

Audit Strategy Memorandum

Manchester City Council

Year ended 31 March 2021



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This document is to be regarded as confidential to Manchester City Council. It has been prepared for the sole use of the Audit Committee as the appropriate committee charged with governance by the Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Members of the Audit Committee
Manchester City Council
Manchester Town Hall
Manchester
M60 2LA

Mazars LLP
One St Peter's Square
Manchester
M2 3DE

26 May 2021

Dear Audit Committee Members

Audit Strategy Memorandum – Year ended 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Manchester City Council for the year ended 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Manchester City Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07721 234043.

Yours faithfully

Karen Murray

Partner, Mazars LLP

Mazars LLP – One St Peter's Square, Manchester, M2 3DE

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Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

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

01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Manchester City Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Deputy Chief Executive and City Treasurer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Deputy Chief Executive and City Treasurer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.



Electors' rights

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

02

Section 02:

Your audit engagement team

2. Your audit engagement team

<p>Karen Murray</p> <p>Engagement Partner</p> <p>Email karen.murray@mazars.co.uk</p> <p>Telephone 07721 234043</p>	<p>Alastair Newall</p> <p>Engagement Senior Manager</p> <p>Email alastair.newall@mazars.co.uk</p> <p>Telephone 07909 986776</p>	<p>Simon Livesey</p> <p>Engagement Assistant Manager</p> <p>Email Simon.Livesey@mazars.co.uk</p> <p>Telephone 07909 986545</p>
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In addition an Engagement Quality Control Reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit is designed to comply with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

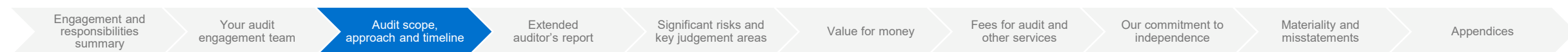
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise:

- tests of details (of classes of transactions, account balances, and disclosures); and
- substantive analytical procedures.

Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 9.

The national timescales for 2020/21 require the Council to produce their draft Group accounts by the end of July 2021 and for our audit to be completed by the end of September 2021. This is two months earlier than the deadlines agreed for 2019/20. We believe that this timescale is extremely challenging, particularly given the complexity of the Council's financial statements, the related complexity of our external audit, and the pressure this places on the Council's finance team to deliver draft financial statements and supporting working papers by the end of July 2021. We have concluded that we will plan to complete the Council's audit by November 2021. This allows the Council two additional months to produce the draft Group financial statements and supporting working papers and enables us to complete the audit in a well managed and deliverable manner. We are not aware of any sanctions that apply to the Council or ourselves for not completing the external audit of the financial statements by 30 September 2021. The main challenges to achieving this timetable are:

- The size, number and complexity of the valuations of Council and Group land & buildings and investment properties – this was an area of significant difficulty in 2019/20, and the audit work requires significant information, and assistance, from the Council's three external valuers. Our 2019/20 completion report recommended improvements in the audit trail from the Council's valuers to support the valuations. We plan to start our detailed audit work on this area in July, in advance of the rest of the audit work, to mitigate the risk that there are delays in completing the work.
- Completion of audit work by the auditor of GM Pension Fund – we obtain assurances from the auditor of GMPF on several areas relating to the Council's pension asset and liability. The GMPF audit is planned to be completed by the end of July and at this stage we do not anticipate any delays impacting on the Council's audit completion.
- The timetable does require the Council's draft accounts and working papers to be available for the start of our audit. We have planned our main audit work to commence at the start of September to ensure that sufficient contingency is inbuilt to mitigate the risk that the accounts and working papers are unavoidably delayed. We believe this is a prudent approach given the continued challenges of remote working in the pandemic for the Council and our audit team.



