising our work on this area although there are no matters arising from the work completed to date.

Valuation methods

We are required by International Standard on Auditing 260 to report to the Audit Committee the methods of valuation the Council has adopted in its financial statements and whether there have been any changes in those valuation methods. We have set out in this section the valuation methods for the Property, Plant & Equipment, Investment Property, the Pension Liability and the valuation of the MAHL land & buildings. There are no changes in the valuation methods from the previous year. The other balance sheet categories have been valued in accordance with the CIPFA Code of Practice on Local Authority Accounting and applicable International Financial Reporting Standards. There are no changes in those valuation methods from the previous year.

3. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 July 2020, ahead of the revised government deadline for draft financial statements and were of a good quality. Good quality supporting working papers have been made available in a timely manner and these have assisted our audit progress. Council finance officers have been very helpful in promptly answering our detailed audit queries.

Significant matters discussed with management

The significant matters we discussed with management through the audit included:

- The impact of COVID-19 on the Council's financial statements, including potential impact on risks of material misstatement. We concluded that there were no additional risks of material misstatement in 2019/20.
- The valuation of the Council's land & buildings and investment property. The outcome of this work is reported earlier in the report.
- The valuation of the MAHL land & buildings for consolidation of the Council's group financial statements. The outcome of this work is reported earlier in the report.
- The accounting treatment of the Council's investment in the new Manchester Airport car park company. The Council has disclosed its classification of this investment as being designated at Fair Value through Other Comprehensive Income.
- The Council's actuary, Hymans Robertson's consideration of the impact of past legal cases on the Council's pension liability, details of which are set out earlier in this section.

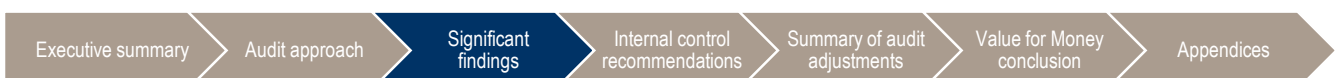
The impact of the Covid-19 pandemic has had a significant impact on the Council, not only in relation to normal operating practices and service delivery, but also in terms of additional requirements for the distribution of business grants and rate relief. Whilst the financial impact on the Council is much more significant in the 2020/21 and future financial years, we have specifically considered the potential impact on the significant risks in relation to property valuations and the pension liability valuation, as outlined below and earlier in this report.

In addition our testing of income and expenditure around the year end, in order to conclude that they are recognised in the correct financial year has also considered the timing of the additional income the Council received from central government between March and July including the business support funds which flowed through the Council. We have not identified any material issues in relation to this testing, subject to the completion of the work outlined on page 4.

The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities included as set out earlier in this section:

- The proposed remedy for the 'McCloud' case; and
- The 'Goodwin' case, which emerged in 2019/20.

The Council obtained an updated actuarial report to incorporate the impact of the government's proposed remedy for the 'McCloud' case, and have amended the accounts as detailed in section 5 of this report. The Council have not obtained an updated report for the impact of the 'Goodwin' case, but based on the information provided by the Council's actuary, the Council do not expect the impact of this case to be material. Our work has not identified any issues to report with this conclusion, although we note that the Council's Pension Liability does not include an estimate of the impact.



3. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management (continued)

In addition, as a result of independent quality reviews of audit suppliers' work, in particular by the Financial Reporting Council, we have increased the level of work we carry out on defined benefit pension schemes and the valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the level of work and time required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

Significant difficulties during the audit

The impact of the COVID-19 pandemic on the audit was significant. Although we have had the full co-operation of the financial team and Council management through the audit, the remote working of ourselves and the Council's officers meant that the audit work took significantly longer to complete and finalise than would ordinarily be the case. Our audit issues were resolved through the dedication of and, excellent support from, the Council, but have delayed the audit significantly.

In addition we experienced difficulty in auditing the information relating to the revaluation of some land & buildings as a result of the Council's valuers experiencing difficulties in locating the land and floor areas to support their valuations for a number of assets, and we have included an internal control recommendation relating to this matters in section 4.

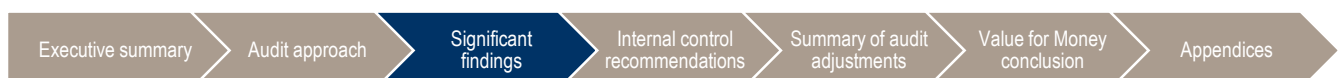
Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections during our audit from electors.



4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 2

Issue 1

Description of deficiency

The Council's valuer experienced significant difficulty in locating information on land and floor areas for a number of revalued assets. The land and floor areas are a key source of information for the valuations.

Potential effects

The valuer not retaining an adequate audit trail to support the valuation calculations leaves the Council exposed to the risk that it is not able to confirm that those valuations are materially correct, to support the assertions in the Statement of Responsibilities that the statement of accounts gives a true and fair view of the financial position of the Council.

Recommendation

The Council should ensure through contractual discussions with its valuer that an adequate audit trail of key source information is maintained for all asset valuations.

Management response

At future inception meeting that are held once Jacobs have been commissioned the following matters will be specified / clarified:

1. For all valuations requiring floor areas, a schedule of floor areas will be checked with staff within the Corporate Estates Team to check and confirm the floor areas are correct. In this way there is a record and audit trail for the figures provided and used in the valuations.
2. To ensure that Jacobs retain an adequate audit trail to support the valuation calculations, the source of all data to be used will need to be verified. This will be expressly mentioned in the instructions to Jacobs and their fee proposal
3. An early meeting with the auditor, Jacobs the instructing Council valuer and a representative from Finance at the outset of the commission where the requirements of the auditors can be clarified and a direct dialogue between the auditor and the valuer undertaking the asset valuations will be encouraged

Follow up of previous internal control points

Our audit work in 2019/20 confirmed that the Council had implemented all the internal control recommendations from 2018/19.

5. SUMMARY OF AUDIT ADJUSTMENTS

We set out below the items identified for adjustment during the course of the audit, above the level of trivial threshold of £1,105k (Group) and £945k (Council).

Unadjusted audit differences 2019/20

The Council have adjusted all the audit differences identified as summarised on the table below.

Adjusted audit differences 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Changes to the Council pension liability				
Dr: Pension Liability			26,321	
Cr: Pension Reserve				26,321
Dr: Movement in Reserves Statement	26,321			
Cr: Remeasurement of Pension Liability		16,254		
Cr: Council-wide costs		10,067		

The Council obtained an updated actuarial report to include the proposed remedy to the 'McCloud' case. The impact of the new reports were that the Group Pension Liability reduced with the negative Group Pension Reserve also reducing by the same amount. This adjustment also impacts on the Group Pension entries to the same degree.

2 Changes to Taxation and Non Specific Grants

Dr: Taxation and Non-Specific Expenditure	44,150			
Cr: Taxation and Non-Specific Income		44,150		

The disclosure on the face of the Comprehensive Income and Expenditure Statement requires the gross expenditure and gross income to be disclosed, consistent with Note 16 to the accounts.

3 Changes to Heritage Assets balance

Dr: Heritage Assets			62,454	
Cr: Revaluation Reserve				62,454

The Council previously disclosed that Heritage Assets with a value under £100k were excluded from the accounts. The insurance value of these assets totalled a material amount, and the Council has therefore amended the balance to include the value of those assets. This omission affected the prior year with £60.4m added to the prior year balance.

5. SUMMARY OF AUDIT ADJUSTMENTS (CONTINUED)

Disclosure amendments

In addition to the adjustments outlined on the previous page, the Council has made a number of amendments to the disclosures in the financial statements. Among these adjustment were contextual or presentational adjustments made to:

- Include a third balance sheet column for the position at 1 April 2018 in the Council and Group financial statements, which is a requirement where prior period adjustments impact on the opening balance sheet.
- Including an additional prior period adjustment in Note 5 relating to the adjustment of Taxation and Non Specific Grants as set out on the previous page.
- Include disclosure in Note 7.1 of the going concern considerations relating to DML which were not available from DML at the time the draft accounts were published Note 7.1.
- Include disclosure in Note 9.2 of the material valuation uncertainty relating to Investment Properties.
- Include disclosure in Note 9.7 of the material valuation uncertainty relating to the Greater Manchester Pension Fund Property Investments.
- Include disclosure of gross income and gross expenditure in Note 15 to match the disclosures in the main statements.
- Adjust the minimum lease payments from operating leases in Note 30 to remove income relating to two leases for which income is no longer received.
- Include the amounts owed to and from related parties in Note 49.