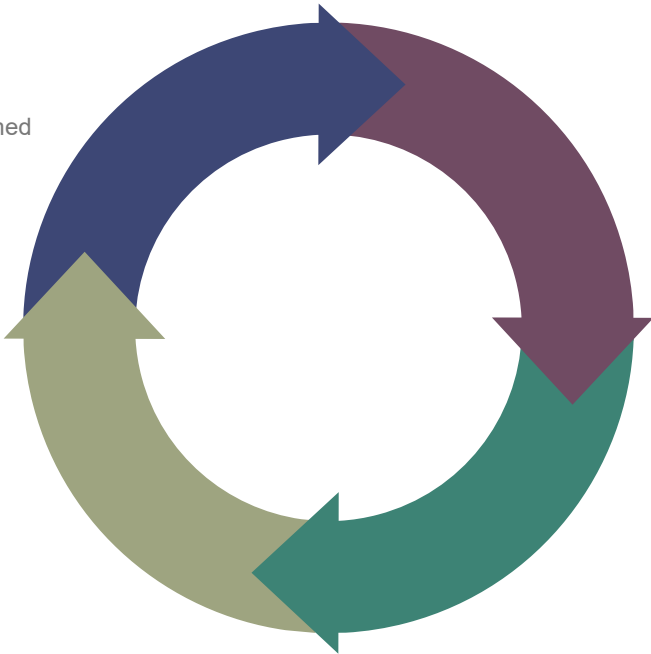
3. Audit scope, approach and timeline

Planning (March – April 2021)

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion (November 2021)

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report



Interim (March 2021)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork (September – October 2021)

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Group audit approach

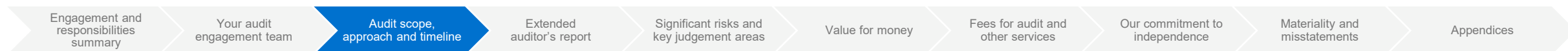
The Council’s group structure for 2020/21 will consolidate the Council’s share of two other organisations: Manchester Airport Holdings Limited (MAHL) and Destination Manchester Limited (DML). In auditing the accounts of the Council’s Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council’s share of these two entities. The Council owns 50% of the voting shares in MAHL and classes its investment as a joint venture, accounting for its share of the equity in MAHL. The Council wholly owns DML and consolidates its share of the company on a line-by-line basis.

Our group audit approach reflects the size and complexity of the transactions from the two companies that are consolidated into the Council’s Group financial statements. Based on our planning discussions and review of previous year’s accounts, we consider that MAHL is a financially significant component and that our significant risk relating to the Pension Liability, as set out in section 5, is a risk that applies to MAHL as well as the Council. Based on our knowledge and discussions we do not consider that DML is a financial significant component and we have not identified any significant risks to the group audit in DML.

Our planned approach, based on our initial understanding of 2020/21 and the values reported in the prior year financial statements, is to obtain assurance on the audit of MAHL from their external auditor, KPMG LLP (“the component auditor”). We issue group audit instructions to the component auditor and liaise closely with them through their external audit. After the conclusion of their audit of MAHL we review their audit files to obtain assurance on the accounting entries of which the Council consolidates its share. For DML we intend to carry out group level analytical procedures. The table below summarises our planned group audit approach.

If there are any changes to our assessment of the significance of the Council’s group components, either through the size and complexity or the significant risks at the components, we will communicate these changes to the Audit Committee.

Entity	Significant by size	Significant risk	Planned audit scope	Auditor
Manchester City Council	Yes	Yes	Full audit carried out by group engagement team	Mazars - group engagement team
Manchester Airport Holdings Ltd	Yes	Yes	Full audit carried out by component auditor	KPMG LLP
Destination Manchester Ltd	No	No	Group level analytical procedures	Mazars - group engagement team



3. Audit scope, approach and timeline

Reliance on internal audit

Although we do not plan to place any reliance on the work of internal audit, where possible we will seek to understand their work to ensure the nature, extent and timing of our audit procedures is appropriate. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit pension assets and liabilities	Hyman Robertson actuaries	PwC – NAO’s consulting actuary
Non-Council Dwelling Property, Plant and Equipment and Investment Property valuation	Jacobs Ltd	Mazars in house valuation expert
Council dwellings valuation	Capita	N/A – local audit team
Valuation of MAHL and DML land & buildings for Group consolidation purposes	Avison Young (UK) Ltd	Mazars in house valuation expert
Valuation of Financial Instruments	Link Asset Services	We will review Link’s methodology for providing the fair value disclosures

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. There are no service organisations used by the Council which impact upon our planned audit approach.



04

Section 04:

Extended auditor's report

4. Extended auditor's report

Layout of extended auditor's report and implications for the audit

The extended auditor's report for the Council is expected to follow the format and structure below for the year ended 31 March 2021 assuming that no emphasis of matter or qualification is required.

Paragraph heading in order	Summary of key content
Opinion on the financial statements	What we have audited and our opinion thereon.
Basis for opinion	Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC's Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council's: <ul style="list-style-type: none"> • use of the going concern basis of accounting • disclosure of any material uncertainties
Key audit matters	Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"> • A description of the most significant assessed risk(s) of material misstatement; • A summary of our response to those risks including significant judgements applied; and • Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements.



4. Extended auditor's report

Paragraph heading in order	Summary of key content
Our application of materiality and an overview of the scope of our audit	<p>Explanation of how we applied the concept of materiality in planning and performing the Group and Council audit.</p> <p>The overall materiality threshold for the Group and Council financial statements as a whole, performance materiality and triviality threshold.</p> <p>Overview of the scope of the Group and Council audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.</p>
Other information	Responsibilities of the Deputy Chief Executive and City Treasurer and of the auditor for Other information included in the Statement of Accounts.
Responsibilities of the Deputy Chief Executive and City Treasurer	Cross reference to the full Statement of the Deputy Chief Executive and City Treasurer's Responsibilities.
Auditor's responsibilities for the audit of the financial statements	<p>Explanation of the 'reasonable assurance' objective of the audit.</p> <p>Cross-reference to our responsibilities for the audit on the FRC's web-site.</p> <p>Explain to what extent the audit was considered capable of detecting irregularities, including fraud.</p>
Matters on which we are required to report by exception	<p>Report in the public interest under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Recommendation under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.</p>



4. Extended auditor's report

Paragraph heading in order	Summary of key content
Value for Money arrangements	Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council and its Group. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.



05

Section 05:

**Significant risks, key audit matters
and other key judgement areas**

5. Significant risks, key audit matters and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Significant risks may also be key audit matters.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring. Standard risks will not normally be key audit matters as defined below.

Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

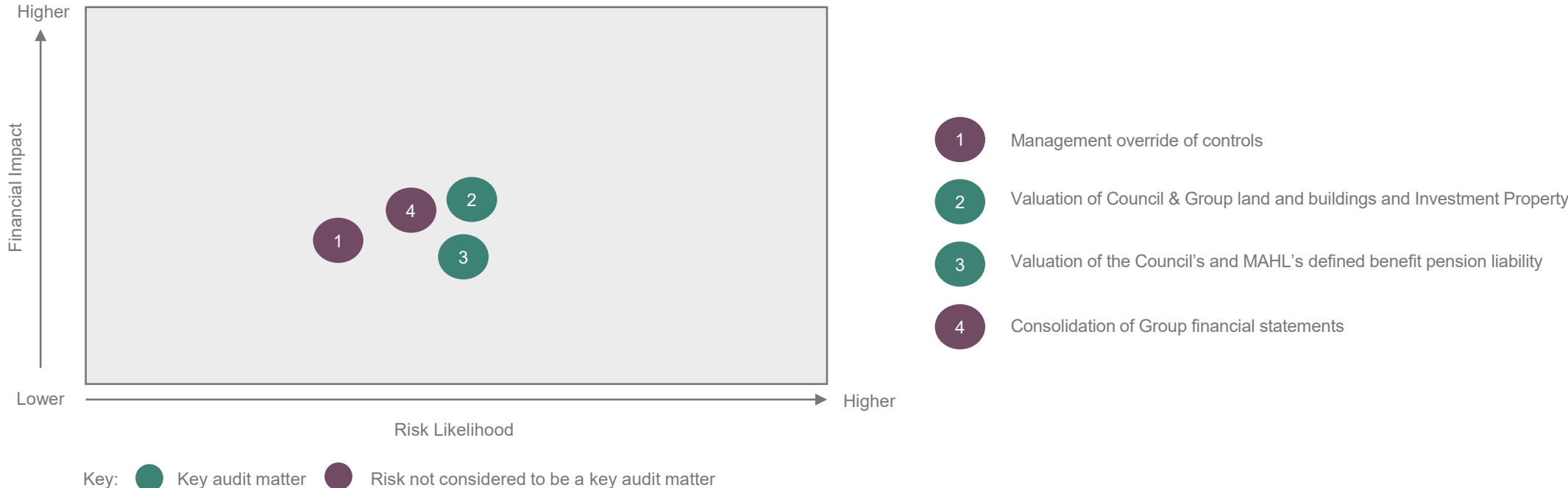
It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.