6. VALUE FOR MONEY CONCLUSION

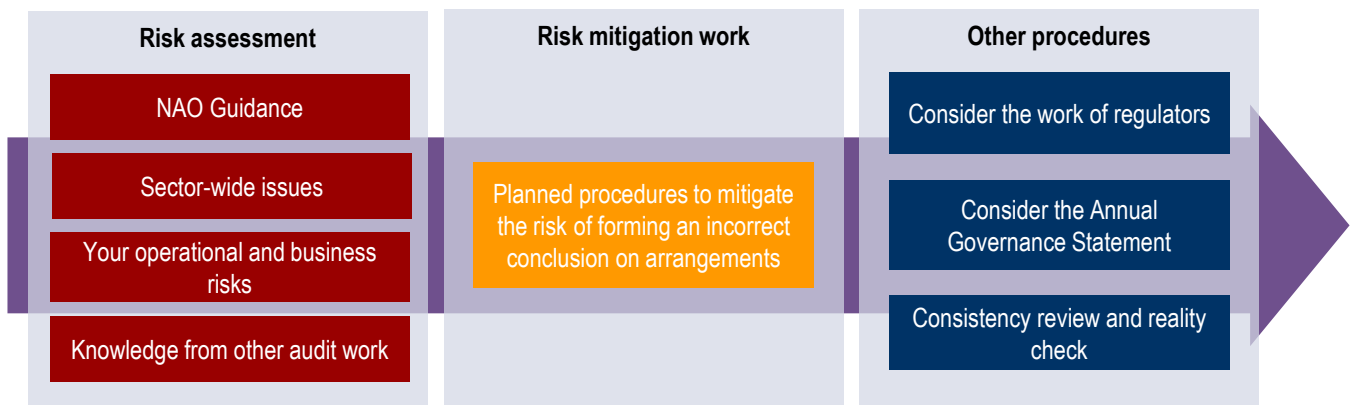
Our approach to the Value for Money conclusion

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

A summary of the work we have undertaken is provided below.



Significant Value for Money conclusion risks

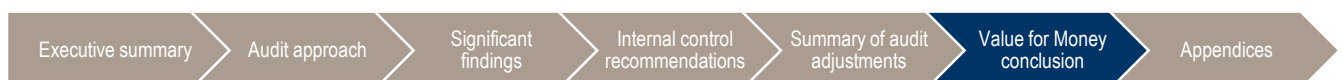
The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk relating to the financial sustainability of the Council in the medium term.

Since issuing our Audit Strategy Memorandum the COVID-19 pandemic has impacted significantly on the Council operationally and financially. We have considered the impact of COVID-19 on the significant risk for our Value for Money conclusion. In doing this we have considered the Council's arrangements in place up to the 31 March 2020, and we are satisfied that there are no new significant risks to our Value for Money conclusion for 2019/20 arising from COVID-19.

The work we carried out in relation to the significant risk is outlined overleaf.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