5. Significant risks, key audit matters and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council and Group, identifying those that are considered key audit matters ('KAMs'). We have summarised our audit response to these risks on the following pages.



5. Significant risks, key audit matters and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

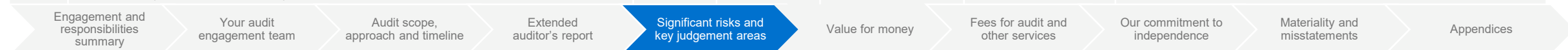
	Description	Fraud	Error	Judgement	Expected KAM	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position 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 there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



5. Significant risks, key audit matters and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p>Valuation of land & buildings and Investment Property (Council & Group)</p> <p>The CIPFA Code requires that where land & building assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant & equipment revalued in a five-year cycle. The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date.</p> <p>The valuation of land & buildings and investment property involves the use of a management expert and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations due to the significant judgements and number of variables involved.</p> <p>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 the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end.</p> <p>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. (continued overleaf)</p>	○	●	●	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> Obtaining an understanding of the skills, experience and qualifications of the valuers, and considering the appropriateness of the Council's instructions to the valuers. Obtaining an understanding of the basis of valuation applied by the valuers in the year. Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated. Obtaining an understanding of the Council's approach to ensure that assets revalued through 2020/21 are materially fairly stated at the year end. Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations. Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021. Comparing the valuation to our valuation expert's estimate of the valuation Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. Testing a sample of items of capital expenditure in 2020/21 to confirm that the additions are appropriately valued in the financial statements.



5. Significant risks, key audit matters and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
2 (cont)	(continued) The Council's two consolidated entities, MAHL and DML, account for their land & buildings at cost as permitted by their financial reporting framework. In consolidating their share of the two entities the Council must align the companies' accounting policies with their own. Consequently for the group consolidation exercise the Council engages an external valuer to value the land & buildings consistent with the Council's accounting policies.	○	●	●	●	



5. Significant risks, key audit matters and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p>Valuation of Council’s and Group’s defined benefit pension liability (Council and Group)</p> <p>The net pension liability represents a material element of the Council and the Group balance sheet. The Council and its consolidated subsidiaries are admitted bodies 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 and the subsidiaries’ overall valuations. There are financial assumptions and demographic assumptions used in the calculation of the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council’s and the subsidiaries’ 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.</p> <p>There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council’s or the subsidiaries’ circumstances. This could have a material impact to the Council and Group net pension liability in 2020/21.</p>	○	●	●	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council. • Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the controls in place at the Pension Fund are free from material deficiencies. • Reviewing 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. • Reviewing 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. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office. • Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council’s and Group’s financial statements.



5. Significant risks, key audit matters and other key judgement areas

Other key areas of management judgement, key audit matters and enhanced risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
4	<p>Consolidation of group financial statements</p> <p>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.</p>	○	●	●	○	<p>Our approach to auditing the Group Financial Statements has been detailed in section 3.</p> <p>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</p>



06

Section 06:

Value for Money

6. Value for Money

The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

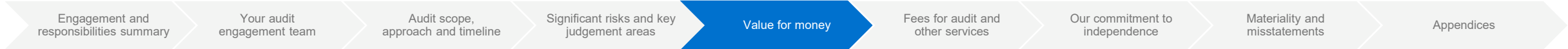


6. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. We will report the results of our planning and risk assessment work to a subsequent meeting of the Audit Committee.



07

Section 07:

Fees for audit and other services

7. Fees for audit and other services

Fees for work as the Council's appointed auditor

At this stage of the audit we have set our proposed fees in the table below. We will report any expected changes to the Audit Committee through the year, and at the completion of our audit work.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Delivery of audit work under the NAO Code of Audit Practice ¹	159,519	159,519
Additional fees		
- Recurrent scope changes ²	35,000	39,750
- In-year scope changes ³	TBC*	4,500
- Additional requirements for Manchester CC ⁴	4,500	5,500
Total fees	199,019*	209,269

¹ The scale fee was initially set by PSAA in 2018.

² The additional fees in 2019/20 relate to additional testing of land & buildings and investment property valuations and additional pension liability procedures. We expect to request similar additional fees in 2020/21.

³ The additional fees in 2019/20 relate to additional audit work as a result of impact of Covid-19 on the Council's reporting and accounting policies. In 2020/21 the new Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money report. Our review of the Code and supporting guidance notes has led us to estimate that the additional fee impact for Code audits will be at least £10,000. The actual fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

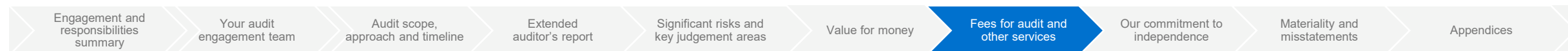
⁴ The additional fees in 2019/20 relate to the additional reporting requirements relating to Manchester City Council being classified as a Public Interest Entity (PIE) along with additional work on specific issues in year. In 2020/21 we expect to request additional fees relating to the additional PIE reporting.

Fees for non-audit work

We have not been engaged by the Council to carry out any additional work separate from our delivery of the NAO Code of Practice audit work. Before agreeing to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

Services provided to other entities within the Council's group

We have not been engaged by the Council's consolidated group entities to carry out any work. If requested to carry out any additional work, and before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.



08

Section 08:

Our commitment to independence

8. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council (FRC) to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report to the Audit Committee.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

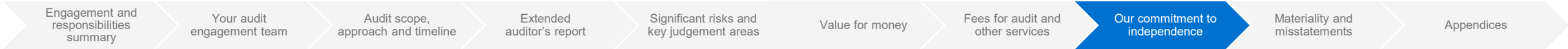
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen Murray will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



09

Section 09:

Materiality and other misstatements

9. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group	Council
Overall materiality	£39,100,000	£32,900,000
Performance materiality	£27,370,000	£23,030,000
Specific materiality: Officer Remuneration bandings	N/A	£5,000 *
Trivial threshold for errors to be reported to Audit Committee	£1,173,000	£987,000

* Reflecting movement from one salary band to another

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

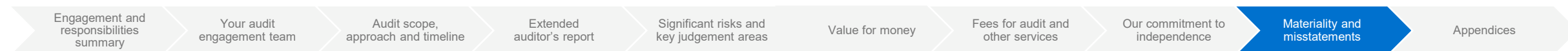
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and a level above which all identified errors will be reported to the Audit Committee.

We consider that the gross expenditure at the surplus/deficit on provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



9. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1.75% of gross expenditure at the surplus/deficit on provision of services. In setting materiality there were no additional qualitative factors which were considered.

Based on the audited financial statements for 2019/20 we anticipate the overall materiality for the year ended 31 March 2021 to be in the region of £39.1m for the Group financial statements and of £32.9m for the Council financial statements (2019/20: £36.829m for the Group and £31.489m for the Council).

We have identified one disclosure in the financial statements where we have set a separate specific lower materiality level:

- Senior Officer Remuneration bandings: £5,000 reflecting the movement between bandings.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on our assessment of a low inherent risk, meaning that we have applied 70% of overall materiality as our level of performance materiality.

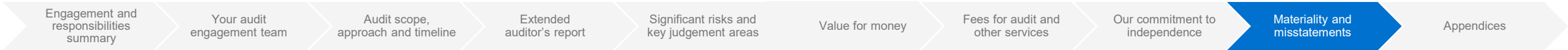
Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £1,173,000 for the Group and £987,000 for the Council based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

- A summary of adjusted audit differences;
- A summary of unadjusted audit differences; and
- A summary of disclosure differences (adjusted and unadjusted).





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

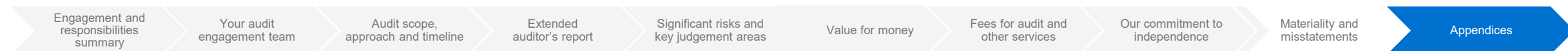
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

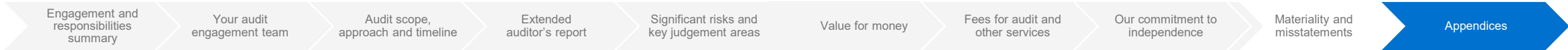
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at the Audit Committee, Audit Planning and Clearance meetings



Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



Appendix: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report and the Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the Council and Group financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>
<p>Identification of each key audit partner involved in the audit</p>	<p>Audit Strategy Memorandum</p>



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.