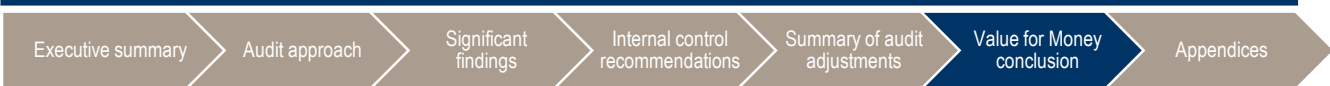


6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken and findings	Conclusion
<p>Financial sustainability</p> <p>2019/20 is the final year of the Councils three year strategy (2017-20), a period which has seen considerable budget cuts. The 2019/20 budget is balanced following an increase in Council Tax of 3.49% but requires the achievement of £15m savings.</p> <p>The continuing challenges the Council faces are not new and are not unique to Manchester City Council. The challenges do, however, present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability.</p>	<p>Work undertaken</p> <p>We reviewed the arrangements the Council had in place throughout 2019/20 for ensuring financial resilience.</p> <p>Specifically we reviewed whether the medium term financial plan took into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans. In addition to considered the Council's arrangements in place in 2019/20 in the context of the emerging impact of the COVID-19 pandemic.</p> <p>Findings</p> <p>The Council set balanced budgets for 2019/20 and 2020/21. The budget for 2019/20 was set with assumptions of utilising significant levels of earmarked reserves and required significant levels of savings from the previous year. At the same time the budget increased the resources available relating to the increase in some demand-led services. The outturn reported results for the year show a very small overspend against the budget (£0.5m) and delivery of £15m savings as planned. This enabled the Council to not have to rely on utilising additional reserves in 2019/20 to support the spending, and this has meant the General Fund balance is £21m and Usable Earmarked Reserves for revenue purposes (excluding schools) are £349m as at 31 March 2020.</p> <p>The Council's monitoring of its 2019/20 budget has been through detailed 'officer-led' monthly monitoring, with regular reporting to Council members in the Executive. The reporting provides a timely and detailed report of the current position and the projected position at the year end. The review of the monitoring in year identifies that the Council undertakes a robust review and regular reporting. The in year monitoring has been largely accurate and has predicted the level of overspending through the year, enabling timely mitigating decisions to be taken.</p> <p>(continued overleaf)</p>	<p>We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.</p>

6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken and findings	Conclusion
Financial sustainability (continued)	<p>Findings (continued)</p> <p>The financial position for 2020/21 is significantly more challenging. The Council agreed its budget for 2020/21 before the COVID-19 pandemic. And even before the impact of COVID-19 on the Council's financial position, the 2020/21 budget presented a significant challenge to the Council's long term financial sustainability balancing the increased costs from demand-led services with increasingly stretched resources.</p> <p>The Council is continuing to refine its assessment of the impact of COVID-19 on 2020/21 and future years and has recently commenced a consultation on reshaping the Council to ensure it remains financially sustainable in the medium term. What is certain is that there are significant additional cost pressures, particularly in delivering Adult & Children's Social Care, and very significant levels of lost income relating to the loss of the dividend from Manchester Airport, reduced fees and charges and the impact on the Collection Fund.</p> <p>The Council does have significant levels of earmarked reserves as at 31 March 2020, but these are not sufficient to sustain the Council's financial position over the medium term given the current projected impact and will not insulate the Council from making difficult decisions to deliver the medium term financial sustainability.</p>	



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

Date

Dear Karen

Manchester City Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Manchester City Council ('the Council') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Deputy Chief Executive and City Treasurer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Executive and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council 's financial position, financial performance and cash flows.

Executive summary

Audit approach

Significant findings

Internal control recommendations

Summary of audit adjustments

Value for Money conclusion

Appendices

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm that, despite the disclosure of material valuation uncertainties in the Council's financial statements, the valuations of the Council's Property, Plant & Equipment, Investment Properties, and Pension Fund assets are appropriate.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Deputy Chief Executive and City Treasurer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONT.)

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

I confirm that I have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

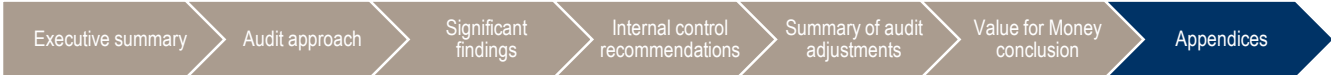
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours faithfully

Carol Culley
Deputy Chief Executive and City Treasurer

APPENDIX B DRAFT AUDITOR'S REPORT

To be included

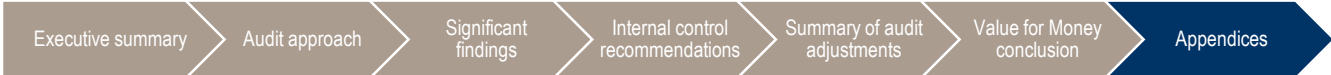


APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

We also confirm that we have received confirmation from our external experts regarding their independence.



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